Nordea

Annual Report 2016

Nordea Kredit Realkreditaktieselskab

Business registration number 15134275

Nordea is among the ten largest universal banks in Europe in terms of total market capitalisation and has around 11 million customers, 31,500 employees and approximately 600 branch office locations. The Nordea share is listed on the Nasdaq Stockholm, Nasdaq Helsinki and Nasdaq Copenhagen exchanges. We have a broad expertise across the wide range of products, services and solutions that we provide within banking, asset management and insurance. In Nordea we build trusted relationships through our strong engagement with both customers and society.

Contents

Key financial figures 3

Board of Directors' report

Comments on the year-end result 4
Comments on the balance sheet 5
Capital adequacy 5
SIFI status 6
New legislation 6
Supervisory diamond 7
The property market 7
Nordea Kredit's lending 8
Bond issuance. 8
Risk, liquidity and capital management 9
Control and risk management 14
Sustainability 16
Changes to the Board of Directors 16
Changes to the Executive Management 16
Balanced gender composition 16
People in Nordea 16
Remuneration in Nordea 18
Subsequent events 18
Outlook for 2017 19

Financial statements

Income statement. 21
Statement of comprehensive income . . 21
Balance sheet 22
Statement of changes in equity 23
5-year overview 24
Business definitions. 25
Notes to the financial statements. 26
Proposed distribution of earnings 54

Statement and report

Statement by the Board of Directors and the Executive Management. 55
Independent auditors' report 56

Directorships

Management. 59

Key financial figures

Income, profit and business volumes, key items (DKKm)	2016	2015	Change %	2014	2013
Income statement					
Total operating income	2,583	2,267	14	2,340	1,986
Total operating expenses	-293	-241	22	-201	-214
Net loan losses	-138	-114	21	-366	-390
Profit before tax	2,152	1,913	12	1,775	1,383
Net profit for the year	1,679	1,464	15	1,340	1,037
Balance sheet					
Loans to credit institutions and central banks	46,360	50,916	-9	70,462	52,873
Loans and receivables at fair value	390,028	385,583	1	381,056	363,749
Deposits by credit institutions and central banks	4,515	24,608	-82	42,250	46,470
Bonds in issue at fair value	405,197	389,568	4	387,106	349,074
Equity	21,980	20,301	8	18,838	17,498
Total assets	437,012	437,867	0	451,927	417,038

Ratios and key figures (%)	2016	2015	2014	2013
Return on equity	7.9	7.5	7.4	6.1
Cost/income ratio	11.3	10.6	8.6	10.8
Total capital ratio, excl Basel I floor[1, 3]	35.3	29.7	28.6	16.4
Tier 1 capital ratio, excl Basel I floor[1, 3]	31.8	29.7	28.6	16.4
Tier 1 capital[1], DKKm	20,040	19,971	18,600	14,752
Risk exposure amount, excl Basel I floor, DKKm[3]	62,954	67,191	64,927	89,994
Number of employees (full-time equivalents)[2]	103	101	114	125

[1] Including the profit for the year.
[2] End of year.
[3] The end-2016, end-2015 and end-2014 ratios are reported under the Basel III (CRR/CRD IV) framework and the end-2013 ratios are reported using the Basel II regulatory framework.

Nordea Kredit Realkreditaktieselskab
Board of Directors' report

Nordea Kredit Realkreditaktieselskab is a wholly owned subsidiary of Nordea Bank Danmark A/S. Nordea Kredit Realkreditaktieselskab is domiciled in Taastrup and its business registration number is 15134275.

Nordea Bank Danmark A/S merged into Nordea Bank AB (publ) by 2 January 2017 after which date Nordea Kredit Realkreditaktieselskab is a subsidiary of Nordea Bank AB (publ).

Following the merger, with effect from 2 January 2017, Nordea Bank AB (publ) assumed all rights and obligations of Nordea Bank Danmark A/S in relation to Nordea Kredit.

Throughout this report the term "Nordea Kredit" refers to Nordea Kredit Realkreditaktieselskab, "Nordea Bank" to Nordea Bank Danmark A/S and "Nordea" to the Nordea Bank AB Group. The figures in brackets refer to 2015.

Comments on the year-end result

In 2016 customers benefited from a very low interest rate level and for some loans interest rates ended up being negative. For Nordea Kredit the profit after tax increased by 15% to DKK 1,679m (DKK 1,464m).

The improved result in 2016 was mainly related to a higher result from items at fair value as 2015 was negatively affected by a non-recurring cost of DKK 234m due to the implementation of a hedge covering the negative interest on certain bond series that was passed on to borrowers. Without the effect of the implementation of the hedge, the profit for the year increased by 2% compared to 2015.

2016 was positively affected by adjusted pricing and average lending growth, which led to higher administration and reserve fees. Lower business activity from remortgaging and lower refinancing volumes reduced net fee and commission income, which along with increased operating expenses affected the profit negatively. All in all the profit for the year was in line with expectations.

Income from administration and reserve fees increased by 6% to DKK 3,165m (DKK 2,979m) due to adjusted pricing for both household and corporate customers and increased average lending.

In June Nordea Kredit announced an increase in administration and reserve fees for household customers with effect from 1 October 2016. The new fee structure will continue to ensure that loans with fixed interest rates and instalments will have the lowest fees, while interest-only loans and loans with adjustable interest rates will be more expensive, reflecting the risk and the costs related to the different types of loans. Customers can thereby, to some extent, mitigate the increased administration and reserve fees by switching to loans with instalments and fixed interest rates or loans with long-term refinancing, which is in line with the recommendations given by the Danish Financial Supervisory Authority's.

Fee and commission income was down by DKK 151m to DKK 618m due to lower remortgaging activity and decreasing refinancing fees as lower volumes were being refinanced. Some of the effects were a result of customers switching to loans with fixed interest rates or long-term refinancing.

Fee and commission expense increased to DKK 1,032m (DKK 992m). Fee and commission expense was affected by the new primary dealer agreements concluded by Nordea Kredit to ensure continued high liquidity in the issued bonds, and thereby lower interest rates. Guarantee commissions etc, covering the 25% loss guarantee and the fee for the distribution of loans and credit rating etc paid to Nordea Bank, increased due to higher volumes being covered by the 25% loss guarantee. The decrease in brokerage fees etc caused by lower remortgaging activity offset some of the increase in fee and commission expense.

Net result from items at fair value amounted to DKK -4m at the end of 2016 (DKK -309m). 2015 was affected by a non-recurring cost of DKK 234m due to the implementation of an interest rate floor for certain bond series. The hedge has since the implementation worked as intended.

Staff cost increased to DKK 92m (DKK 90m). The average number of full-time employees was in 2016 down to 100 compared to 110 in 2015. The reduction in costs was, however, more than offset by a non-recurring provision.

Administrative expenses increased by DKK 50m to DKK 201m. The higher expenses were driven by a full-year payment to the new Danish

Resolution Fund and the growing digitalisation through the eBolig portal where customers can remortgage their loans themselves. Furthermore, expenses related to increasing compliance activities.

Net loan losses amounted to DKK 138m (DKK 114m), corresponding to 0.04% (0.03%) of the loan portfolio. Loan losses on individually assessed loans decreased to DKK 161m compared to DKK 207m in 2015 due to the positive trend in housing prices around the major cities. Provisions for collectively assessed loans continued to decline by DKK 23m, though not as much as in 2015 (DKK 93m).

Comments on the balance sheet

Assets

Total assets remained stable at DKK 437bn (DKK 438bn).

Loans to credit institutions and central banks, mainly consisting of deposits with Nordea Bank, decreased to DKK 46bn (DKK 51bn).

Loans and receivables at fair value were positively affected by higher market prices and were up by DKK 4bn to DKK 390bn (DKK 386bn). Total lending at nominal value after loan losses remained stable at DKK 383bn (DKK 384bn), but with changes within the property categories. Owner-occupied dwellings increased by 1%, but this was offset by a decrease in agricultural and commercial properties.

Table 1. Lending at nominal value by property category

DKKbn	2016	2015	Change %
Owner-occupied dwellings and holiday homes	259	256	1%
Commercial properties	124	128	-3%
- of which agricultural properties	47	48	-2%
Total	**383**	**384**	**0%**

The quality of the loan portfolio is considered satisfactory and accumulated provisions continued to decrease to DKK 270m (DKK 328m), corresponding to 0.07% (0.08%) of the loan portfolio. Provisions for collectively assessed loans accounted for DKK 23m (DKK 46m).

Loss guarantees from Nordea Bank increased to DKK 104bn (DKK 100bn) at end-2016, covering loans totalling DKK 364bn (DKK 358bn). The loss guarantee is in general a 25% first loss guarantee, reducing the loan losses at Nordea Kredit.

Assets in temporary possession consisted of a total of 25 (35) repossessed properties by the end of 2016 held at a value of DKK 28m (DKK 34m). All of the repossessed properties are owner-occupied dwellings.

Liabilities

Deposits by credit institutions and central banks amounted to DKK 5bn (DKK 25bn). The decrease was driven by fewer repo transactions and the prepayment of an interest only loan of DKK 12bn to Nordea Bank that was no longer needed due to reduced liquidity requirements.

Bonds in issue at fair value totalled DKK 405bn (DKK 390bn) after offsetting the portfolio of own bonds of DKK 25bn (DKK 40bn).

Equity

Including the net profit for the year, equity increased to DKK 22bn at the end of 2016 (DKK 20bn).

The capital structure of Nordea Kredit was improved through the issuance of a new subordinated loan of DKK 2.2bn and Nordea Kredit is therefore expected to distribute the profit for the year as dividend. The capital base excluding profit was increased to DKK 22bn at year-end compared to DKK 20bn in 2015.

Capital adequacy

At the end of 2016 the risk exposure amount of Nordea Kredit amounted to DKK 63.0bn (DKK 67.2bn). The common equity tier 1 ratio was 31.8% (29.7%) and the total capital ratio was 35.3% (29.7%) at end-2016.

The outcome of the Supervisory Review and Evaluation Process (SREP) led to a change in the individual solvency need (ISN) ratio in the third quarter of 2016 from 11.8% to 13.1%.

The SREP add-ons relate to corporate risk exposure adjustments and inadequate second line of defence and its involvement in the governance of the IRB system and modelling. Included is also an add-on for operational risk from inspections relating to IT and key processes.

SIFI status

As expected, Nordea Kredit was appointed as a systemically important financial institution (SIFI) in Denmark on 2 January 2017 after the merger of Nordea Bank Danmark A/S and Nordea Bank AB (publ). The designation was due to Nordea Kredit's significant lending volumes and balance sheet. Nordea Kredit has previously been required to comply with several SIFI requirements due to Nordea Bank's SIFI status. The transition to SIFI status is therefore expected to be smooth.

New legislation

The Capital Requirements Directive IV (CRD IV) and Capital Requirements Regulation (CRR) entered into force on 1 January 2014. The CRR became applicable in all EU countries from 1 January 2014 while the CRD IV was implemented through national law within all EU member states during 2014.

According to the CRR, local authorities have the option to phase in the new requirements. This option has been used by the Danish FSA in a number of cases. The capital conservation buffer (CCoB) will be phased in from 2016 to 2019. The buffer was 0.625% in 2016. The countercyclical capital buffer (CCyB) will be phased in from 2015 to 2019. However, the buffer has been set to 0%. In addition to this, the systemic risk buffer (SRB) requirement for systemically important institutions will be phased in between 2015 and 2019. Nordea Kredit has from 2 January 2017 been identified as systemically important and thereby subject to a 1.5% SRB requirement when fully phased in. The buffer in 2016 was 0.8%. In addition to this, there is also a possible pillar II requirement that is set on an individual basis.

As part of the implementation of the Bank Recovery and Resolution Directive (BRRD) in Denmark, mortgage institutions such as Nordea Kredit have to fulfil a debt buffer requirement of 2%. The requirement is being phased in starting on 15 June 2016 with 0.6% and fully implemented in June 2020. The capital requirement can be fulfilled using tier 1 or tier 2 capital instruments as well as senior debt instruments which fulfil certain criteria.

Proposal on amended CRR, CRD IV and BRRD

In November 2016 the European Commission (EC) published a proposal amending the BRRD, the CRD IV and the CRR. The amendments to the CRR, being a regulation, will be directly applicable in all EU countries once implemented whereas the amendments to the CRD IV and the BRRD, being directives, must be implemented into national legislation before being applicable. The time for implementation is uncertain but it is stated that the amendments will start entering into force in 2019 at the earliest, with some parts being implemented later and subject to phase-in. Some of the main relevant amendments include:

Net stable funding ratio
The EC proposes to introduce a binding net stable funding ratio (NSFR) that requires institutions to finance their long-term activities (assets and off-balance sheet items) with stable funding. The NSFR proposal aligns NSFR governance, compliance and supervisory actions with the EU liquidity coverage ratio (LCR) requirement.

Leverage ratio
The proposal introduces a binding leverage ratio requirement of 3 % of the tier 1 capital, harmonised with the international Basel Committee on Banking Supervision (BCBS) standard. A possible higher requirement for global systemically important insurers (G-SIIs) is postponed until a decision is taken by the BCBS.

SME supporting factor
The EC proposal includes an extended small and medium-sized enterprises (SME) supporting factor. The current SME supporting factor provides a capital reduction of 23.81% for exposures up to EUR 1.5m towards SMEs. The proposal extends this discount with an additional 15% reduction for the part above the EUR 1.5m threshold, intended to further stimulate lending to SMEs.

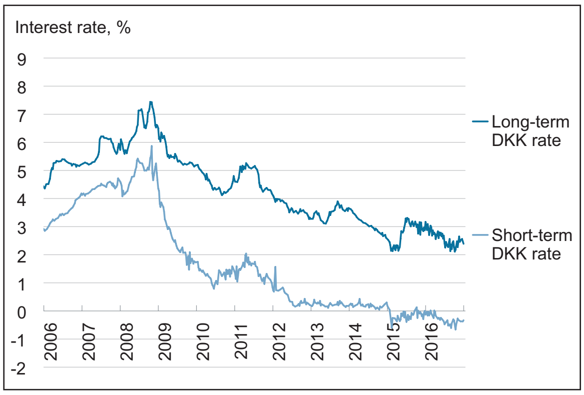
Pillar II
The proposal introduces a split of pillar II add-ons into pillar II requirements (P2R) and pillar II guidance (P2G), where the P2R will increase the maximum distributable amount (MDA) level while the P2G is a soft measure that does not affect the MDA level.

Supervisory diamond

The supervisory diamond for mortgage institutions will have effect from 2018-20. The diamond consists of five specific benchmarks that mortgage institutions in general should not exceed. The five benchmarks comprise risk areas identified by the Danish FSA.

Nordea Kredit reviews the five benchmarks on an ongoing basis and expects to be compliant when they take effect in 2018-20.

Figure 1. Mortgage interest rates



The property market

The economy

Denmark's economic recovery has now entered its fourth year, and looking forward we expect it to gain further momentum in the coming years with a pick-up in private consumption and a moderate rise in investment activity as the main drivers.

The biggest threat to higher economic growth mainly comes from abroad where the past years' global trade, including Danish key export markets, has been subdued. The world is at the same time undergoing changes and challenges which can have political, economic and financial implications for Europe and thereby Denmark in the coming year. 2016 was in that sense a year of political surprises with the UK deciding to leave the EU and the US election.

Over the past couple of years Danish households have benefited from rising employment, declining interest expenses, higher housing prices and positive real wage growth due to the historically low level of inflation. This has allowed households to spend more and reduce their debt relative to income. Consequently, we expect households to be the key driver of the anticipated increase in overall economic activity in the coming years.

Private consumption is expected to grow by just under 2% in the coming years. The positive outlook should be seen in the context of the strong performance of the labour market. As more people find a job, total income and confidence in the prospects for future job opportunities are strengthened.

Property prices and market activity

Owner-occupied flats in the major cities have seen the biggest price rises in recent years, while price trends in the rest of the country have been more subdued. We expect the upward trend to continue in the coming year and that the price rises increasingly will spread to other parts of the country. At the same time we expect the pace of price rises to slow down as a result of slightly higher interest rates and stricter requirements for down payments and credit evaluation in growth areas.

Interest rates declined over the first nine months of 2016, but since October the overall trend has been slightly upwards. On a general level mortgage rates are, however, still considered low.

The biggest risk in the Danish housing market is interest rates. If mortgage rates come under severe upward pressure, it could trigger a price correction. Another uncertainty is the new system for property valuations, the subsequent adjustment of property taxes and the tax relief on interest after 2020, which could have implications both for housing prices overall and regional price trends.

Our main scenario is that interest rates will remain relatively low in the coming years.

Commercial properties

The market for rental properties rose rapidly in 2016. Within commercial properties, the positive market trend continued around the largest and the major cities. In the smaller cities and outskirt areas, business remained slow through the year. For 2017 the high demand for residential properties is expected to continue in Copenhagen, Aarhus and larger cities. For commercial properties, high demand is expected for well-situated premises in the Copenhagen and Aarhus areas and in the Triangle Region in Jutland. For other commercial properties, the location and usability will determine the demand.

In agriculture, crop farms and land were overall stable. Low output prices in 2016 led to an increasing number of livestock farms offered for sale, especially dairy farms in the western part of Denmark. The prices and trading activity of livestock properties were therefore under pressure in 2016.

The low output prices for pig and dairy farmers recovered in the last part of 2016. The outlook for 2017 is a continuous improvement for pig, milk and crop production, and property prices are therefore expected to stabilise in 2017.

Nordea Kredit's lending

At the end of 2016 total lending at nominal value after loan losses amounted to DKK 383bn (DKK 384bn).

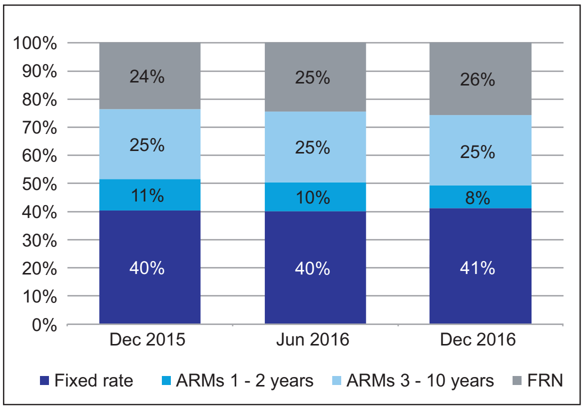


Figure 2. Total loan portfolio by loan type
A breakdown by loan type shows that the share of adjustable-rate mortgages is still decreasing, whereas the share of "Kort Rente" (Cita) loans and fixed-rate annuity mortgages increased (Figure 2).

LTV ratios and supplementary collateral for loans financed through covered mortgage bonds

The LTV ratio for total lending at Nordea Kredit was reduced by 1.3% points in the fourth quarter of 2016 compared to one year earlier.

LTV ratios for owner-occupied dwellings fell 1.1% to 67.5% at the end of the fourth quarter of 2016 - primarily due to the increasing housing prices through the year. A similar trend applied to rental properties (-2.6% points) and commercial properties (-4.1% points).

The supplementary collateral required on the basis of the LTV ratios for the individual loans was DKK 15bn at end-2016 (DKK 16bn).

LTV figures can be found in the quarterly investor presentations and the ECBC covered bond labelling report. Both reports are available at www.nordeakredit.dk, investor information.

Bond issuance

Rating

The mortgage bonds issued by Nordea Kredit are rated by the rating agencies Moody's Investors Service and Standard & Poor's.

Bonds are issued in capital centre 1 and capital centre 2. All bonds, irrespective of capital centre, have been assigned the highest ratings of Aaa and AAA by the two rating agencies.

Funding

Bond issuance before redemptions amounted to DKK 144bn nominal in 2016 (DKK 201bn), which was financed by means of covered mortgage bonds.

At end-2016 the total nominal value of bonds issued to finance mortgage loans, before offsetting the portfolio of own bonds, amounted to DKK 423bn (DKK 427bn). Of this amount, the issuance of mortgage bonds accounted for DKK 14bn (DKK 18bn) and covered mortgage bonds accounted for DKK 409bn (DKK 409bn).

At end-2016 the fair value of the total volume of bonds issued was DKK 405bn (DKK 390bn) after offsetting the portfolio of own bonds.

Refinancing of adjustable-rate mortgages

Adjustable-rate mortgage loans based on bullet bonds (F1-F5) are refinanced in April, October and January. The November auctions ahead of the January refinancing accounted for about 35% of the refinancing of bullet bonds in 2016, equivalent to DKK 14bn. Refinancing of adjustable-rate mortgage loans based on bullet bonds has been reduced considerably in the past years – primarily due to the reduction of F1 loans. Hence, the refinancing auctions in November 2016 were reduced by 40% compared to the auctions in November 2015.

Adjustable-rate mortgage loans based on Cibor and Cita fixings (Cibor6 and "Kort Rente") are currently refinanced in July. Refinancing in July 2016 amounted to DKK 29bn. Refinancing of Cibor6 and "Kort Rente" accounted for 42% of the total refinancing of loans in 2016 at Nordea Kredit.

Interest rates remained low at the auctions in 2016. For 30-year annuity loans with reset every three years (F3), the interest rate was fixed at 0.03% at the October auctions. Following Nordea Kredit's first-ever refinancing auctions for "Kort Rente" loans in July, borrowers' interest rate was fixed at 0.07% for the second half of 2016.

Risk, liquidity and capital management

Management of risk, liquidity and capital is a key success factor in the financial services industry. Maintaining risk awareness in the organisation is ingrained in the business strategies. Nordea has defined clear risk, liquidity and capital management frameworks, including policies and instructions for different risk types, capital adequacy and capital structure.

Management principles and control

Board of Directors and Board Risk Committee of Nordea

The Nordea Group Board of Directors has the ultimate responsibility for limiting and monitoring Nordea's exposure as well as for setting the targets for the capital ratios. Risk is measured and reported according to common principles and policies approved by the Nordea Group Board of Directors, which also decides on Group Directives for credit risk, counterparty credit risk, market risk, liquidity risk, business risk, operational risk, compliance risk as well as the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP). All policies and directives are reviewed at least annually.

The Nordea Group Board of Directors approves the credit instructions, where powers to act for major credit committees in the organisation are stated. These authorisations vary for different decision-making levels, mainly in terms of the size of limits but also depending on the internal risk categorisation of customers. The Nordea Group Board of Directors furthermore decides on the limits for market and liquidity risk in the Group.

The Nordea Board Risk Committee assists the Nordea Group Board of Directors in fulfilling its responsibilities in terms of overseeing management and control of risk, risk frameworks as well as controls and processes associated with the Group's operations.

Responsibility of CEO and GEM of Nordea

The Chief Executive Officer (CEO) has the overall responsibility for developing and maintaining effective risk, liquidity and capital management principles and control of Nordea Kredit and Nordea.

The CEO and GEM regularly review reports on risk exposure and have established a number of committees for risk, liquidity and capital management.

- The Asset and Liability Committee (ALCO), chaired by the Chief Financial Officer (CFO), prepares issues of major importance concerning the Group's financial operations and balance sheet risks either for decision by the CEO in GEM or for recommendation by the CEO in GEM and for decision by the Group Board.

- The Risk Committee, chaired by the Chief Risk Officer (CRO), oversees the management and control of the Group's risks on aggregate level and evaluates the sufficiency of the risk frameworks, controls and processes associated with these risks. Furthermore, the Risk Committee decides, within the scope of resolutions adopted by the Board of Directors, on the allocation of the credit risk limits, market risk limits as well as the liquidity risk limits to the risk-taking units. The limits are set in accordance with the business strategies and are reviewed at least annually. The heads of the units allocate the respective limits within the unit and may introduce more detailed limits and other risk-mitigating techniques such as stop-loss rules. The Risk Committee has established sub-committees for its work and decision-making within specific risk areas.

The Group Executive Management Credit Committee (GEM CC) is chaired by the CEO. As of January 2017, the Executive Credit Committee (ECC) is chaired by the Head of Group Credit Risk Management (GCRM), while the Group Credit Committee Commercial and Business Banking (GCCCBB) and the Group Credit Committee Wholesale Banking (GCCWB) are chaired by the Chief Credit Officer (CCO).

These credit committees approve major internal credit risk limits constituting the maximum credit risk appetite on the customer in question. Individual credit decisions within approved internal credit risk limits are taken within the customer responsible units (CRUs). Internal credit risk limits are granted as individual limits for customers or consolidated customer groups as well as industry limits for certain defined industries.

Management principles and control within Nordea Kredit

As in all other subsidiaries within Nordea, the Board of Directors of Nordea Kredit is responsible for monitoring the mortgage company's risk exposure as well as for approving the setting of targets for capital ratios and the individual solvency need. This is in line with the above-mentioned Nordea Group instructions.

In accordance with the Danish Executive Order on Management and Control of Banks etc, Nordea Kredit has appointed a Chief Risk Officer (CRO). The CRO reports to the Executive Management of Nordea Kredit and is responsible for the overall risk management coordination at Nordea Kredit.

The Nordea Kredit Risk Management Charter defines the role, responsibilities, tasks and mandate of the CRO and forms part of Nordea's risk management framework.

All risk management functions report to Nordea's pan-Nordic risk management organisation. The risk management functions of Nordea Kredit are represented by independent units which are responsible for risk management in the individual areas.

To ensure prudent risk management at Nordea Kredit, the role of the CRO is to provide an overview of Nordea Kredit's risks. The interaction between the individual risk management units and the CRO includes credit risk, counterparty credit risk, market risk, liquidity risk and operational risk. The risk function comprises Group Credit Risk, Group Credit Control, Group Market and Counterparty Credit Risk and Group Operational Risk & Compliance.

The interaction is to ensure clear communication channels to the CRO so that critical events are reported efficiently and rapidly to the Executive Management. Moreover, the CRO is to ensure that the individual risk management functions prepare reports that sum up the risk picture of Nordea Kredit. The overall risk picture/assessment is part of the yearly ICAAP report.

The CRO is furthermore responsible for preparing quarterly proposals to the Executive Management and the Board of Directors concerning individual solvency needs (ISN) and for ensuring that documentation to this effect is incorporated into the ICAAP report.

Risk appetite

Risk appetite within Nordea is defined as the level and nature of risk that the bank is willing to take in order to pursue the articulated strategy on behalf of shareholders, and is defined by constraints reflecting the views of shareholders, debt holders, regulators and other stakeholders.

The Board of Directors is ultimately responsible for the Group's overall risk appetite and for setting principles regarding how risk appetite is managed. The Board Risk Committee assists the Board of Directors in fulfilling these responsibilities by reviewing the development of the risk profile in relation to risk appetite and making recommendations regarding changes to the Group's risk appetite.

Nordea's risk appetite framework is based on explicit top-down risk appetite statements ensuring the comprehensive coverage of key risks faced by the Group. These statements collectively define the boundaries for Nordea's risk-taking activities and will also help identify areas with scope for additional risk-taking. The statements are approved by the Board of Directors and set the basis for a new risk reporting structure. Moreover, the framework supports management decision processes such as planning and target setting. This is for example achieved through a limit scale with three levels:

- **Green:** Risk level is well within the defined risk appetite.
- **Amber:** A threshold set as a trigger level for further monitoring, investigation or analysis.
- **Red:** The limit of the bank's risk appetite.

The starting point for defining Nordea's risk appetite is the available capital base and overall business strategy. The risk appetite framework considers key risks relevant to Nordea's business activities and is at an aggregate level represented in terms of credit risk, market risk, liquidity risk, operational risk, solvency, compliance/non-negotiable risks and liquidity model risk. The risk appetite framework is further presented in the Capital and Risk Management Report (pillar III report).

The risk appetite framework for Nordea Kredit was introduced in 2016. The selected risk metrics are common Nordea Group metrics covering concentration risk, liquidity risk, operational risk and solvency risk including leverage risk. In addition to these commen risk metrics Nordea Kredit has introduced specific risk metrics for refinancing rates (ARMs short term funding) and refinancing auctions. Both metrics covering liquidity risk.

Monitoring and reporting

The Policy for Internal Control and Risk Management in the Nordea Group states that the components of the internal control framework are: control environment, risk assessment, control activities, information and communication as well as monitoring (including reporting of findings and deficiencies). It creates the necessary preconditions for the whole organisation to contribute to the effectiveness and the high quality of internal control. It is based on clear definitions, assignments of roles and responsibilities, common tools and procedures and is expressed in a common language.

Management of risks includes all activities aimed at identifying, measuring, assessing, monitoring and controlling risks as well as measures to limit and mitigate the consequences of the risks. Management of risk is proactive, emphasising training and risk awareness.

The Nordea Group maintains a high standard of risk management by applying available techniques and methodology to its own needs. In order to support all employees in managing risks, Nordea has gathered relevant e-learnings, policies and guidelines – in what we call a Licence to Work. Licence to Work is a set of stepwise requirements for learning about risk and compliance and must be renewed every year.

The control environment is, among other things, based on the principles of segregation of duties and independence. Monitoring and reporting of risk is conducted on a daily basis for market and liquidity risk and on a monthly and quarterly basis for credit and operational risk.

Risk reporting, including reporting on the development of risk exposure amount (REA), is regularly made to GEM and the Board of Directors of both Nordea and Nordea Kredit.

Disclosure requirements of the CRR – Capital and Risk Management Report 2016

Additional information on risk and capital management is presented in the Capital and Risk Management Report 2016, in accordance with the Capital Requirements Regulation (CRR), which is based on the Basel III framework issued by the Basel Committee on Banking Supervision. The report is available at www.nordea.com.

Market and liquidity risks

Market risk is the risk of a loss in the market value of financial assets as a result of movements in financial market variables. The Board of Directors of Nordea Kredit has defined the overall limits for market risks assumed by the company. These limits are significantly below the allowed statutory limits.

Nordea Kredit's most significant financial market risk is the interest rate risk associated with the investment of capital. In addition, Nordea Kredit has a modest currency risk exposure relating to its lending denominated in euros. Nordea Kredit does not assume equity risks. As lending activities are match-funded in terms of both interest rates and liquidity, only insignificant interest rate and liquidity risks arise relating to mortgage lending and the associated bond issuance.

The matched funding is undertaken on the basis of the statutory balance principle. Nordea Kredit applies the specific balance principle to both capital centres.

Interest rate risk
Interest rate risk is measured as the loss in the market value of interest rate positions resulting from an overall upward/downward shift in interest rates of 1% point. This risk is calculated for the lending portfolio as well as for the securities portfolio.

For the lending portfolio the law stipulates that the interest rate risk resulting from differences between incoming payments on loans and outgoing payments on mortgage bonds issued must not exceed 1% of the capital base, or DKK 222m. For the securities portfolio the interest rate risk must not exceed 8% of the capital base, or DKK 1,775m.

At year-end 2016 the total interest rate risk with effect on profit before tax and equity was DKK 7m (DKK 2m) for the lending portfolio and DKK 9m (DKK 10m) for the securities portfolio.

Currency risk
Currency risk is measured by means of a statistical method expressed by a Value at Risk (VaR) measure equivalent to the foreign exchange indicator 2 of the Danish FSA. The risk is measured based on the last two years' historical changes in exchange rates with a holding period of ten banking days and a probability of 99%. The legislative framework allows for a maximum currency risk of DKK 20m, corresponding to 0.1% of the capital base.

At end-2016 the currency risk amounted to DKK 0.1m (DKK 0.2m) with effect on profit before tax and equity and relates solely to exposures in euros. Risks are calculated, monitored and reported to the management of Nordea Kredit on an ongoing basis. Financial market risks are described in Note 26.

Capital management
Nordea Kredit strives to be efficient in use of capital and therefore actively manages its balance sheet with respect to assets, liabilities and risk categories. Nordea Kredit reports risk exposure amounts according to applicable external regulations (CRD IV/CRR), which stipulate the limits for the minimum capital (the capital requirement).

Nordea Kredit has approval to report its capital requirement in accordance with the advanced internal rating based (AIRB) approach for large enterprises.

The internal Rating based (IRB) approach is approved for credit institutions and commitments with retail customers, in line with Nordea Bank. Rating and scoring are key components in credit risk management. Common to both the rating and scoring models is the ability to predict defaults and rank Nordea Kredit's customers. While the rating models are used for corporate customers and bank counterparties, scoring models are used for personal customers and small corporate customers.

The most important parameters when quantifying the credit risk are the probability of default (PD), the loss given default (LGD) and the exposure at default (EAD). The parameters are used for calculation of risk exposure amounts. In general, historical losses and defaults are used to calibrate the PDs assigned to each rating grade. LGD is measured taking into account the collateral type and the counterparty's balance sheet components. Scoring models are pure statistical methods to predict the probability of customer default. The models are mainly used in the personal customer segment as well as for small corporate customers. Nordea Kredit collaborates with Nordea Bank in utilising bespoke behavioural scoring models developed on internal data to support both the credit approval process and the risk management process.

As a complement to the ordinary credit risk quantification, comprehensive stress testing is performed at least annually in accordance with current requirements (Internal Capital Adequacy Assessment Process, ICAAP), after which capital requirements are measured.

Credit risk management
Credit Risk Management in the first line of defence is responsible for the credit process framework and Group Risk Management (second line of defence) is responsible for the credit risk management framework, consisting of policies, instructions and guidelines for Nordea. Group Risk Management is also responsible for controlling and monitoring the quality of the credit portfolio and the credit process. Each customer area and product area are primarily

responsible for managing the credit risks in its operations within the applicable framework and limits, including identification, control and reporting. Within the powers to act granted by the Board of Directors, internal credit risk limits are approved by decision-making authorities on different levels in the organisation constituting the maximum risk appetite on the customer in question. Individual credit decisions within the approved internal credit risk limit are taken within the customer responsible unit. The risk categorisation and the exposure of the customer determine at what level the decision will be made. Responsibility for a credit exposure lies with a customer responsible unit. Customers are risk categorised in accordance with Nordea's rating and scoring guidelines. From 1 January 2017 representatives from the first line of defence credit organisation independently approve the rating.

Credit risk definition, identification and mitigation

Credit risk is defined as the potential for loss due to failure of a borrower to meet its obligations to clear a debt in accordance with the agreed terms and conditions. The potential for loss is lowered by credit risk mitigation techniques. It stems mainly from various forms of lending, but also from issued guarantees and documentary credits. Credit risk includes counterparty credit risk, transfer risk and settlement risk. Credits granted within Nordea must conform to a common framework. For monitoring the distribution of a portfolio, improving the risk management and defining a common strategy towards specific industries there are industry credit policies in place establishing requirements and caps.

Credit risk mitigation is an inherent part of the credit decision process. In every credit decision and review, the valuation of collateral is considered as well as other risk mitigations.

Individual and collective assessment of impairment

Throughout the process of identifying and mitigating credit impairments, Nordea Kredit continuously reviews the quality of credit exposures. Weak and impaired exposures are closely and continuously monitored and reviewed at least on a quarterly basis in terms of current performance, business outlook, future debt service capacity and the possible need for provisions.

A provision is recognised if there is objective evidence based on loss events and observable data that the customer's future cash flow has weakened to the extent that full repayment is unlikely, pledged collateral included. Exposures with provisions are considered as impaired. The size of the provision is equal to the estimated loss being the difference between the carrying amount of the outstanding exposure and the value of pledged collateral. Impaired exposures can be either servicing or non-servicing.

In addition to individual impairment testing of all individually significant customers, collective impairment testing is performed for groups of customers that have not been found to be impaired on individual level. The purpose of collective loan loss reserves is to account for value reductions in the performing credit portfolio due to loss events that have occurred.

Nordea Kredit uses the Group model for collective provisions which uses a statistical model as a baseline for assessing the amount of provisions needed for the parts of Nordea Kredit's portfolios that are not individually assessed. The collective provisioning model is based on migration of rated and scored customers in the credit portfolio.

The assessment of collective impairment is built on an incurred loss concept, where the credit quality of each exposure is related to its initial credit quality. If the credit quality has deteriorated, collective provisions corresponding to a true and fair assessment of the expected loss are calculated by the model. Moreover, defaulted customers without individual provisions are also collectively assessed. The output of the model is complemented with an expert-based analysis process to ensure adequate provisioning.

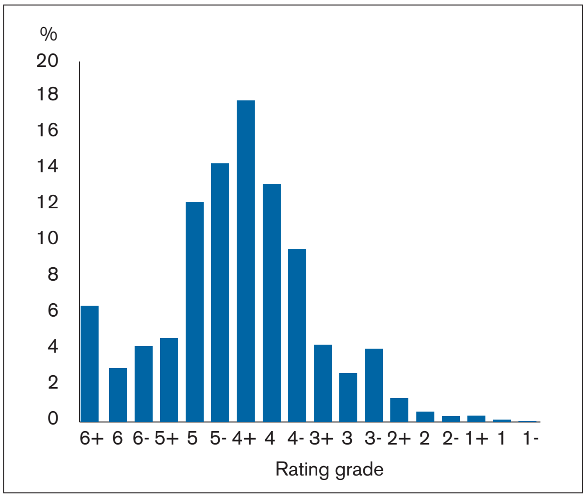
The model is executed quarterly and the output is a result of a bottom-up calculation from sub-exposure level, taking the latest portfolio development into account. The rationale for this two-step procedure with both individual and collective assessment is to ensure that all incurred losses are accounted for up to and including each balance sheet day.

Credit quality

The rating distribution of loans to corporate customers (Figure 3) and the risk scoring of loans to personal and small and medium-sized corporate customers for end-2016 (Figure 4) are shown below.

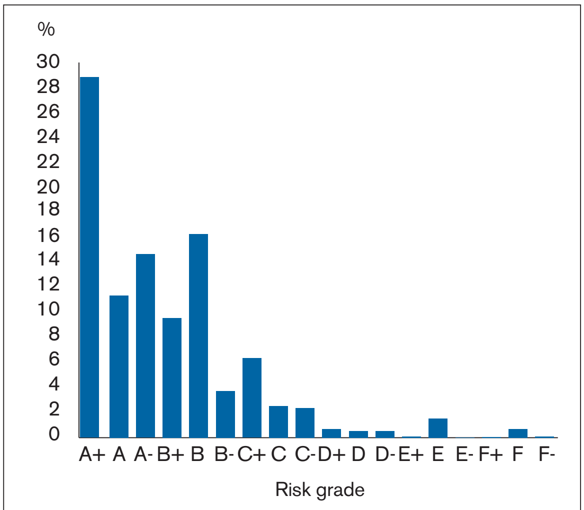
Improved credit quality was seen in 2016, mainly in the corporate credit portfolio. 85% (81%) of the corporate exposure was rated 4- or higher. Defaulted loans are not included in the rating/ scoring distributions.

Figure 3. Rating distribution of loans to corporate customers



Note: Nordea's best rating is 6+.

Figure 4. Risk scoring of loans to personal as well as small and medium-sized corporate customers



Note: Nordea's best score is A+.

Total capital ratio
At the end of 2016 the risk exposure amounts (REA) of Nordea Kredit was to DKK 63.0bn (DKK 67.2bn). With own funds, including profit, amounting to DKK 22.2bn at the end of 2016 compared to DKK 20.0bn in 2015, the total capital ratio at end-2016 was 35.3% (29.7%).

Individual solvency needs
Information about individual solvency needs is available on www.nordeakredit.dk or under Investor Relations on www.nordea.com.

Operational and compliance risk
Operational risk is defined as the risk of direct or indirect loss, or damaged reputation, resulting from inadequate or failed internal processes, or from people, systems or from external events. Regarding own funds requirements for operational risk, this also covers legal risk and compliance risk. Operational risk is inherent in all activities within the organisation, in outsourced activities and in all interactions with external parties.

Compliance risk is defined as the risk of failing to comply with laws, regulations, rules and prescribed practices and ethical standards governing Nordea's activities in any jurisdiction which could result in material financial or reputational loss to Nordea, regulatory remarks or sanctions.

Managing operational and compliance risk is part of management's responsibilities. The operational risks are monitored through regular risk assessment procedures and systematic quality – and risk – focused management of changes.

Control and risk management

Systems related to financial reports
The systems for internal control and risk management of financial reporting at Nordea Kredit are designed to provide reasonable assurance about the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, applicable laws and regulations as well as other requirements for listed companies. The internal control and risk management activities are included in Nordea Kredit's planning and resource allocation processes. Internal control and risk management of financial reporting at Nordea Kredit can be described in accordance with the COSO Framework as follows below.

Control environment
Internal control at Nordea Kredit is based on a control environment which includes the following elements: values and management culture, goal orientation and follow-up, a clear and transparent organisational structure, functional segregation, the four-eyes principle, quality and efficient internal communication and an independent evaluation process.

The documentation of the internal control framework consists of internal business procedures and Standard Operating Procedures (SOPs) supported by the Nordea Group directives.

To further support internal controls and guidelines, Nordea Kredit has established controller as well as compliance functions, which are responsible for activities such as independently monitoring, controlling and reporting issues related to key risks, including compliance with internal and external regulations.

Risk assessment
Nordea Kredit maintains a high standard of risk management, and risk management is considered an integral part of running the business.

Control activities
The control activities include general as well as more detailed controls, which aim at preventing, revealing and correcting errors and deviations.

The control activities are documented by Nordea Kredit and reported to the Group.

Information and communication
Nordea Kredit prepares its annual report in accordance with the Danish Financial Business Act but Nordea Kredit is also included in the consolidated financial statements of Nordea Bank AB (publ) and follows Nordea's accounting principles for group reporting as defined in the Group Accounting Manual (GAM), which contains the principal guidelines for accounting and financial reporting. Reporting to the Group is based on a standard concept.

Nordea Kredit actively participates in relevant national forums, for example forums established by the Danish Mortgage Banks' Federation, the Danish FSA and the Danish central bank.

Monitoring
Nordea Kredit has established a process with the purpose of ensuring proper monitoring of the quality of the financial reporting and the follow-up regarding possible deficiencies.

The Executive Management of Nordea Kredit reports on an ongoing basis to the Board of Directors and the Audit Board Committee on significant matters affecting the internal control in relation to financial reports.

Nordea Kredit's internal audit function reviews the company's processes, to test and report whether these are in accordance with the objectives set out by management. This review includes an assessment of the reliability of procedures, controls and financial reporting as well as compliance with legislation and regulations. The internal audit function annually issues a conclusion to the Board of Directors on the overall effectiveness of the governance, risk management and internal controls of Nordea Kredit.

The audit committee of Nordea Kredit assists the Board of Directors in fulfilling its oversight responsibilities, inter alia by monitoring the financial reporting process and submit recommendations to ensure its reliability, monitoring the effectiveness of the internal controls and risk management systems, in relation to the financial reporting process, monitoring the effectiveness of the internal audit function and keeping itself informed as to the statutory audit of the annual accounts, informing the Board of Directors of the outcome of the statutory audit and explaining how the statutory audit contributed to the reliability of financial reporting and what the role of the audit committee was in that process. Finally, the audit committee is reviewing and monitoring the impartiality and independence of external auditors in accordance with section 24 of the Danish Act on Approved Auditors and Audit Firms, and in particular the provision of additional services to Nordea Kredit, and in conjunction therewith, pay special attention to whether the auditor provides Nordea Kredit with services other than auditing services.

In accordance with the Danish Financial Business Act, Nordea Kredit has appointed a Chief Risk Officer (CRO). The CRO reports to the Executive Management of Nordea Kredit and is responsible for the overall risk management of Nordea Kredit. In addition, the CRO is responsible for the preparation of recommendations to the Executive Management and the Board of Directors of Nordea Kredit regarding the individual solvency need (ISN). The CRO furthermore ensures that the individual solvency need is included in the ICAAP report.

Financial reporting by Nordea Kredit and communication with auditors

The manner in which the Board of Directors ensures the quality of the financial reports, is presented in the above section on monitoring.

Furthermore, the external and the internal auditors present the results of their audits of Nordea Kredit's annual report to the Board of Directors and the Audit Board Committee.

Sustainability

Nordea issues a sustainability report for 2016. The report includes Nordea Kredit.

The sustainability report is available on www.nordea.com. The disclosures are not covered by the statutory audit.

Changes to the Board of Directors

Due to Nordea Kredit being appointed as a SIFI, the Board of Directors was expanded with Torben Laustsen, Nicklas Ilebrand and Anne Rømer from 1 January 2017. The Board of Directors has also formed a Risk Committee, a Nomination Committee and a Remuneration Committee. Anne Rømer is an external board member and has experience with accounting and auditing and was therefore also appointed Head of the Audit Board Committee. Jette Petersen left the Board of Directors on 1 January 2017. The Risk Committee will be headed by Kim Skov Jensen while the whole board will constitute both the Nomination Committee and the Remuneration Committee.

After the change the Board of Directors consists of Peter Lybecker (Chairman), Nicklas Ilebrand (Vice Chairman), Torben Laustsen, Kim Skov Jensen, Jørgen Holm Jensen and Anne Rømer.

Changes to the Executive Management

Peter Smith took over the position as Chief Executive Officer of Nordea Kredit from Charlotte Gullak Christensen on 12 December 2016.

The Executive Management now consists of Chief Executive Officer Peter Smith and Deputy Chief Executive Officer Claus H. Greve.

Further information regarding members of the Board of Directors and the Executive Management is available on page 59.

Balanced gender composition

The Nordea Group Board of Directors has approved a policy to promote gender balance when selecting members of boards of directors of subsidiaries of Nordea Bank AB (publ). The Board of Directors of Nordea Kredit has endorsed this policy and the target is to have a gender balance of 40/60 within two years.

Furthermore, the Nordea Group Board of Directors has approved a policy to promote gender balance on the other managerial levels. The Board of Directors of Nordea Kredit has endorsed this policy.

According to the policy, Nordea strives to ensure that the right person is employed for the right job at the right time, while ensuring the right mix of competencies needed, including an appropriate gender composition in leading positions.

The Board of Directors continuously assesses its composition to ensure that the necessary competencies are available while taking into account the need for an equal gender balance.

A follow-up process on the set target must be made by the Board of Directors at least annually.

Nordea continuously follows up on diversity measures and social data. To see new developments, the latest report and more please visit www.nordea.com/en/responsibility/stories.

People in Nordea

Our people have an opportunity to transform the industry

Our industry is undergoing a significant transformation. We are working proactively to ensure that we meet our customers' changing demands in the digital era as well as the increasing regulatory demands affecting our industry.

As the leading bank in the Nordics, we have a huge opportunity to shape the industry and our people can all be leaders of the transformation. Supporting our people to focus on performing whilst transforming is our main priority and we are embarking on a major cultural change to enable this opportunity.

Co-creating the future

We see opportunities in the way we co-create our future and become the bank we want to be. We want to support our people in achieving our ambitious goals through four dimensions:

Desire: By raising the bar and our own ambitions, we make sure to become the bank we want to be.

Collaboration: Solving the challenges of the future requires collaboration beyond our own organisational units, ensuring we have the right people in the right places where they can bring the best value. Also, we want to be a responsible member of society actively engaging with our most important stakeholders: our customers, regulators and society at large.

Ownership: We want our people to feel ownership of their own competencies so they can fully contribute now and to the transformation ahead.

Learning: We want to create a vibrant learning environment where we also learn from our mistakes, systematically seizing the new competencies we need to build our future.

Organisations do not change – people do

For us to change and meet the demands of the transformation, we first need to look at who we are and what we are good at. We are proud of our people's expertise and professional skills as well as being able to deliver. Our ability to build future-fit competencies fast will determine our ability to keep us ahead of the curve. Thus, recruitment and learning processes are critical for our future success, and personal development and talent management will ensure that competencies are maintained at the highest professional level.

Embracing risk management and compliance

The complex risk management landscape of today requires future-fit competencies with a deep understanding of long-term risk factors. Through collaboration with Group Compliance, Group Risk Management and Business Risks & Support we have developed training for all employees, addressing the responsibility of being a risk manager. We have a compliance awareness programme for senior management to keep accountability and competencies at the necessary level.

Diversity and inclusion – a factor for success

We are confident that an inclusive workplace culture benefits everyone. We will broaden the scope of our efforts into more aspects of diversity to include gender, age, ethnicity, religious beliefs, sexual orientation, approaches and other factors shaping one's identity. Having people with different backgrounds is a positive factor for finding collaborative solutions and solving problems. Diversity thereby creates resilience, making us better prepared for tomorrow's challenges and opportunities.

Engagement counts

For several years we have conducted an employee engagement survey to encourage people to tell us how they feel about working at Nordea. The response rate was 93% in 2016, which demonstrates strong engagement. Not surprisingly, the internal perception of Nordea's image has suffered since last year. This is natural: when public opinion changes, we do not stand unaffected internally.

The overall result of the survey shows that we continue to have a high level of engagement (same overall index as in 2015 and six index points above the Nordic financial labour market), driven especially by our satisfaction with our job content, local teamwork, our relationship with our immediate manager and our belief that we can develop and are challenged in our job.

Our Cultural Journey

We want our people to come to work every day united by a strong culture, with strong desire and the freedom to perform at their best. We call this our Cultural Journey. Our People Agenda plays a significant role on this journey, aiming at strengthening capacity and creating a positive, inclusive work culture across our entire organisation.

We will make sure that we build a fit-for-purpose organisation where there is clarity between the roles throughout the organisation and that our business gets the full support from the People organisation to achieve their business goals. We will drive a strategic workforce to ensure that we have the right competencies in place in the right roles and with high capacity in the high-impact areas where resources are demanded.

Remuneration in Nordea

The Board of Directors decides on the Nordea Remuneration Policy, based on an analysis of the possible risks involved, and ensures that it is applied and followed up as proposed by the Board Remuneration Committee (BRC).

The Nordea Remuneration Policy will
- Support Nordea's ability to recruit, develop and retain highly motivated, competent and performance-oriented employees and hence the People strategy.
- Supplement excellent leadership and challenging tasks as driving forces for creating high commitment among employees and a Great Nordea.
- Ensure that compensation at Nordea is aligned with efficient risk management and the Nordea values: Great customer experiences, It's all about people and One Nordea team.

Nordea offers competitive, but not market-leading compensation packages.

Nordea has a total remuneration approach to compensation that recognises the importance of well-balanced but differentiated remuneration structures based on business and local market needs, and of compensation being consistent with and promoting sound and effective risk management, and not encouraging excessive risk-taking or counteracting Nordea's long-term interests.

Nordea remuneration components – purpose and eligibility
Fixed Salary remunerates employees for full satisfactory performance. The individual salary is based on three cornerstones: job complexity and responsibility, performance and local market conditions.

Profit Sharing aims to stimulate value creation for customers and shareholders and is offered to all employees. The performance criteria for the 2016 programme are return on capital at risk, return on equity relative to peers, customer satisfaction index relative to peers and absolute.

Variable Salary Part (VSP) is offered to selected managers and specialists to reward strong performance. Individual performance is assessed based on a predetermined set of well-defined financial and non-financial success criteria, including Nordea Group criteria.

Bonus scheme is offered only to selected groups of employees in specific business areas or units. The aim is to ensure strong performance and to maintain cost flexibility for Nordea. Assessment of individual performance will be based on a predetermined set of well-defined financial and non-financial success criteria, including Nordea Group performance.

One Time Payment (OTP) can be granted to employees in the event of extraordinary performance that exceeds requirements or expectations, or in connection with temporary project work.

Pension and insurance schemes aim at ensuring an appropriate standard of living after retirement and personal insurance during employment. Pension and insurance provisions are according to local laws, regulations and market practice and take the form either of determined public collective agreements, company-determined schemes or a combination of these. Nordea aims to have defined contribution pension schemes.

Benefits at Nordea are granted as a means to stimulate performance and well-being. Benefits are either linked to the employment contract or local conditions.

Executive Incentive Programme (EIP) may be offered to recruit, motivate and retain selected managers and key employees, and aims to reward strong performance and efforts. The EIP contains predefined financial and non-financial performance criteria at group, business area/ group function/division and unit/individual level. The Group performance criteria for the EIP 2016 are return on capital at risk, total costs, return on equity relative to peers, customer satisfaction index relative to peers and absolute.

Subsequent events

No events have occurred after the balance sheet date which may affect the assessment of the annual report.

Outlook for 2017

The property market is expected to continue the positive trends, leading to sustained high activity and with higher prices of owner-occupied dwellings also outside the major urban areas. The same trend is also expected for holiday homes in certain parts of the country. The increase in prices is also likely to lead to higher borrowing activity as more customers will use the opportunity to borrow against the equity in their homes.

On the corporate market, volumes are expected to be stable, which is in line with the overall strategy of ensuring profitability in all customer relationships.

On the agricultural market, volumes are also expected to remain stable or decline slightly due to relatively low investment activity in the agricultural sector.

Based on expectations for the market and the increase in administration and reserve fees, which will have full effect in 2017, interest income is expected to increase. At the same time customers are expected to continue to switch to loans with longer refinancing periods, reducing net fee and commission income.

Nordea Kredit expects to continue the development of the eBolig portal in 2017, adding more digitalised solutions and making it easier to apply for a loan and improving the customer experience.

Financial statements – contents

Income statement
Statement of comprehensive income
Balance sheet
Statement of changes in equity
5-year overview

Notes to the financial statements
1 Accounting policies

Notes to the income statement
2 Net interest income
3 Net fee and commission income
4 Net result from items at fair value
5 Staff costs
6 Depreciation, amortisation and impairment charges of tangible and intangible assets
11 Net loan losses
7 Profit from investment in associated undertaking
8 Taxes
9 Commitments with the Board of Directors and the Executive Management

Notes to the balance sheet
10 Loans to credit institutions and central banks
11 Loans and receivables at fair value
12 Bonds at fair value
13 Investment in associated undertaking
14 Intangible assets
15 Other tangible assets
16 Assets in temporary possession
17 Other assets
18 Deposits by credit institutions and central banks
19 Bonds in issue at fair value
20 Other liabilities

Other notes
21 Capital adequacy
22 Maturity analysis for assets and liabilities
23 Related-party transactions
24 The Danish Financial Supervisory Authority's ratio system
25 Series financial statements for 2016
26 Risk disclosures

Income statement

DKKm	Note	2016	2015
Interest income		10,149	10,693
Interest expense		-7,157	-7,902
Net interest income	2	**2,992**	**2,791**
Dividend income		-	-
Fee and commission income	3	618	769
Fee and commission expense	3	-1,032	-992
Net interest and fee income		**2,578**	**2,568**
Net result from items at fair value	4	-4	-309
Other operating income		8	8
Staff costs and administrative expenses	5	-293	-241
Depreciation, amortisation and impairment charges of tangible and intangible assets	6	0	0
Other operating expenses		-	-
Net loan losses	11	-138	-114
Profit from investment in associated undertaking	7	1	1
Profit before tax		**2,152**	**1,913**
Tax	8	-473	-449
Net profit for the year		**1,679**	**1,464**

Statement of comprehensive income

DKKm	2016	2015
Net profit for the year	1,679	1,464
Other comprehensive income, net of tax	-	-
Total comprehensive income	**1,679**	**1,464**
Attributable to		
Shareholder of Nordea Kredit Realkreditaktieselskab	1,679	1,464
Total	**1,679**	**1,464**

Balance sheet

DKKm	Note	31 Dec 2016	31 Dec 2015
Assets			
Cash balance and demand deposits with central banks		375	609
Loans to credit institutions and central banks	10	45,985	50,916
Loans and receivables at fair value	11	390,028	385,583
Loans and receivables at amortised cost		-	-
Bonds at fair value	12	-	-
Investment in associated undertaking	13	15	15
Intangible assets	14	-	-
Other tangible assets	15	0	0
Current tax assets		-	-
Deferred tax assets	8	1	0
Assets in temporary possession	16	28	34
Other assets	17	575	706
Prepaid expenses		5	4
Total assets		**437,012**	**437,867**
Liabilities			
Deposits by credit institutions and central banks	18	4,515	24,608
Bonds in issue at fair value	19	405,197	389,568
Current tax liabilities	8	13	29
Other liabilities	20	3,072	3,341
Deferred income		35	20
Total liabilities		**412,832**	**417,566**
Provisions			
Deferred tax liabilities	8	-	-
Total provisions		**-**	**-**
Subordinated liabilities			
Subordinated liabilities		2,200	-
Equity			
Share capital		1,717	1,717
Other reserves		16	15
Retained earnings		18,569	18,569
Proposed dividend		1,678	-
Total equity		**21,980**	**20,301**
Total liabilities and equity		**437,012**	**437,867**
Contingent liabilities			
Guarantees etc		74	75
Total contingent liabilities		**74**	**75**

Statement of changes in equity

DKKm	Share capital[1]	Other reserves[2]	Retained earnings	Proposed dividend	Total
Balance at 1 Jan 2016	1,717	15	18,569	-	20,301
Net profit for the year	-	1	1,678	-	1,679
Other comprehensive income, net of tax	-	-	-	-	-
Total comprehensive income	-	1	1,678	-	1,679
Proposed dividend	-	-	-1,678	1,678	0
Balance at 31 Dec 2016	1,717	16	18,569	1,678	21,980

DKKm	Share capital[1]	Other reserves[2]	Retained earnings	Proposed dividend	Total
Balance at 1 Jan 2015	1,717	14	17,107	-	18,838
Net profit for the year	-	1	1,463	-	1,464
Other comprehensive income, net of tax	-	-	-	-	-
Total comprehensive income	-	1	1,463	-	1,464
Proposed dividend	-	-	-	-	-
Balance at 31 Dec 2015	1,717	15	18,569	-	20,301

A description of items in equity is included in Note 1 Accounting policies.

[1] Total shares registered were 17,172,500 of DKK 100 each all fully owned by Nordea Bank Danmark A/S, Copenhagen, Denmark. All issued shares are fully paid. All shares are of the same class and hold equal rights.

[2] Refers to reserve for net revaluation according to the equity method.

5-year overview

Income statement (DKKm)	2016	2015[3]	2014[3]	2013[3]	2012[3]
Net interest income	2,992	2,791	2,679	2,355	2,214
Net interest and fee income	2,578	2,568	2,380	2,015	1,827
Net result from items at fair value	-4	-309	-40	-37	-176
Other operating income	8	8	0	8	9
Staff costs and administrative expenses	-293	-241	-201	-210	-228
Depreciation, amortisation and impairment charges of tangible and intangible assets	0	0	0	-4	-4
Net loan losses	-138	-114	-366	-390	-491
Profit from investment in associated undertaking	1	1	2	1	1
Profit before tax	**2,152**	**1,913**	**1,775**	**1,383**	**938**
Tax	-473	-449	-435	-346	-235
Net profit for the year	**1,679**	**1,464**	**1,340**	**1,037**	**703**

Balance sheet (DKKm)	2016	2015	2014	2013	2012
Loans to credit institutions and central banks	45,985	50,916	70,462	52,873	46,773
Loans and receivables at fair value	390,028	385,583	381,056	363,749	358,371
Loans and receivables at nominal value[1]	383,093	383,773	371,734	358,925	349,484
Other assets	999	1,368	409	416	1,900
Total assets	**437,012**	**437,867**	**451,927**	**417,038**	**407,044**
Deposits by credit institutions and central banks	4,515	24,608	42,250	46,470	48,905
Bonds in issue at fair value	405,197	389,568	387,106	349,074	336,402
Other liabilities	5,320	3,390	3,733	3,996	5,276
Equity	21,980	20,301	18,838	17,498	16,461
Total liabilities and equity	**437,012**	**437,867**	**451,927**	**417,038**	**407,044**

Ratios and key figures (%)	2016	2015	2014	2013	2012
Return on equity	7.9	7.5	7.4	6.1	4.4
Income/cost ratio	6.0	6.4	4.1	3.3	2.3
Cost/income ratio	11.3	10.6	8.6	10.8	14.0
Loans/equity	17.7	19.0	20.2	20.8	21.8
Lending growth for the year	-0.2	3.2	3.6	2.7	4.5
Impairment ratio for the year	0.1	0.1	0.1	0.1	0.1
Total capital ratio[2]	35.3	29.7	28.6	16.4	16.2
Tier 1 capital ratio[2]	31.8	29.7	28.6	16.4	16.2
Tier 1 capital[2], DKKbn	20.0	20.0	18.6	14.8	14.2
Risk exposure amount[2], DKKbn	63.0	67.2	64.9	90.0	87.9
Number of employees (full-time equivalents)[2]	103	101	114	125	131
Average number of employees	100	110	125	129	135

1 After adjustment for provisions for loan losses.
2 End of year.
3 Refinancing fees and pay-out fees have been reclassified from "Net result from items at fair value" to "Net fee and commission income", in accordance with the changed presentation of refinancing fees and pay-out fees mentioned in note 1.

The Danish Financial Supervisory Authority's ratio system is shown in Note 24.

Business definitions

Allowances in relation to impaired loans
Allowances for individually assessed impaired loans divided by individually assessed impaired loans before allowances.

Cost/income ratio
Total operating expenses divided by total operating income.

Leverage ratio
The leverage ratio is the institution's capital as tier 1 capital divided by that institution's total exposure measure and expressed as a percentage.

Loan loss ratio
Net loan losses (annualised) divided by closing balance of loans to the public (lending).

Non-performing, not impaired
Past due loans, not impaired due to future cash flows (included in Loans, not impaired).

Own funds
Own funds include the sum of the Tier 1 capital and the supplementary capital consisting of subordinated loans, after deduction of the potential deduction for expected shortfall.

Return on equity
Net profit for the year excluding non-controlling interests as a percentage of average equity for the year. Average equity including net profit for the year and dividend until paid, non-controlling interests excluded.

Risk exposure amount
Total assets and off-balance sheet items valued on the basis of the credit and market risks, as well as operational risks of the Group's undertakings, in accordance with regulations governing capital adequacy, excluding carrying amount of shares which have been deducted from the capital base and intangible assets.

Tier 1 capital
Proportion of the capital base, which includes consolidated shareholders' equity excluding proposed dividend, deferred tax assets, intangible assets in the banking operations. Shortfall is deducted with 80% in Tier 1 capital and 20% in Tier 2 capital in 2016. For 2015 the shortfall was 70% in Tier 1 capital and 30% in Tier 2 capital. Subsequent to the approval of the supervisory authorities, Tier 1 capital also includes qualified forms of subordinated loans.

Tier 1 capital ratio
Tier 1 capital as a percentage of risk exposure amount. The common equity tier 1 capital ratio is calculated as common equity tier 1 capital as a percentage of risk exposure amount.

Total capital ratio
Own funds as a percentage of risk exposure amount.

Notes to the financial statements

Note 1
Accounting policies

Table of contents

1. Basis for presentation
2. Critical judgements and estimation uncertainty
3. Recognition of operating income and impairment
4. Recognition and derecognition of financial instruments on the balance sheet
5. Translation of assets and liabilities denominated in foreign currencies
6. Determination of fair value of financial instruments
7. Cash and balances with central banks
8. Financial instruments
9. Loans and receivables at fair value
10. Intangible assets
11. Other tangible assets
12. Taxes
13. Employee benefits
14. Equity
15. Related-party transactions

1. Basis for presentation

The annual report for Nordea Kredit is prepared in accordance with the Danish Financial Business Act, the Executive Order on financial reports for credit institutions etc (the Executive Order) and the NASDAQ OMX Copenhagen A/S's rules on the issuance of listed bonds.

The accounting policies applied are unchanged from last year.

Changed presentation of refinancing fees and pay-out fees

Refinancing fees and pay-out fees have been reclassified from "Net result from items at fair value" to "Net fee and commission income" in the income statement, in order to align with Nordea's classification policy for loan processing fees. A refinancing fee is charged when an adjustable-rate mortgage loan is refinanced, and a pay-out fee when a loan is initially paid out. The comparable figures have been restated and the impact on the current and comparative periods can be found in the below table. The change in presentation has not had any impact on the operating profit, balance sheet or equity.

	2016			2015		
DKKm	Old policy	Re-statement	New policy	Old policy	Re-statement	New policy
Fee and commission income	247	371	618	336	433	769
Net result from items at fair value	367	-371	-4	124	-433	-309

2. Critical judgements and estimation uncertainty

The preparation of financial statements in accordance with generally accepted accounting principles requires, in some cases, the use of judgements and estimates by management. Actual outcomes can later, to some extent, differ from the estimates and the assumptions made.

In this section a description is made of:

- the sources of estimation uncertainty at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year, and
- the judgements made when applying accounting policies (apart from those involving estimations) that have the most significant effect on the amounts recognised in the financial statements.

Critical judgements and estimates are in particular associated with:

- the fair value measurement of certain financial instruments
- the impairment testing of:
  – loans and receivables at fair value.

Fair value measurement of certain financial instruments

Nordea Kredit's accounting policy for determining the fair value of financial instruments is described in section 6 "Determination of fair value of financial instruments". Critical judgements that have a significant impact on the recognised amounts for financial instruments are exercised when determining fair value of other financial instruments that lack quoted prices or recently observed market prices. Those judgements relate to the following areas:

- The choice of valuation techniques.
- The determination of when quoted prices fail to represent fair value (including the judgement of whether markets are active).
- The construction of fair value adjustments in order to incorporate relevant risk factors such as credit risk, model risk and liquidity risk.
- The judgement of which market parameters are observable.

The critical judgements required when determining fair value of financial instruments that lack quoted prices or recently observed market prices also introduce a high degree of estimation uncertainty.

In all of these instances, decisions are based upon professional judgement in accordance with Nordea's accounting and valuation policies. The evaluation policy is governed by the Group Valuation Committee, which is chaired by the Group CFO.

Impairment testing of loans and receivables at fair value

Nordea Kredit's accounting policy for impairment testing of loans is described in section 9 "Loans and receivables at fair value".

Management is required to exercise critical judgements and estimates when calculating loan impairment allowances on both individually assessed and collectively assessed loans. For more information, see Note 11 "Loans and receivables at fair value".

The most judgemental area is the calculation of collective impairment allowances. When testing a group of loans collectively for impairment, judgement has to be exercised when identifying the events and/or the observable data that indicate that losses have been incurred in the group of loans. Nordea Kredit monitors its portfolio through rating migrations and a loss event is an event resulting in a negative rating migration. Assessing the net present value of the cash flows generated by the customers in the group of loans also includes estimation uncertainty. This includes the use of historical data on probability of default and loss given default supplemented by acquired experience when adjusting the assumptions based on historical data to reflect the current situation.

3. Recognition of operating income and impairment

Net interest income

Interest income and expense are calculated and recognised based on the effective interest rate method or, if considered appropriate, based on a method that results in an interest income or interest expense that is a reasonable approximation of using the effective interest rate method as basis for the calculation.

Interest income and expenses from financial instruments are classified as "Net interest income".

Net fee and commission income

Nordea Kredit earns commission income from different services provided to its customers. The recognition of commission income depends on the purpose for which the fees are received. Fees are either recognised as revenue when services are provided or in connection to the execution of a significant act. Fees received in connection to performed services are recognised as income in the period these services are provided.

Commission expenses are transaction based and recognised in the period when the services are received.

Expenses originated from bought financial guarantees are recognised under "Fee and commission expense".

Net result from items at fair value

Realised and unrealised gains and losses on financial instruments measured at fair value through profit or loss are recognised in the item "Net result from items at fair value".

Realised and unrealised gains and losses derive from:

- interest-bearing securities and other interest-related instruments
- other financial instruments, and
- foreign exchange gains/losses.

Profit from companies accounted for under the equity method

The profit from companies accounted for under the equity method is defined as the post-acquisition change in Nordea Kredit's share of net assets in the associated undertakings. Nordea Kredit's share of items is accounted for in "Profit from investment in associated undertaking" and placed under equity, "Other reserves". Profits from companies accounted for under the equity method are reported in the income statement post-taxes. Consequently, the tax expense related to these profits is excluded from the income tax expense for Nordea Kredit.

The change in Nordea Kredit's share of the net assets is generally based on reporting from the associated undertakings. For some associated undertakings not individually significant, the change in Nordea Kredit's share of the net assets is based on the external reporting of the associated undertakings and affects the financial statements of Nordea Kredit in the period in which the information is available. The reporting from the associated undertakings is, if applicable, adjusted to comply with Nordea Kredit's accounting policies.

Other operating income

Net gains from divestments of shares in associated undertakings and net gains on sale of tangible assets as well as other operating income, not related to any other income line, are generally recognised when it is probable that the benefits associated with the transaction will flow to Nordea Kredit and if the significant risks and rewards have been transferred to the buyer (generally when the transactions are finalised).

Net loan losses

Impairment losses on loans and receivables at fair value on the balance sheet are reported as "Net loan losses". Also the fair value adjustments of credit risk on loans granted in accordance with mortgage finance legislation (see section 8 "Financial instruments") are reported under "Net loan losses". Losses are reported net of any collateral and other credit enhancements. Nordea Kredit's accounting policies for the calculation of impairment losses on loans can be found in section 9 "Loans and receivables at fair value".

4. Recognition and derecognition of financial instruments on the balance sheet

Derivative instruments, quoted securities, foreign exchange spot transactions and other financial instruments are recognised on and derecognised from the balance sheet on the settlement date.

Financial assets are derecognised from the balance sheet when the contractual rights to the cash flows from the financial asset expire or are transferred to another party. The rights to the cash flows normally expire or are transferred when the counterparty has performed by eg repaying a loan to Nordea Kredit, ie on the settlement date.

Financial liabilities are derecognised from the balance sheet when the liability is extinguished.

For further information, see the section "Repurchase and reverse repurchase agreements" within section 8 "Financial instruments".

5. Translation of assets and liabilities denominated in foreign currencies

Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction, and unrealised translation differences on unsettled foreign currency monetary assets and liabilities, are recognised in the income statement in the item "Net result from items at fair value".

6. Determination of fair value of financial instruments

Fair value is defined as the price that at the measurement date would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants under current market conditions in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability.

The existence of published price quotations in an active market is the best evidence of fair value and when they exist they are used to measure financial assets and financial liabilities.

An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. The absolute level for liquidity and volume required for a market to be labelled active vary with the instrument classes. For some classes low price volatility is seen, also for those instruments within the class where the trade frequency is high. For instruments in such a class the liquidity requirements are lower and correspondingly, the age limit for the prices used for establishing fair value is higher.

The trade frequency and volume are monitored regularly in order to assess if markets are active or non-active.

Nordea Kredit is predominantly using published price quotations to establish fair value for debt securities in issue.

If quoted prices for a financial instrument fail to represent actual and regularly occurring market transactions or if quoted prices are not available, fair value is established by using an appropriate valuation technique. The adequacy of the valuation technique, including an assessment of whether to use quoted prices or theoretical prices, is monitored on a regular basis.

Valuation techniques can range from simple discounted cash flow analysis to complex option pricing models. Valuation models are designed to apply observable market prices and rates as input whenever possible, but can also make use of unobservable model parameters. The adequacy of the valuation model is assessed by measuring its capability to hit market prices. This is done by comparison of calculated prices to relevant benchmark data, eg quoted prices from an exchange, the counterparty's valuations, price data from consensus services etc.

Nordea Kredit is predominantly using valuation techniques to establish fair value for items disclosed under the following balance sheet items:
- loans and receivables at fair value
- interest-bearing securities (when quoted prices in an active market are not available)
- bonds in issue at fair value.

For financial instruments where fair value is estimated by a valuation technique, it is investigated whether the variables used in the valuation model are predominantly based on data from observable markets. By data from observable markets, Nordea Kredit considers data that can be collected from generally available external sources and where these data are judged to represent realistic market prices. If non-observable data have a significant impact on the valuation, the instrument cannot be recognised initially at the fair value estimated by the valuation technique and any upfront gains are thereby deferred and amortised through the income statement over the contractual life of the instrument. The deferred upfront gains are subsequently released to income if the non-observable data become observable.

The valuation models applied by Nordea Kredit are consistent with accepted economic methodologies for pricing financial instruments and incorporate the factors that market participants consider when setting a price.

New valuation models are subject to approval by the Group Model Risk Committee and all models are reviewed on a regular basis.

7. Cash and balances with central banks

Cash and balances with central banks consist of cash and balances with central banks, where the following conditions are fulfilled:
- the Danish central bank
- the balance is readily available at any time.

8. Financial instruments

Loans and receivables and bonds in issue in Nordea Kredit are measured at fair value through profit or loss to eliminate or significantly reduce an accounting mismatch. When Nordea Kredit grants mortgage loans to customers in accordance with the mortgage finance legislation, Nordea Kredit at the same time issues bonds with matching terms, so-called match funding. The customers can repay the loans either through repayments of the principal or by purchasing the bonds issued and return them as a settlement of the loan. The bonds play an important part in the Danish money market and Nordea Kredit consequently buys and sells own bonds in the market. If the loans and bonds were measured at amortised cost, such buybacks of bonds would give rise to an accounting mismatch as any gains or losses would have to be recognised immediately in the income statement. If such bonds are subsequently sold in the market, any premium or discount would be amortised over the expected maturity, which would also create an accounting mismatch. To avoid such an accounting mismatch, Nordea Kredit measures both the loans and bonds at fair value.

Repurchase and reverse repurchase agreements

Securities delivered under repurchase agreements and securities received under reverse repurchase agreements are not derecognised from or recognised on the balance sheet.

Cash received under repurchase agreements is recognised on the balance sheet as "Deposits by credit institutions and central banks". Cash delivered under reverse repurchase agreements is recognised on the balance sheet as "Loans and receivables at fair value".

Derivatives

All derivatives are recognised on the balance sheet and measured at fair value. Derivatives with total positive fair values, including any accrued interest, are recognised as assets in the item "Other assets" on the asset side. Derivatives with total negative fair values, including any accrued interest, are recognised as liabilities in the item "Other liabilities" on the liability side.

Realised and unrealised gains and losses from derivatives are recognised in the income statement in the item "Net result from items at fair value".

Offsetting of financial assets and liabilities

Nordea Kredit offsets financial assets and liabilities on the balance sheet if there is a legal right to offset, in the ordinary course of business and in case of bankruptcy, and if the intent is to settle the items net or realise the asset and settle the liability simultaneously.

9. Loans and receivables at fair value

Financial instruments classified as "Loans to credit institutions and central banks" on the balance sheet and into the category

"Loans and receivables at fair value" are measured at fair value (see also the separate section 4 "Recognition and derecognition of financial instruments on the balance sheet".

Impairment test of individually assessed loans
Nordea Kredit tests all loans for impairment on an individual basis. The purpose of the impairment tests is to find out if the loans have become impaired. As a first step in the identification process for impaired loans, Nordea Kredit monitors whether there are indicators of impairment (loss event) and whether these loss events represent objective evidence of impairment.

Loans that are not individually impaired will be transferred to a group of loans with similar risk characteristics for a collective impairment test.

Impairment test of collectively assessed loans
Loans not impaired on an individual level are collectively tested for impairment. These loans are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms. Nordea Kredit monitors its portfolio through rating migrations and the credit decision and annual review process supplemented by quarterly risk reviews. Through these processes Nordea Kredit identifies loss events indicating incurred losses in a group. A loss event is an event resulting in a deterioration of the expected future cash flows. Only loss events incurred up to the reporting date are included when performing the assessment of the group.

The objective of the group assessment process is to evaluate if there is a need to make a provision due to the fact that a loss event has occurred, which has not yet been identified on an individual basis. This period between the date when the loss event occurred and the date when it is identified on an individual basis is called emergence period. The impairment remains related to the group of loans until the losses have been identified on an individual basis. The identification of the loss is made through a default of the commitment or by other indicators.

For corporate customers and bank counterparties, Nordea Kredit uses the existing rating system as a basis when assessing the credit risk. Nordea Kredit uses historical data on the probability of default to estimate the risk of default in a rating class. These loans are rated and grouped mostly based on the type of industry and/or sensitivity to certain macro parameters, eg dependence on oil prices etc.

Personal customers and small corporate customers are monitored through scoring models. These are based mostly on historical data, as default rates and loss rates given a default, and experienced judgement performed by management. Rating and scoring models are described in more detail in the separate section Risk, liquidity and capital management.

Impairment loss
If the carrying amount of the loans is higher than the sum of the net present value of the estimated cash flows (discounted with original effective interest rate), including the fair value of the collateral and other credit enhancements, the difference is the impairment loss.

For significant loans that have been individually identified as impaired, the measurement of the impairment loss is made on an individual basis.

For insignificant loans that have been individually identified as impaired and for loans not identified as impaired on an individual basis, the impairment loss is measured using portfolio-based expectations of the future cash flows.

If the impairment loss is not regarded as final, the impairment loss is accounted for on an allowance account representing the accumulated impairment losses. Changes in the credit risk and accumulated impairment losses are accounted for as changes in the allowance account and as "Net loan losses" in the income statement (see also section 3 "Recognition of operating income and impairment").

If the impairment loss is regarded as final, it is reported as a realised loss and the value of the loan and the related allowance for impairment loss are derecognised. An impairment loss is regarded as final when bankruptcy proceedings are taken against the obligor and the administrator has declared the financial outcome of the bankruptcy proceedings, or when Nordea Kredit waives its claims either through a legally based or voluntary reconstruction or when Nordea Kredit, for other reasons, deems it unlikely that the claim will be recovered.

Discount rate
The discount rate used to measure impairment is the original effective interest rate for loans attached to an individual customer or, if applicable, to a group of loans. If considered appropriate, the discount rate can be based on a method that results in impairment that is a reasonable approximation of using the effective interest rate method as the basis for the calculation.

Assets in temporary possession
At Nordea Kredit the item "Assets in temporary possession" consists only of repossessed properties.

At initial recognition, all assets in temporary possession are recognised at fair value and the possible difference between the carrying amount of the loan and the fair value of the assets taken over is recognised as "Net loan losses". The fair value of the asset on the date of recognition becomes its cost or amortised cost value, as applicable. In subsequent periods, assets taken over are measured at the lower of the carrying amount at the time of classification and the fair value less expected costs to sell.

Any change in value, after the initial recognition of the asset taken over, is presented in the income statement.

10. Intangible assets
Intangible assets are identifiable, non-monetary assets without physical substance. The assets are under Nordea Kredit's control, which means that Nordea Kredit has the power and rights to obtain the future economic benefits flowing from the underlying resource. The intangible assets of Nordea Kredit mainly consist of IT development/computer software.

Amortisation is calculated on a straight-line basis over the useful life of the software, generally a period of 3 to 10 years.

11. Other tangible assets
Other tangible assets include leasehold improvements, IT equipment, furniture and other equipment. Items of machinery and equipment are measured at cost less accumulated depreciation and accumulated impairment

losses. The cost of an item of machinery and equipment comprises its purchase price, as well as any directly attributable costs of bringing the asset to the working condition for its intended use. When parts of an item of machinery and equipment have different useful lives, they are accounted for as separate items.

Machinery and equipment is depreciated on a straight-line basis over the estimated useful life of the assets. The estimates of the useful life of different assets are reassessed on a yearly basis. Below follows the current estimates:

Machinery and equipment	3–5 years
Leasehold improvements	Changes within buildings the shorter of 10 years and the remaining leasing term. New construction the shorter of the principles used for owned buildings and the remaining leasing term. Fixtures installed in leased properties are depreciated over the shorter of 10-20 years and the remaining leasing term.

At each balance sheet date, Nordea Kredit assesses whether there is any indication that an item of machinery and equipment may be impaired. If any such indication exists, the recoverable amount of the asset is estimated and any impairment loss is recognised.

Impairment losses are reversed if the recoverable amount increases. The carrying amount is then increased to the recoverable amount, but cannot exceed the carrying amount that would have been determined, had no impairment loss been recognised.

12. Taxes

The item "Income tax expense" in the income statement comprises current and deferred income tax. The income tax expense is recognised in the income statement, except to the extent the tax effect relates to items recognised in other comprehensive income or directly in equity, in which case the tax effect is recognised in other comprehensive income or in equity, respectively.

Current tax is the expected tax expense on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognised, using the balance sheet method, for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets are recognised for the carry forward of unused tax losses.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, tax losses carry forward and unused tax credits can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Current tax assets and current tax liabilities are offset when the legal right to offset exists and Nordea Kredit intends to either settle the tax asset and the tax liability net or to recover the asset and settle the liability simultaneously. Deferred tax assets and deferred tax liabilities are generally offset if there is a legally enforceable right to offset current tax assets and current tax liabilities.

13. Employee benefits

All forms of consideration given by Nordea Kredit to its employees as compensation for services performed are employee benefits. Short-term benefits are to be settled within 12 months after the reporting period when the services have been performed. Post-employment benefits are benefits payable after the termination of the employment. Post-employment benefits at Nordea Kredit consist only of pensions. Termination benefits normally arise if an employment is terminated before the normal retirement date, or if an employee accepts an offer of voluntary redundancy.

Short-term benefits

Short-term benefits consist mainly of fixed and variable salary. Both fixed and variable salaries are expensed in the period when the employees have performed services to Nordea Kredit.

More information can be found in Note 5 "Staff costs".

Post-employment benefits

Pension plans

All pensions in Nordea Kredit are based on defined contribution arrangements that hold no pension liability for Nordea Kredit. Nordea Kredit also contributes to public pension systems.

14. Equity

Other reserves

Other reserves comprise income and expenses, net after tax effects which are reported in equity through other comprehensive income. These reserves include reserve for Nordea Kredit's share of earnings in associated undertakings under the equity method.

Retained earnings

Retained earnings comprise undistributed profits from previous years.

15. Related-party transactions

Nordea Kredit defines related parties as

- shareholders with significant influence
- other undertakings of the Nordea Group
- associated undertakings
- key management personnel
- other related parties.

All transactions with related parties are made on an arm's length basis.

Shareholders with significant influence

Shareholders with significant influence are shareholders that have in one way or another significant influence on Nordea Kredit. Nordea Bank AB (publ) has a significant influence over Nordea Kredit.

Other undertakings of the Nordea Group

Other undertakings of the Nordea Group consist of subsidiaries of Nordea Bank AB (publ).

Intragroup transactions between legal entities are performed according to the arm's length principle in compliance with the OECD transfer pricing requirements.

Associated undertakings
Further information on the associated undertakings is found in Note 13 "Investment in associated undertaking".

Key management personnel
Key management personnel includes the following positions:
- the Board of Directors
- the Executive Management.

For information about compensation, pensions and other transactions with key management personnel, see Note 5 "Staff costs"

Other related parties
Other related parties comprise close family members to individuals in key management personnel. Other related parties also include companies significantly influenced by key management personnel of Nordea Kredit as well as companies significantly influenced by close family members to these key management personnel.

Information concerning transactions between Nordea Kredit and other related parties is found in Note 23 "Related-party transactions".

Note 2
Net interest income

DKKm	2016	2015
Interest income		
Loans to credit institutions and central banks[1, 3]	-235	-245
Loans and receivables at fair value	7,208	7,936
Administration and reserve fees receivable	3,165	2,979
Interest rate derivatives	-2	6
Other interest income	13	17
Total interest income	**10,149**	**10,693**
Interest expense		
Deposits by credit institutions and central banks[2, 4]	9	-5
Bonds in issue at fair value	-7,160	-7,897
Subordinated liabilities	-7	-
Other interest expenses	1	0
Total interest expense	**-7,157**	**-7,902**
Net interest income	**2,992**	**2,791**

[1] Of which interest income on purchase and resale transactions	-167	-202
[2] Of which interest expense on sale and repurchase transactions	31	52
[3] Of which negative interest income	-235	-245
[4] Of which positive interest expense	31	52

Note 3
Net fee and commission income

DKKm	2016	2015
Loan processing fees	126	160
Brokerage	82	117
Refinancing fees and pay-out fees	371	433
Other fee and commission income	39	59
Fee and commission income	**618**	**769**
Guarantee commissions etc payable to Nordea Bank Danmark A/S	-845	-809
Brokerage payable to Nordea Bank Danmark A/S	-75	-109
Other fee and commission expenses	-112	-74
Fee and commission expenses	**-1,032**	**-992**
Net fee and commission income	**-414**	**-223**

Note 4
Net result from items at fair value

DKKm	2016	2015
Mortgage loans[1]	4,028	-8,471
Bonds at fair value	-	-
Foreign exchange gains/losses	-1	7
Interest rate derivatives	-22	-70
Bonds in issue	-4,009	8,225
Total	**-4**	**-309**

[1] In 2015 mortgage loans were affected by the implementation of an interest rate floor on certain bond series, resulting in a negative non-recurring effect of DKK 234m.

Note 5
Staff costs

DKKm	2016	2015
Salaries and remuneration (specification below)	-73	-71
Pension costs (specification below)	-7	-8
Social insurance contributions	-12	-11
Other staff costs	0	0
Total	**-92**	**-90**
Average number of employees	100	110

Salaries and remuneration		
To the Board of Directors:		
- Fixed salary and benefits	-	-
- Performance-related compensation	-	-
To the Executive Management:		
- Fixed salary and benefits	-6	-2
- Performance-related compensation	-2	-1
To employees that have significant influence on Nordea Kredit's risk profile:		
- Fixed salary and benefits	-	-
- Performance-related compensation	-	-
Total	**-8**	**-3**
To other employees	-65	-68
Total	**-73**	**-71**

Pension costs		
Defined benefit plans	-	-
Defined contribution plans:		
- Executive Management	0	0
- Employees that have significant influence on Nordea Kredit's risk profile	-	-
- Other employees	-7	-8
Total	**-7**	**-8**

Compensation including pension		
Board of Directors[1]	-	-
Executive Management[2]	-8	-4
Employees that have significant influence on Nordea Kredit's risk profile[3]	-	-
Total	**-8**	**-4**

[1] The Board of Directors included five individuals in 2016.
[2] The Executive Management included three individuals in 2016. The Executive Management participates in the incentive programme EIP (Executive Incentive Programme). The programme is described in the Board of Directors' report.
[3] No other employees had significant influence on Nordea Kredit's risk profile in 2016.

Further information about Nordea Kredit's salary policy and practice is available at www.nordea.com/remuneration.

Note 5
Staff costs *(continued)*

Disclosure according to section 77d (3) of the Danish Financial Business Act[1]
The total remuneration earned by the Board of Directors and the Executive Management is disclosed in accordance with section 77d (3) of the Danish Financial Business Act.

DKKm	2016	2015
Board of Directors[2]		
Peter Lybecker	7.9	8.9
Kim Skov Jensen	5.3	5.3
Jørgen Holm Jensen	3.3	3.1
Jette Petersen	1.2	1.1
David Hellemann[3]	5.8	6.2

DKKm	2016	2015
Executive Management		
Charlotte Gullak Christensen[4]	5.9	2.1
Claus H. Greve[5]	1.6	1.6
Peter Smith[6]	0.1	-

According to section 77d (3) of the Danish Financial Business Act, Nordea Kredit Realkreditaktieselskab is required to disclose the total remuneration of the members of the Board of Directors and the Executive Management, including the remuneration the person has earned as a member of the Board of Directors and/or the Executive Management of companies within the Nordea Bank AB Group.

1 Total remuneration includes fixed salary, benefits, pension premiums paid in defined contribution plans for the year and earned variable remuneration. The remuneration relates to the period in duty.
2 No Board of Directors members earn remuneration as members of the Board of Directors of Nordea Kredit Realkreditaktieselskab. All remuneration is earned from Nordea Bank Danmark A/S, Nordea Bank AB (publ) or its branches.
3 David Hellemann left as member of the Board of Directors on 13 June 2016. The amount includes salary in the notice period up until 1 september 2016.
4 Charlotte Gullak Christensen left the Executive Management on 12 December 2016. The salary amount for 2016 includes a provision of DKK 3.9m in connection to her resignation.
5 Claus H. Greve entered the Executive Management on 15 January 2015.
6 Peter Smith entered as member of the Executive Management on 12 December 2016.

Note 6
Depreciation, amortisation and impairment charges of tangible and intangible assets

Depreciation/amortisation

DKKm	2016	2015
Intangible assets (Note 14)		
Internally developed software	-	-
Other tangible assets (Note 15)		
Machinery and equipment	0	0
Total	**0**	**0**

Impairment charges/reversed impairment charges

DKKm	2016	2015
Intangible assets (Note 14)		
Internally developed software	-	-
Other tangible assets (Note 15)		
Machinery and equipment	-	-
Total	**-**	**-**

Total	**0**	**0**

Note 7
Profit from investment in associated undertaking

DKKm	2016	2015
Profit from investment in associated undertaking	1	1
Total	**1**	**1**

Note 8
Taxes

Income tax expense

DKKm	2016	2015
Current tax	-474	-449
Deferred tax	1	0
Adjustment relating to prior years	-	-
Total	**-473**	**-449**

Profit before tax	2,152	1,914
Tax calculated at a tax rate of 22.0%	-473	-449
Non-deductible expenses	0	0
Adjustment relating to prior years	0	-
Tax charge	**-473**	**-449**
Average effective tax rate	22.0%	23.5%

Deferred tax

	Deferred tax assets		Deferred tax liabilities	
DKKm	2016	2015	2016	2015
Deferred tax related to:				
Machinery and equipment	1	0	-	-
Total	**1**	**0**	**-**	**-**

DKKm	2016	2015
Movements in deferred tax assets/liabilities, net are as follows:		
Deferred tax in the income statement	1	0
Total change	**1**	**0**
Current tax assets	**-**	**-**
Current tax liabilities	**13**	**29**

Nordea Kredit is jointly taxed with the Danish companies, branches etc of Nordea.The companies etc included in the joint taxation have joint and several unlimited liability for Danish corporation taxes and withholding taxes on dividends and interest. At 31 December 2016, the net taxes receivable from the Danish Central Tax Administration by the companies included in the joint taxation amounted to DKK 292m (net taxes payable DKK 283m). Any subsequent corrections of the taxable income subject to joint taxation or withholding taxes on dividends etc may entail that the companies' assets/liabilities will increase. The Danish group as a whole is not liable to others.

In terms of payroll tax and VAT, Nordea Bank Danmark A/S is registered jointly with Nordea, Branch of Nordea Bank AB (publ), the Danish PE agency of Nordea Bank Finland and with the majority of the Danish subsidiary undertakings in the Nordea Bank AB Group and these companies are jointly and severally liable for such taxes.

Note 9
Commitments with the Board of Directors and the Executive Management

Loans for the members of Nordea Kredit's Executive Management and Board of Directors and related parties:

DKKm	31 Dec 2016	31 Dec 2015
Loans etc		
Executive Management	12	7
Board of Directors	13	14

Interest income on these loans to members of Nordea Kredit's Executive Management and Board of Directors amounts to DKK 0.4m (DKK 0.3m).

Loans to members of Nordea Kredit's Executive Management and Board of Directors consist of bank loans and mortgage loans on terms based on market conditions. At the end of 2016 interest on the mortgage loans was payable at the rate of 0.0% to 2.3% pa. Loans to related parties of the Executive Management and the Board of Directors are granted on the same terms.

Loans etc to members of the Executive Management and the Board of Directors of the parent companies Nordea Bank Danmark A/S and Nordea Bank AB (publ) consist of mortgage loans on market-based terms. At the end of 2016 the loans amounted to DKK 18m (DKK 5m) with interest rates of 0.0% to 10.3%.

Nordea Kredit has not pledged any assets or provided other collateral or committed to contingent liabilities on behalf of any member of the Executive Management and the Board of Directors and related parties.

Note 10
Loans to credit institutions and central banks

DKKm	31 Dec 2016	31 Dec 2015
Loans to credit institutions	31,434	22,272
Loans with notice to central banks	14,551	28,644
Total	**45,985**	**50,916**
Of which purchase and resale transactions	30,193	20,467

Note 11
Loans and receivables at fair value

DKKm	31 Dec 2016	31 Dec 2015
Mortgage loans, nominal value		
Value at beginning of year	384,101	372,194
New loans (gross new lending)	71,285	103,028
Foreign exchange revaluations	-10	51
Redemptions and prepayments	-63,313	-85,186
Net new lending for the year	7,962	17,893
Scheduled principal payments	-8,700	-5,986
Mortgage loan portfolio at end of year	383,363	384,101
Mortgage loans, fair value		
Nominal value	383,363	384,101
Adjustment for interest rate risk etc	6,587	1,573
Adjustment for credit risk	-270	-328
Mortgage loan portfolio	389,680	385,346
Mortgage arrears and execution levied against debtors' properties	348	237
Loans and receivables	**390,028**	**385,583**

DKKm	31 Dec 2016	31 Dec 2015
Mortgage arrears		
Mortgage arrears before provisions	225	103
Execution levied against debtors' properties before provisions	123	134
Total mortgage arrears and execution levied against debtors' properties	**348**	**237**
Mortgage arrears mid-January following year	112	88

DKKm, 31 Dec 2016	Individually assessed	Collectively assessed
Provisions for loans		
At beginning of year	282	46
Movements during the year:		
- New provisions and value adjustments	314	20
- Reversals of provisions made in previous financial years	-154	-42
- Previous provisions now written off	-184	-
- Other disposals[1]	-12	-
At end of year	**246**	**24**

DKKm, 31 Dec 2015	Individually assessed	Collectively assessed
Provisions for loans		
At beginning of year	320	139
Movements during the year:		
- New provisions and value adjustments	390	23
- Reversals of provisions made in previous financial years	-200	-116
- Previous provisions now written off	-210	-
- Other disposals[1]	-18	-
At end of year	**282**	**46**

[1] Other disposals relate to transfer of provisions for loans to Assets in temporary possession or to Other assets.

Note 11
Loans and receivables at fair value *(continued)*

Loans and receivables, with objective evidence of impairment

Loans and receivables subject to individual impairment and provisioning amount to DKK 18.2bn (DKK 9.8bn) before allowance and DKK 18.0bn (DKK 9.4bn) after allowance.

Loans and receivables subject to collective impairment and provisioning amount to DKK 72.0bn (DKK 91.5bn) before allowance and DKK 72.0bn (DKK 91.4bn) after allowance.

Impaired loans at fair value include loans covered by loss guarantees from Nordea Bank Danmark A/S. Factors taken into account for the determination of provisions for individually assessed loans are described in Note 1 Accounting policies.

DKKm	31 Dec 2016	31 Dec 2015
Provisions for other receivables from credit institutions and other items with credit risk		
At beginning of year	78	66
Movements during the year:		
- New provisions and value adjustments	11	21
- Reversals of provisions made in previous financial years	-6	-9
- Previous provisions now written off	-51	-18
- Other additions[1]	12	18
Total	**44**	**78**
Impaired other receivables before provisions and value adjustments	89	155
Impaired other receivables after provisions and value adjustments	45	77

[1] Other additions relate to transfer of provisions for loans to Assets in temporary possession or to Other assets.

DKKm	31 Dec 2016	31 Dec 2015
Age distribution of mortgage loans in arrears before provisions		
More than 3 months and up to 6 months	1,161	1,122
More than 6 months and up to 1 year	562	256
More than 1 year	389	194
Total	**2,112**	**1,572**

(%)	31 Dec 2016	31 Dec 2015
Mortgage loan portfolio by property category		
Owner-occupied dwellings	64	64
Holiday homes	3	3
Subsidised housing	0	0
Private rental property	7	7
Commercial property	1	1
Office and retail property	9	9
Agricultural property etc	13	13
Property for social, cultural and educational purposes	1	1
Other property	2	2
Total	**100**	**100**

Note 12
Bonds at fair value

DKKm	31 Dec 2016	31 Dec 2015
Bonds at fair value	24,832	40,048
Own bonds offset against bonds in issue	-24,832	-40,048
Total	**-**	**-**
Assets sold as part of sale and repurchase transactions:		
Bonds at fair value	3,916	11,752
Bonds offset against bonds in issue	3,916	11,752

Note 13
Investment in associated undertaking

DKKm	31 Dec 2016	31 Dec 2015
Acquisition value at beginning of year	1	1
Acquisitions during the year	-	-
Sales during the year	-	-
Acquisition value at end of year	**1**	**1**
Revaluation at beginning of year	14	13
Revaluation during the year	0	1
Total revaluation at end of year	**14**	**14**
Total	**15**	**15**

The associated undertaking aggregated balance sheet and income statement can for the latest available annual report for 2015 be summarised as follows:

DKKm	31 Dec 2016	31 Dec 2015
Total assets	148	161
Total liabilities	70	90
Operating income	73	69
Operating profit/loss	7	4

DKKm, 31 Dec 2016	Registration number	Domicile	Carrying amount	Voting power of holding %
e-nettet A/S	21270776	Copenhagen	15	19

Note 14
Intangible assets

DKKm	31 Dec 2016	31 Dec 2015
Internally developed software	-	-
Total	**-**	**-**

DKKm	31 Dec 2016	31 Dec 2015
Internally developed software		
Acquisition value at beginning of year	-	-
Acquisitions during the year	-	-
Sales/disposals during the year	-	-
Acquisition value at end of year	**-**	**-**
Accumulated amortisation at beginning of year	-	-
Amortisation according to plan for the year	-	-
Accumulated amortisation on sales/disposals during the year	-	-
Reclassifications	-	-
Translation differences	-	-
Accumulated amortisation at end of year	**-**	**-**
Accumulated impairment charges at beginning of year	-	-
Impairment charges during the year	-	-
Accumulated impairment charges at end of year	**-**	**-**
Total	**-**	**-**

Note 15
Other tangible assets

DKKm	31 Dec 2016	31 Dec 2015
Machinery and equipment		
Acquisition value at beginning of year	0	5
Acquisitions during the year	-	0
Sales/disposals during the year	-	-5
Acquisition value at end of year	**0**	**0**
Accumulated depreciation at beginning of year	0	-5
Accumulated depreciation on sales/disposals during the year	-	5
Depreciation according to plan for the year	0	0
Accumulated depreciation at end of year	**0**	**0**
Accumulated impairment charges at beginning of year	-	-
Accumulated impairment charges on sales/disposals during the year	-	-
Reversed impairment charges during the year	-	-
Impairment charges during the year	-	-
Accumulated impairment charges at end of year	**-**	**-**
Total	**0**	**0**

Note 16
Assets in temporary possession

DKKm	31 Dec 2016	31 Dec 2015
Repossessed properties	28	34
Total	**28**	**34**

Note 17
Other assets

DKKm	31 Dec 2016	31 Dec 2015
Interest receivable on mortgage loans etc[1]	507	650
Interest receivable on bonds etc	13	3
Other	55	53
Total	**575**	**706**

[1] Included in the calculation of the statutory balance between mortgage loans and mortgage bonds in issue.

Note 18
Deposits by credit institutions and central banks

DKKm	31 Dec 2016	31 Dec 2015
Central banks	-	-
Other banks	4,515	24,608
Other credit institutions	-	-
Total	**4,515**	**24,608**
Of which sale and repurchase transactions	3,960	11,963

Note 19
Bonds in issue at fair value

DKKm	31 Dec 2016	31 Dec 2015
Bonds in issue at beginning of year (nominal value)	427,231	438,774
Bonds issued during the year	144,275	201,183
Translation differences	67	51
Scheduled payments and notified prepayments	-39,435	-49,268
Redemptions and other prepayments	-109,121	-163,509
Bonds in issue at end of year (nominal value)	**423,017**	**427,231**
Adjustment at fair value	7,012	2,385
Own bonds at fair value offset	-24,832	-40,048
Bonds in issue at end of year at fair value	**405,197**	**389,568**
Of which pre-issued (nominal value)	3,883	11,485
Drawn for redemption at next payment date (nominal value)	11,988	3,697

Changes in fair value of financial liabilities attributable to changes in credit risk
The financial liabilities designated at fair value through profit or loss are issued bonds, DKK 405bn (DKK 390bn). For the issued bonds a change in the liability's credit risk and price will have a corresponding effect on the value of the loan. The reason is that a change in the price of the bonds will be offset by the opposite change in the value of the prepayment option of the loan.

The fair value of issued bonds increased in 2016 by approximately DKK 0.9bn (decrease of approximately DKK 0.7bn) due to changes in own credit risk. The cumulative change since designation was a decrease of approximately DKK 4bn (decrease of approximately DKK 5bn). The calculation method of the estimated fair value changes attributable to changes in market conditions is based on relevant benchmark interest rates, which are the average yield on Danish and German government bonds and for adjustable rates, the swap rate. The calculation method is subject to uncertainty related to a number of assumptions and estimates.

Note 20
Other liabilities

DKKm	31 Dec 2016	31 Dec 2015
Interest payable on bonds in issue	2,897	3,177
Other interest and commissions payable	74	72
Other	101	92
Total	**3,072**	**3,341**

Note 21
Capital adequacy

Transitional own funds

DKKm, 31 Dec 2016 **Common equity tier 1 capital: instruments and reserves**		(A) amount at disclosure date	(C) amounts subject to pre-Regulation (EU) no 575/2013 treatment or prescribed residual amount of Regulation (EU) no 575/2013
1	Capital instruments and the related share premium accounts	1,717	-
	of which: Share capital	1,717	-
2	Retained earnings	18,569	-
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	16	-
5	Minority interests (amount allowed in consolidated CET1)	-	-
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	1	-
6	**Common equity tier 1 (CET1) capital before regulatory adjustments**	**20,302**	**-**
Common equity tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-2	-
8	Intangible assets (net of related tax liability) (negative amount)	-	-
12	Negative amounts resulting from the calculation of expected loss amounts	-194	130
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	-
25b	Foreseeable tax charges relating to CET1 items (negative amount)	-	-
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-65	-
28	**Total regulatory adjustments to common equity tier 1 (CET1)**	**-262**	**-**
29	**Common equity tier 1 (CET1) capital**	**20,040**	**-**
Additional tier 1 (AT1) capital: instruments			
36	Additional tier 1 (AT1) capital before regulatory adjustments	-	-
Additional tier 1 (AT1) capital: regulatory adjustments			
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from common equity Tier 1 capital during the transition period pursuant to Article 472 of Regulation (EU) no 575/2013	-	-64
45	**Tier 1 capital (T1 = CET1 + AT1)**	**20,040**	**-**
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	2,200	-
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase-out from T2	-	-
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-	-
49	of which: instruments issued by subsidiaries subject to phase-out	-	-
50	Credit risk adjustments	16	-
51	**Tier 2 (T2) capital before regulatory adjustments**	**2,216**	**-**
Tier 2 (T2) capital: regulatory adjustments			
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from common equity Tier 1 capital during the transition period pursuant to Article 472 of Regulation (EU) no 575/2013	-64	-64
	of which shortfall	-64	-
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-64**	**-**
58	**Tier 2 (T2) capital**	**2,152**	**-**
59	**Total capital (TC = T1 + T2)**	**22,192**	**-**
60	**Total risk-weighted assets**	**62,954**	**-**

Note 21
Capital adequacy *(continued)*

DKKm, 31 Dec 2016		(A) amount at disclosure date	(C) amounts subject to pre-Regulation (EU) no 575/2013 treatment or prescribed residual amount of Regulation (EU) no 575/2013
Capital ratios and buffers			
61	Common equity tier 1 (as a percentage of risk exposure amount)	31.8%	-
62	Tier 1 (as a percentage of risk exposure amount)	31.8%	-
63	Total capital (as a percentage of risk exposure amount)	35.3%	-
64	Institution-specific buffer requirement (CET1 requirement in accordance with Article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	1.4%	-
65	of which: capital conservation buffer requirements	0.6%	-
66	of which: countercyclical buffer requirement	0.0%	-
67	of which: systemic risk buffer requirement	0.8%	-
67a	of which: global systemically important institution (G-SII) or other systemically important institution (O-SII) buffer	-	-
68	Common equity tier 1 available to meet buffers (as a percentage of risk exposure amount)	25.8%	-
Amounts below the thresholds for deduction (before risk weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	2	-
73	Direct and indirect holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-	-
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	1	-
Applicable caps on the inclusion of provisions in tier 2			
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	58,929	-
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	354	-
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)			
82	Current cap on AT1 instruments subject to phase-out arrangements	-	-
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	-
84	Current cap on T2 instruments subject to phase-out arrangements	-	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	-

Note 21
Capital adequacy *(continued)*

Summary of items included in own funds

DKKm	31 Dec[3] 2016	31 Dec[3] 2015
Calculation of own funds		
Equity in the consolidated situation	21,980	20,301
Proposed/actual dividend	-1,678	-
Common equity Tier 1 capital before regulatory adjustments	**20,302**	**20,301**
IRB provisions shortfall (-)[1]	-324	-330
Other items, net	62	-1
Total regulatory adjustments to common equity Tier 1 capital	-262	-331
Common equity Tier 1 capital (net after deduction)	**20,040**	**19,971**
Tier 1 capital (net after deduction)	**20,040**	**19,971**
Tier 2 capital before regulatory adjustments	2,200	-
IRB provisions excess (+) / shortfall (-)	16	-
Other items, net	-64	-
Total regulatory adjustments to Tier 2 capital	**-48**	**-**
Tier 2 capital	**2,152**	**-**
Own funds (net after deduction)[2]	**22,192**	**19,971**

[1] Total shortfall in 2016: transition rules allow 80% to be deducted in common equity Tier 1 and 20% in Tier 2 capital. For 2015 the shortfall was 70% in common equity Tier 1 and 30% in Tier 2 capital.
[2] Own funds adjusted for IRB provisions, ie adjusted own funds equal DKK 22,500m by 31 December 2016.
[3] Including profit for the year.

Minimum capital requirements and risk exposure amount (REA)

DKKm	31 Dec 2016 Minimum capital requirement	31 Dec 2016 REA	31 Dec 2015 Minimum capital requirement	31 Dec 2015 REA
Credit risk	**4,717**	**58,960**	**5,045**	**63,066**
IRB	4,714	58,929	5,039	62,994
- of which corporate	2,175	27,189	2,443	30,546
- of which advanced	2,175	27,189	2,443	30,546
- of which foundation	-	-	-	-
- of which institutions	0	0	-	4
- of which retail	2,513	31,416	2,558	31,970
- of which other	26	324	38	474
Standardised	3	31	6	72
- of which central governments or central banks	0	3	-	-
- of which regional governments or local autorities	1	4	-	-
- of which corporate	-	-	-	-
- of which retail	-	-	-	-
- of which institutions	-	-	-	1
- of which equity	2	24	2	23
- of which other	-	-	4	48
Market risk	**0**	**0**	**0**	**0**
Operational risk	**283**	**3,536**	**256**	**3,195**
- of which standardised	283	3,536	256	3,195
Additional risk exposure amount due to Article 3 CRR	36	458	74	930
Sub-total	**5,036**	**62,954**	**5,375**	**67,191**
Adjustment for Basel I floor				
Additional capital requirement according to Basel I floor	8,920	111,491	8,437	105,453
Total	**13,956**	**174,445**	**13,812**	**172,644**

Note 21
Capital adequacy *(continued)*

Capital ratios, excl Basel I floor (%)	31 Dec 2016	31 Dec 2015
Tier 1 capital ratio	31.8	29.7
Total capital ratio	35.3	29.7

Capital ratios, incl Basel I floor (%)	31 Dec 2016	31 Dec 2015
Tier 1 capital ratio	11.6	11.8
Total capital ratio	12.9	11.8

Leverage ratio

	31 Dec 2016	31 Dec 2015
Tier 1 capital, transitional definition, DKKm[1]	20,040	19,971
Leverage ratio exposure, DKKm	437,369	436,023
Leverage ratio	4.6	4.6

[1] Including profit for the period.

Note 22
Maturity analysis for assets and liabilities

Remaining maturity

31 Dec 2016, DKKm	Note	On demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Without maturity	Total
Cash balance and demand deposits with central banks		375	-	-	-	-	-	375
Loans to credit institutions and central banks	10	1,241	44,744	-	-	-	-	45,985
Loans and receivables at fair value and amortised cost	11	225	2,120	10,466	45,013	332,204	-	390,028
Bonds at fair value	12	-	-	-	-	-	-	-
Total assets with fixed maturities		**1,841**	**46,864**	**10,466**	**45,013**	**332,204**	**-**	**436,388**
Non-financial assets	13, 14, 15, 16	-	-	-	-	-	43	43
Current tax assets		-	-	-	-	1	-	1
Other assets	17	-	575	-	-	-	-	575
Prepaid expenses		-	5	-	-	-	-	5
Total assets		**1,841**	**47,444**	**10,466**	**45,013**	**332,205**	**43**	**437,012**
Deposits by credit institutions	18	555	3,960	-	-	-	-	4,515
Bonds in issue at fair value	19	-	23,095	56,205	169,967	155,930	-	405,197
Subordinated liabilities		-	-	-	2,200	-	-	2,200
Total liabilities with fixed maturities		**555**	**27,055**	**56,205**	**172,167**	**155,930**	**-**	**411,912**
Non-financial liabilities	8	-	13	-	-	-	-	13
Other liabilities	20	-	3,072	-	-	-	-	3,072
Deferred income		-	35	-	-	-	-	35
Equity		-	-	-	-	-	21,980	21,980
Total liabilities and equity		**555**	**30,175**	**56,205**	**172,167**	**155,930**	**21,980**	**437,012**

31 Dec 2015, DKKm	Note	On demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Without maturity	Total
Cash balance and demand deposits with central banks		609	-	-	-	-	-	609
Loans to credit institutions and central banks	10	1,805	49,111	-	-	-	-	50,916
Loans and receivables at fair value and amortised cost	11	103	1,946	9,425	47,271	326,838	-	385,583
Bonds at fair value	12	-	-	-	-	-	-	-
Total assets with fixed maturities		**2,517**	**51,057**	**9,425**	**47,271**	**326,838**	**-**	**437,108**
Non-financial assets	13, 14, 15, 16	-	-	-	-	-	49	49
Current tax assets		-	-	-	-	-	-	-
Other assets	17	-	706	-	-	-	-	706
Prepaid expenses		-	4	-	-	-	-	4
Total assets		**2,517**	**51,767**	**9,425**	**47,271**	**326,838**	**49**	**437,867**
Deposits by credit institutions	18	645	11,963	-	12,000	-	-	24,608
Bonds in issue at fair value	19	-	28,120	74,541	142,372	144,535	-	389,568
Total liabilities with fixed maturities		**645**	**40,083**	**74,541**	**154,372**	**144,535**	**-**	**414,176**
Non-financial liabilities	8	-	29	-	-	-	-	29
Other liabilities	20	-	3,341	-	-	-	-	3,341
Deferred income		-	20	-	-	-	-	20
Equity		-	-	-	-	-	20,301	20,301
Total liabilities and equity		**645**	**43,473**	**74,541**	**154,372**	**144,535**	**20,301**	**437,867**

Mortgage loans are match-funded and are undertaken on the basis of the statutory balance principle. The majority of these loans are long-term loans and are therefore categorised as >5 years in the maturity analysis, while the debt securities in issue are allocated through the maturity distribution in comparison to the refinancing period.

Note 23
Related-party transactions

The information below is presented from a Nordea Kredit perspective, meaning that the information shows the effect from related-party transactions on the Nordea Kredit figures.

DKKm	31 Dec 2016	31 Dec 2015
Operating items		
Interest income:		
Interest on loans to credit institutions	-166	-201
Forward premium on derivatives	-1	6
Interest expense:		
Interest on loans to credit institutions	10	-5
Fee and commission expense:		
Guarantee commissions etc	-858	-809
Brokerage	-75	-109
Net result from items at fair value:		
Interest rate derivatives	-22	-70
Staff costs and administrative expenses:		
IT expenses	-43	-43
Other administrative expenses	-42	-32
Systems development costs	-40	-20
Rent	-9	-10
Internal audit	-3	-2
Profit from investment in associated undertaking	1	1
Assets		
Loans to credit institutions	31,434	22,272
Interest receivable from credit institutions	14	3
Investment in associated undertaking	15	15
Other assets	226	281
- of which derivatives	226	281
Liabilities		
Deposits by credit institutions	4,515	24,608
Interest payable	8	4
IT expenses payable	0	14
Guarantee commissions payable	75	72
Guarantees		
Nordea Kredit's parent company, Nordea Bank Danmark A/S, provides on an ongoing basis guarantees to cover the first loss of the principal of mortgage loans disbursed.	103,589	100,189
Nordea Bank Danmark A/S has provided guarantees relating to registration with the Land Registry, loans disbursed ahead of building start as well as other statutory guarantees towards Nordea Kredit.	9,155	10,120

The main part of the transactions is between Nordea Kredit and Nordea Bank Danmark A/S.

The majority of the mortgage loans originated by Nordea Kredit are disbursed through Nordea Bank Danmark A/S.

Nordea Bank Danmark A/S acted as an intermediary for a number of securities and financial instrument transactions during the year. Intragroup transactions are provided on market terms.

In 2016 there were no unusual related-party transactions.

As part of the normal business other entities in the Nordea Group on an ongoing basis held a portfolio of bonds issued by Nordea Kredit.

Note 23
Related-party transactions *(continued)*

Compensation and loans to Board of Directors and Executive Management (key management personnel)
Compensation to the Board of Directors and the Executive Management is specified in Note 5.
Loans to the Board of Directors and the Executive Management and related parties are specified in Note 9.

Related parties
Related parties are shareholders with significant influence, other Nordea Group companies, associated undertakings and other related parties. Other related parties are companies significantly influenced by key management personnel of Nordea Kredit as well as companies significantly influenced by related parties to key management personnel.

Note 24
The Danish Financial Supervisory Authority's ratio system

DKKm	2016	2015	2014	2013	2012
Key figures (%)					
Total capital ratio	35.3	29.7	28.6	16.4	16.2
Tier 1 capital ratio	31.8	29.7	28.6	16.4	16.2
Pre-tax return on equity	10.2	9.8	9.8	8.1	5.8
Post-tax return on equity	7.9	7.5	7.4	6.1	4.4
Income/cost ratio	6.00	6.39	4.13	3.30	2.30
Foreign exchange exposure as % of tier 1 capital	0.1	0.2	0.7	1.0	0.6
Loans/equity	17.7	19.0	20.2	20.8	21.8
Lending growth for the year	-0.2	3.2	3.6	2.7	4.5
Impairment ratio for the year	0.1	0.1	0.1	0.1	0.1
Return on assets	0.4	0.3	0.3	0.3	0.2

The key figures have been computed in accordance with the Danish Financial Supervisory Authority's definitions, see the Executive Order on Financial Reports for Credit Institutions and Investment Firms etc.

Note 25
Series financial statements for 2016

DKKm	Note	Capital centre 2	Capital centre 1 (General Capital Centre)	Total
Income statement				
Income from lending		3,069	108	3,177
Interest, net		-171	-11	-182
Administrative expenses, net		-661	-44	-705
Provisions for loan losses		-94	-44	-138
Tax		-471	-2	-473
Total		**1,672**	**7**	**1,679**
Balance sheet				
Assets				
Mortgage loans		380,616	9,410	390,026
Other assets		65,150	6,981	72,131
Total assets	**1**	**445,766**	**16,391**	**462,157**
Liabilities and equity				
Bonds in issue	2	418,335	14,895	433,230
Other liabilities		6,778	169	6,947
Equity	3	20,653	1,327	21,980
Total liabilities and equity		**445,766**	**16,391**	**462,157**

Note 1 Balance sheet, series financial statements

Balance sheet total, Nordea Kredit's annual financial statements	437,012
Own bonds, not offset in series financial statements	24,832
Interest receivable on own bonds	313
Balance sheet total, series financial statements	**462,157**

Note 2 Bonds in issue, series financial statements

Bonds in issue, Nordea Kredit's annual financial statements	405,196
Own bonds, not offset in series financial statements	24,832
Deferred income	3,202
Bonds in issue, series financial statements	**433,230**

Note 3 Equity

Movements in capital, net	-	-	

Background to series financial statements
Pursuant to the Danish Financial Supervisory Authority's Executive Order no 872 of 20 November 1995 on series financial statements in mortgage credit institutions, special series financial statements must be prepared for series with series reserve funds.

The series financial statements have been prepared on the basis of Nordea Kredit's annual report for 2016.

Complete series financial statements for the individual series are available from Nordea Kredit.

Note 26
Risk disclosures

Market risk[1]

DKKm	31 Dec 2016	31 Dec 2015
Derivatives		
Currency forwards		
Market value, positive	-	-
Market value, negative	-	-
Nominal value	-	-
Interest rate risk, options		
Market value, positive	203	204
Market value, negative	34	11
Nominal value	20,301	55,912

At the end of 2015 and 2016 there were no spot transactions.

DKKm, 31 Dec 2016	Total risk	Max	Min
Interest rate risk	16	21	3
Currency risk	0	0	0
Total	**16**	**21**	**3**

DKKm, 31 Dec 2015	Total risk	Max	Min
Interest rate risk	12	50	12
Currency risk	-	1	0
Total	**12**	**51**	**12**

[1] Market risk is described in the Board of Directors' report under Risk, liquidity and capital management, pages 9-14.

Note 26
Risk disclosures *(continued)*

Credit risk[2]

DKKm	31 Dec 2016	31 Dec 2015
Maximum credit risk of on-balance sheet items		
Balances due from credit institutions and central banks	46,360	51,525
Loans and receivables at fair value	390,028	385,583
- of which owner-occupied dwellings and holiday homes	263,923	257,158
- of which commercial properties	126,105	128,425
Loans and receivables at amortised cost	-	-
Bonds at fair value	-	-
Investment in associated undertaking	15	15
Other asset items	609	744
Loan commitments	1,599	1,610
Security received		
The maximum credit risk on loans to credit institutions is secured by own bonds in connection with purchase and resale transactions	30,193	20,467
The security underlying loans at fair value is the physical collateral represented by the mortgaged properties in accordance with Danish mortgage legislation. The security position (LTV) of the loan portfolio is described in detail in the Board of Directors' report, page 8.		
In addition, the parent company Nordea Bank Danmark A/S provides on an ongoing basis loss guarantees covering the first loss of the principal of mortgage loans disbursed	103,589	100,189
In connection with the disbursement of loans, Nordea Bank Danmark A/S additionally provides statutory guarantees relating to registration with the Land Registry	9,155	10,120

There are also statutory limits on the size of commitments with a single customer or a group of mutually related customers, implying that a commitment, after deduction of particularly secure claims, cannot exceed 25% of the capital base.

[2] Credit risk is described and illustrated in the section on Risk, liquidity and capital management in the Board of Directors' report, pages 9-14. See also Note 1, section 9 and Note 11, under Age distribution of mortgage loans in arrears before provisions.

Proposed distribution of earnings

According to the company's balance sheet, the following amount is available for distribution by the Annual General Meeting:

DKKm	
Retained earnings	18,569
Net profit for the year	1,679
Transferred to Other reserves	-1
Total	**20,247**

The Board of Directors proposes that the profit for 2016 is distributed as follows:

DKKm	
Proposed dividends to the shareholder	1,678
To be carried forward	18,569
Total	**20,247**

The company's distributable earnings amount to DKK 20,247m. After the proposed distribution of earnings, the company's equity amounts to DKK 21,980m.

Statement by the Board of Directors and the Executive Management

The Board of Directors and the Executive Management have today discussed and approved the annual report of Nordea Kredit Realkreditaktieselskab for the financial year 2016.

The annual report has been presented in accordance with the Danish Financial Business Act and additional Danish disclosure requirements for annual reports for issuers of listed bonds.

It is our opinion that the financial statements give a true and fair view of the company's financial position at 31 December 2016 and of the results of the company's operations for the financial year 1 January-31 December 2016.

Further, in our opinion, the Board of Directors' report provides a fair review of the development in the company's operations and financial matters, the results of the company's operations and financial position and describes the material risks and uncertainties affecting the company.

We propose to the Annual General Meeting that the annual report should be adopted.

Copenhagen, 6 February 2017

Executive Management

Peter Smith
(Chief Executive Officer)

Claus H. Greve
(Deputy Chief Executive Officer)

Board of Directors

Peter Lybecker
(Chairman)

Nicklas Ilebrand
(Vice Chairman)

Jørgen Holm Jensen

Torben Laustsen

Kim Skov Jensen

Anne Rømer

Independent auditors' report

To the shareholders of Nordea Kredit Realkreditaktieselskab

Our opinion

In our opinion, the Financial Statements give a true and fair view of the Company's financial position at 31 December 2016 and of the results of the Company's operations for the financial year 1 January to 31 December 2016 in accordance with the Danish Financial Business Act.

What we have audited

Nordea Kredit Realkreditaktieselskab's Financial Statements for the financial year 1 January to 31 December 2016 comprise income statement and statement of comprehensive income, balance sheet, statement of changes in equity and notes to the financial statements, including summary of significant accounting policies for the Company. Collectively referred to as the "financial statements".

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 Financial Statements* section of our report.

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

Independence

We are independent of Nordea Kredit Realkreditaktieselskab in accordance with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in Denmark. We have also fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for 2016. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter

Impairment of loans and receivables at fair value
Accounting for loans to customers at fair value is complex and requires subjective judgements over both timing of recognition of impairment and the estimation of the size of any such provision for impairment.

Nordea Kredit Realkreditaktieselskab makes provisions for incurred losses both on an individual basis in terms of individual loans and on a collective basis.

Important areas within impairment of loans to customers relate to:

- Identification of impaired loans, including completeness of the customer accounts that are included in the impairment calculation.
- Customer risk assessment, including internal rating and valuation of collaterals held related to real estate and third party guarantees.
- Assumptions and judgements made by Management, underlying the calculation of individual and collective impairment provisions.

We refer to the financial statements note 1, section 2 – critical accounting estimates and estimation uncertainty and note 11 Loans and receivables at fair value

How our audit addressed the Key Audit Matter

Our audit included a combination of testing of internal controls over financial reporting and substantive testing.

We assessed and tested internal controls over:

- Rating and scoring of customers
- Individually assessed loan impairment calculation
- Valuation of collaterals held
- Collectively assessed loan impairment calculation.

We performed detailed testing on a sample of loans to ascertain whether we concur with the risk assessment as expressed by the internal rating.

We tested the impairment calculation on a sample of impaired loans, including assessment of expected future cash flow and fair value of collaterals (real estate).

We examined a sample of loans, which had not been identified by Management as impaired.

We also assessed the appropriateness of relevant parameters in the collective impairment model.

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the financial statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Moreover, we considered whether Management's Review includes the disclosures required by the Danish Financial Business Act. Based on the work we have performed, in our view, Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Business Act. We did not identify any material misstatement in Management's Review.

Responsibilities for the Financial Statements and the Audit

Management's responsibility for the Financial Statements

Management is responsible for the preparation of 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 Company'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 and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 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, 6 February 2017

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Business registration no 33 77 12 31

Erik Stener Jørgensen State Authorised Public Accountant	Benny Voss State Authorised Public Accountant

Management

Board of Directors of Nordea Kredit

Peter Lybecker (Chairman)
Internal assignments
Country Senior Executive and Branch Manager of Nordea Denmark branch of Nordea Bank AB (publ).
Chairman of the Board of Directors of Fionia Asset Company A/S.
Member of the Boards of Directors of Nordea Finans Danmark A/S, Nordea Finans Sverige AB and Nordea Finance Finland Ltd.

External assignments
Chairman of the Board of Directors of VP SECURITIES A/S.
Member of the Board of Directors of LR Realkredit A/S.
Vice Chairman of the Board of Directors of FR I af 16. september A/S.
Member of the Board of Directors of the Danish Card Association F.M.B.A.
Member of the Board of Directors of 441 Trust Company Limited.
Vice chairman af the board af FinansDanmark.

Nicklas Ilebrand (Vice Chairman)
Internal assignments
Head of Products of Nordea Bank AB (publ).
Member of the Board of Directors of Nordea Eiendomskreditt AS.
Member of the Board of Directors of Nordea Hypotek AB.

External assignments
Member of the Board of Directors of Bohemian Wrappsody AB.

Torben Laustsen
Internal assignments
Head of Personal Banking in Denmark of Nordea Denmark branch of Nordea Bank AB (publ).
Chairman of the Board of Directors of Danbolig A/S.
Chairman of the Board of Directors of Nordea Ejendomsforvaltning A/S.
Chairman of the Board of Directors of Ejendomsselskabet Vestre Stationsvej 7, Odense.

External assignments
Chairman of the Board of Directors of the Danish Employers' Association for the Financial Sector.
Deputy Chairman of the Board of Directors of Fonden for Entreprenørskab.
Member of the Board of Directors of Karl Pedersens og Hustru Industrifond.
Member of the Board of Directors of Nordea Bank-fonden.
Member of the Board of Directors of Nordea-fonden.

Kim Skov Jensen
Internal assignments
Managing Director, Group Treasury & Asset and Liability Management, of Nordea Denmark branch of Nordea Bank AB (publ).
Member of the Board of Directors of Fionia Asset Company A/S.

External assignments
None.

Jørgen Holm Jensen
Internal assignments
Executive Vice President in Group Credit Denmark of Nordea Denmark branch of Nordea Bank AB (publ).

External assignments
Member of the credit council of FinansDanmark.

Anne Rømer
Internal assignments
None.

External assignments
Member of the Board of Directors of DFDS Logistics Contracts AB.
Alternative member of the Board of Directors of Italcargo Sweden AB.

Jette Petersen
Internal assignments
Deputy head af branch region at Nordea Denmark branch of Nordea Bank AB (publ).

External assignments
None.

Executive Management of Nordea Kredit

Peter Smith (Chief Executive Officer)
Internal assignments
None.

External assignments
Vice Chairman of the Danish Card Association F.M.B.A.
Vice Chairman of the the Board of Directors of e-nettet A/S.
Member of the Board of Directors of the Danish Mortgage Banks' Federation.

Claus H. Greve (Deputy Chief Executive Officer)
Internal assignments
None.

External assignments
Member of the Board of Directors of the Danish Mortgage Banks' Federation.

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