Nordea

Annual Report 2017
Nordea Kredit Realkreditaktieselskab

Business registration number 15134275

Godkendt på generalforsamlingen,
den 28. februar 2018

Lotte Dueholm

We build strong and close relationships through our engagement with customers and society. Whenever people strive to reach their goals and realise their dreams, we are there to provide relevant financial solutions. We are the largest bank in the Nordic region and among the ten largest financial groups in Europe in terms of total market capitalisation with around 11 million customers. The Nordea share is listed on the Nasdaq Stockholm, Nasdaq Helsinki and Nasdaq Copenhagen exchanges. Read more about us on nordea.com.

Contents

Key financial figures

Income, profit and business volumes, key items (DKKm)	2017	2016	Change %	2015	2014
Income statement					
Total operating income	2,695	2,583	4	2,267	2,340
Total operating expenses	-314	-293	7	-241	-201
Impairment losses on loans and receivables	-143	-138	4	-114	-366
Profit before tax	2,242	2,152	4	1,913	1,775
Net profit for the year	1,750	1,679	4	1,464	1,340
Balance sheet					
Receivables from credit institutions and central banks	46,220	45,985	1	50,916	70,462
Loans and receivables at fair value	393,008	390,028	1	385,583	381,056
Debt to credit institutions and central banks	7,636	4,515	69	24,608	42,250
Bonds in issue at fair value	405,629	405,197	0	389,568	387,106
Equity	22,052	21,980	0	20,301	18,838
Total assets	440,201	437,012	1	437,867	451,927

Ratios and key figures

Return on equity, %	7.9	7.9		7.5	7.4
Cost/income ratio	11.7	11.3		10.6	8.6
Total capital ratio, excl Basel I floor[1]	32.9	35.3		29.7	28.6
Tier 1 capital ratio, excl Basel I floor[1]	29.7	31.8		29.7	28.6
Tier 1 capital[1], DKKm	20,443	20,040		19,971	18,600
Risk exposure amount, excl Basel I floor, DKKm	68,898	62,954		67,191	64,927
Number of employees (full-time equivalents)[2]	111	103		101	114

[1] Including the profit for the year.
[2] End of year.

Board of Directors' report

Nordea Kredit Realkreditaktieselskab is a wholly owned subsidiary of Nordea Bank AB (publ). Nordea Kredit Realkreditaktieselskab is domiciled in Taastrup and its business registration number is 15134275.

Throughout this report the term "Nordea Kredit" refers to Nordea Kredit Realkreditaktieselskab, "Nordea" refers to the Nordea Bank AB Group and "Nordea Denmark" refers to Nordea Danmark, filial af Nordea Bank AB (publ), Sverige. The figures in brackets refer to 2016.

Improved customer experience

Nordea Kredit worked with Nordea in 2017 to improve the customer experience, Nordea Kredit's market position and the services provided. One of the focus areas was to increase the availability for the customers, in the form of increased self-service opportunities and to shorten processing time. Further development of the eBolig portal in 2017 also gave customers more digital solutions and possibilities, which supports the customer experience.

Nordea has increased the volumes in the corporate segment as a result of large wins and removed the fees for new household customers joining Nordea Kredit. This initiative will continue throughout 2018.

Comments on the year-end result

Nordea Kredit's net profit for the year improved by 4% to DKK 1,750m (DKK 1,679m), and the average lending volumes were stable compared to 2016. Higher guarantee commission expenses and lower volumes being refinanced compared to last year resulted in reduced net fee and commission income. Operating expenses were driven up by digitalisation initiatives as part of the transformational shift at Nordea. Furthermore, net profit for 2017 was somewhat affected by cost items related to regulatory SIFI requirements. All in all, the net profit for the year was in line with expectations.

Income from administration and reserve fees increased by 8% to DKK 3,407m (DKK 3,165m) following the adjusted pricing for household customers at 1 October 2016. The impact from household customers moving from 1-2-year adjustable-rate mortgage (ARM) loans to other loan types was lower than expected as customers are reacting more slowly than expected to the behavioural intentions of the adjusted pricing structure.

Fee and commission income was down by DKK 69m to DKK 549m mainly due to decreasing refinancing fees caused by fewer series being refinanced in 2017, but also reflecting lower refinancing volumes.

Fee and commission expense increased by 10% to DKK 1,134m (DKK 1,032m) mainly due to fee expenses related to a new liquidity support agreement for 2017 and higher guarantee commissions, reflecting an increase in volumes being covered by the guarantee provided by Nordea Denmark. Furthermore, fee and commission expense is affected by a full year of expenses related to primary dealer agreements that came into effect on 1 July 2016.

Value adjustments were up by DKK 7m to DKK 3m (DKK -4m) mainly due to a positive revaluation of own positions.

Staff costs were unchanged at DKK 92m (DKK 92m). Staff costs were affected by a higher number of FTEs following the SIFI announcement, the annual salary increase and the higher payroll tax rate which increased from 13.6% in 2016 to 14.1% in 2017. In 2016 staff costs were affected by a non-recurring provision. The average number of full-time equivalent employees in 2017 was 106 (100).

Due to increased investments in the eBolig portal and the new loan calculator, which made it easier for customers to manage their loans, administrative expenses increased by DKK 21m to DKK 222m (DKK 201m).

Impairment losses on loans and receivables amounted to DKK 143m (DKK 138m), corresponding to 0.04% (0.04%) of the loan portfolio. Loan losses on individually assessed loans decreased to DKK 121m compared to DKK 161m in 2016 due to the positive trend in housing prices. Loan losses on collectively assessed loans stood at DKK 22m compared to a net reversal of DKK 23m in 2016.

Comments on the balance sheet

Assets

Total assets remained stable at DKK 440bn (DKK 437bn).

Receivables from credit institutions and central banks, mainly consisting of deposits with Nordea Denmark, remained stable at DKK 46bn (DKK 46bn).

Loans and receivables at fair value were positively affected by higher market prices and were up by DKK 3bn to DKK 393bn (DKK 390bn). Total lending at nominal value after loan losses increased slightly to DKK 384bn (DKK 383bn) related to commercial properties. Owner-occupied dwellings remained unchanged, other commercial properties increased by 2.5% and agricultural properties decreased by 3.3%, which was in line with expectations.

Table 1. Lending at nominal value by property category

DKKbn	2017	2016	Change %
Owner-occupied dwellings and holiday homes	259	259	0.0%
Commercial properties	80	77	2.5%
Agricultural properties	45	47	-3.3%
Total	**384**	**383**	**0.1%**

The quality of the loan portfolio is considered satisfactory and accumulated provisions continued to decrease to DKK 248m (DKK 270m), corresponding to 0.06% (0.07%) of the loan portfolio. Provisions for individually assessed loans were down compared to 2016 and accounted for DKK 203m (DKK 246m).

Loss guarantees from Nordea Denmark increased to DKK 106bn (DKK 104bn) at end-2017, covering loans totalling DKK 370bn (DKK 364bn). The share of the loans covered by the loss guarantees has increased to 96% (95%). The loss guarantee is in general a first loss guarantee, reducing the loan losses at Nordea Kredit.

Assets in temporary possession consisted of a total of 24 (25) repossessed properties by the end of 2017 held at a value of DKK 27m (DKK 28m). All the repossessed properties are owner-occupied dwellings.

Liabilities

Debt to credit institutions and central banks amounted to DKK 8bn (DKK 5bn). The increase was due to an increase in the short-term funding from Nordea Denmark including repo transactions.

Bonds in issue at fair value totalled DKK 406bn (DKK 405bn) after offsetting the portfolio of own bonds of DKK 28bn (DKK 25bn).

Equity

Shareholders' equity amounted to DKK 22bn (DKK 22bn) at the end of 2017. Net profit for the year was DKK 1.8bn (DKK 1.7bn).

It is proposed that DKK 1.3bn of the net profit of DKK 1.8bn is distributed as dividend and the balance of DKK 0.5bn is transferred to retained earnings in equity. The proposed dividend payment of DKK 1.3bn is equivalent to DKK 76 (DKK 98) per share.

Capital adequacy

At year-end the risk exposure amount of Nordea Kredit was DKK 68.9bn (DKK 63.0bn). The common equity tier 1 ratio was 29.7% (31.8%) and the total capital ratio was 32.9% (35.3%) at end-2017.

The Board of Directors confirms the assumption that Nordea Kredit is a going concern, and the annual financial statements have been prepared based on this assumption.

The individual solvency need (ISN) ratio increased in the first quarter of 2017 to 14.0% from 13.1%. The increase was an outcome of a reassessment made on various pillar 2 items.

The pillar 2 add-ons relate among other things to retail and corporate risk exposure adjustments and governance of the IRB system and modelling. Included is also an add-on for interest rate risk in the banking book and operational risk from inspections relating to IT and key processes.

Individual solvency needs

Under Danish legislation Nordea Kredit must publish its adequate capital base as well as its individual solvency need on a quarterly basis. Information about individual solvency needs is available on www.nordeakredit.dk or under Investor Relations on www.nordea.com.

Supervisory diamond

The supervisory diamond for mortgage institutions consists of five specific benchmarks that mortgage institutions in general should not exceed. The five benchmarks comprise risk areas identified by the Danish FSA. The three benchmarks for lending growth, borrower's interest rate risk and large exposures will have effect from 2018. The two benchmarks for interest-only lending and short-term funding will have effect from 2020.

At the end of December 2017 Nordea Kredit complied with all the benchmarks in the supervisory diamond for mortgage institutions except for lending growth in the segment cooperative dwellings and residential rental properties. The lending volumes in this segment are relatively small compared to the total lending balance. The growth has primarily been related to existing financing in the market being taken over. Lending volumes are closely monitored by the established credit processes at Nordea Kredit.

Table 2. The supervisory diamond

	2017	Limit
1. Lending growth		
• Owner-occupied dwellings and holiday homes	0%	15%
• Cooperative dwellings and residential rental properties	16%	15%
• Agriculture	-3%	15%
• Other	6%	15%
2. Borrower's interest rate risk[1]	18%	25%
3. Interest-only lending[2]	9%	10%
4. Short-term funding[3]		
• Annually	15%	25%
• Quarterly (max 2017)	5%	12.5%
5. Large exposures[4]	29%	100%

1. Loans for owner-occupied dwellings and holiday homes and residential rental properties where the LTV ratio exceeds 75% of the lending limit and the interest rate is fixed for less than two years are limited to 25%.
2. Interest-only lending for owner-occupied dwellings and holiday homes where the LTV ratio exceeds 75% of the lending limit is limited to 10%.
3. Yearly/quarterly refinancing cannot exceed 25/12½% of total portfolio.
4. The 20 largest exposures less CRR deductions cannot exceed 100% of CET1.

New legislation

New guideline for customers with high loan to income (LTI) ratios

The new guideline for lending to household customers with high LTI ratios came into force on 1 January 2018. The primary purpose of the guideline is to dampen the increasing house prices in areas with high price increases, which have been seen especially in the major cities.

According to the guideline, customers with an LTI ratio above 4 and a loan to value (LTV) ratio above 60% should as a main rule only be granted either fixed-rate loans or adjustable-rate annuity loans with a fixing period of at least five years.

Capital regulation

The Capital Requirements Directive IV (CRD IV) and the 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.

The capital conservation buffer (CCoB) will be phased in from 2016 to 2019. The buffer was 1.25% in 2017. 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 national systemically important institutions will be phased in between 2015 and 2019. Nordea Kredit has from 2 January 2017 been identified as a national systemically important institution and thereby subject to a 1.5% SRB requirement when fully phased in. The buffer in 2017 was 0.9%.

As part of the implementation of the Bank Recovery and Resolution Directive (BRRD) in Denmark, mortgage institutions such as Nordea Kredit must fulfil a debt buffer requirement of 2%. The requirement is being phased in starting on 15 June 2016. From 15 June 2017, the buffer was 1.2%. The buffer will be fully implemented in June 2020.

From the implementation of Basel II in 2007, credit institutions using internal models have been required to calculate the Basel I floor on the capital requirements as regulated prior to 2007. From 2009 the floor has been 80% of the Basel I rules. According to the CRR the application of the Basel I floor is not valid from 1 January 2018.

Finalised Basel III framework ("Basel IV")
Basel III is a global, regulatory framework on bank capital adequacy, stress testing and liquidity risk. In December 2017, the final parts of the Basel III framework, often called the Basel IV package, were published. The Basel IV package is scheduled to be implemented from 2022 and includes revisions to credit risk, operational risk, CVA risk and leverage ratio and introduces a new output floor. In addition, revisions to market risk were agreed in 2016 and will be implemented together with the Basel IV package.

On credit risk, the package includes revisions to both the internal models (IRB) approach, where restrictions to the use of IRB for certain exposures are implemented, as well as to the standardised approach. For operational risk, the three approaches currently existing will be removed and replaced with one standardised approach. On CVA risk, the internally modelled approach is removed and the standardised approach is revised. The package also includes the implementation of a minimum leverage ratio requirement for tier 1 capital of 3%.

The output floor is to be set to 72.5% of the standardised approaches on an aggregate level, meaning that the capital requirement under the floor will be 72.5% of the total pillar 1 REA calculated with the standardised approaches for credit risk, market risk and operational risk. The floor will be phased in with 50% from 2022 to be fully implemented from 1 January 2027.

Before being applicable to Nordea Kredit, the Basel IV package must be implemented into EU regulations and will therefore be subject to negotiations between the European Commission, the European Council and the European Parliament which might change the implementation and potentially also the timetable.

The Danish FSA's implementation of new impairment rules from 1 January 2018

In order to implement IFRS 9 'Financial Instruments' the Danish FSA has amended the Executive Order on financial reports for credit institutions etc (the Executive Order). The amended Executive Order implements the principles for classification and measurement of financial instruments, including impairment of loans due to credit risk, from IFRS 9 'Financial instruments'. The Executive Order is effective as from the reporting periods beginning on or after 1 January 2018.

The classification and measurement requirements in the Executive Order state that financial assets and liabilities should be classified as and measured at amortised cost, fair value through profit and loss or fair value through other comprehensive income. No significant changes were identified compared to the classification and measurement under the current Executive Order.

In accordance with the Executive Order, loans and receivables will continue to be measured at fair value through profit and loss. However, the requirements for the impairment test have been updated reflecting an expected loss model as opposed to the current incurred loss model in the requirements for amortised cost loans with relevant fair value adjustments.

The quantitative impact from the new impairment rules is expected to be an increase at a level of DKK 70m before taxes. Total provisions amounted to DKK 248m at the end of 2017 and the increase in total provisions will be accounted for in the income statement in 2018 as the change in impairment rules is a part of the fair value calculation of the loans and thereby considered a change in estimates. The final impact for 2018 is dependent on the exposures on Nordea Kredit's balance sheet as well as Nordea Kredit's macroeconomic forecasts.

The property market

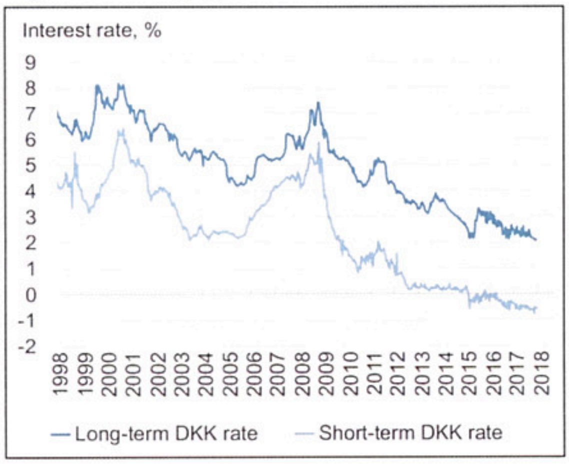
The economy

The global economy is in general in good shape. The Euro area is in a solid upturn, the prolonged recovery of the US economy continues and Emerging Markets appear to have recovered from the past years' slowdown. The synchronous upswing in growth is expected to continue in the years ahead supported by the accommodative economic policies.

The high global activity also affected Denmark. For the first time in more than ten years, a full-blown recovery of the Danish economy is evident. Employment is rising, consumer spending is increasing, companies benefit from growing international trade and the pick-up in housing prices has spread to all parts of the country. The challenge is to maintain the recovery and make sure it is not followed by a renewed downturn.

A strong belief in the future, higher disposable incomes and low interest rates have also made it possible for households to increase their spending. But despite spending more freely, households are still cautious and save to a large extent. The growth in private consumption has consequently not been financed by means of excessive credit growth, as in the mid-2000s, and households continue to reduce their debt relative to their income. At the same time, the value of households' financial assets has reached a record-high level and their home equity is rising sharply along with the housing market improvement.

Figure 1. Mortgage interest rates



Property prices and market activity

Owner-occupied dwellings

The housing market has been picking up for some time, and price rises have now rippled through most parts of Denmark.

The largest price increases have occurred around the Copenhagen area and Aarhus. Here large net immigration has helped push up demand while supply has been restricted by limited availability of housing.

There are no signs of overheating of the housing market in Denmark, but there is cause for concern about price increases for owner-occupied flats in the largest cities as the price level is assessed to be higher than warranted by trends in disposable incomes and interest rates. For the country as a whole, the price level is still moderate and most of the price increase can be explained by the low financing costs and higher disposable incomes. Compared to 2007 housing affordability is still much better today and prices relative to income are lower.

Housing prices are expected to continue to rise in the years ahead. The pace of price rises will most likely slow down a bit because of slightly higher interest rates, tighter regulation and as a consequence of the new tax agreement from May 2017.

The solid improvement in the housing market is also reflected in turnover. For both single-family houses and owner-occupied flats, it is at the highest level for almost ten years, but with considerable geographical differences.

The high level of trading activity is also reflected in the number of homes for sale, which has fallen to the lowest level since the overheating of the housing market in the years leading up to the financial crisis in 2008.

The biggest risk in the Danish housing market is clearly that mortgage rates come under severe upward pressure. In addition, the new regulatory initiatives are expected to have a dampening effect on property prices in areas with high housing prices, that is, especially in the major cities.

Commercial properties

The transaction level for rental properties rose in 2017. In 2017 the market for commercial properties continued the positive trend around the largest cities. In the smaller cities and outskirt areas, the transaction level remains lower, and the location and usability determine the demand. A similar trend is expected in 2018.

In 2017 the high demand for residential properties continued, primarily around Copenhagen, Aarhus and the larger cities. The market for well-situated properties is driven by high demand from Danish as well as foreign investors. A similar trend is expected in 2018.

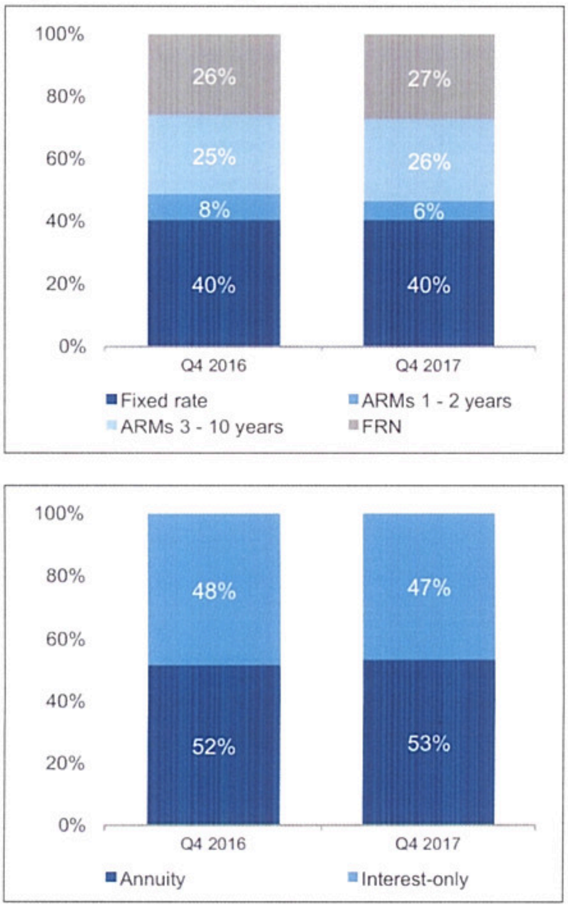
In agriculture, the results for 2017 are expected to be better than in previous years. Especially sales prices for pig and milk production were higher in 2017 and the outlook for 2018 seems reasonable. Prices for crop production were constant and at a low level in 2017. Despite a difficult harvest, the yield has been better and crop farmers in general are expected to have better results in 2017.

In 2017 the trading activity for all types of agricultural properties developed positively. Land and crop properties mostly saw good trading activity and in some areas with slightly rising prices. Overall the prices of agricultural properties were stable, and this is expected to continue in 2018.

Nordea Kredit's lending

At the end of 2017 total lending at nominal value after loan losses amounted to DKK 384bn (DKK 383bn).

Figure 2. Total loan portfolio by loan type



The overall composition of loan types was fairly stable through 2017 (Figure 2). Interest-only loans represent a decreasing share of the portfolio. At end-2017 interest-only loans accounted for 47% (48%) of the total lending. In 2017, 50.8% of the new lending to household customers was fixed-rate loans. Although corporate customers mainly preferred Cibor loans, fixed-rate loans constituted a relatively large share of new corporate lending in a historical perspective. Nordea Kredit's market share of total mortgage lending was 14.4% at end-2017 (14.7%).

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

The LTV ratio for total lending at Nordea Kredit was 60.2% at end-2017 – 1.6% points below the level one year earlier.

Through 2017, LTV ratios for owner-occupied dwellings decreased by 1.9% points to 65.6%. The primary reason was the continued increase in house prices. Rising property prices also led to decreasing LTV ratios for rental properties (-1.7% points) and commercial properties (-1.9% points).

The supplementary collateral required based on the LTV ratios for the individual loans was DKK 13bn at end-2017 (DKK 15bn).

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. All bonds have been assigned the highest ratings of Aaa and AAA by the two rating agencies.

Funding

Nordea Kredit adheres to the specific balance principle and exclusively match-funds its lending by the issuance of bonds.

Bond issuance before redemptions amounted to DKK 130bn nominal in 2017 (DKK 144bn), which was financed by means of covered bonds.

At end-2017 the total outstanding nominal value of bonds, before offsetting the portfolio of own bonds, amounted to DKK 424bn (DKK 423bn). Of this amount, mortgage bonds accounted for DKK 9bn (DKK 14bn) and covered mortgage bonds accounted for DKK 415bn (DKK 409bn). At end-2017 the fair value of the total outstanding volume of bonds was DKK 406bn (405bn) after offsetting the portfolio of own bonds.

Refinancing of adjustable-rate mortgages

Adjustable-rate mortgage loans (F1-F5) are refinanced as of January, April and October and funded by issuance of bullet bonds. The share of adjustable-rate loans refinanced every year (F1) amounted to 6% at end-2017, while adjustable-rate mortgages with longer interest reset periods (F3-F5) amounted to 26% of the portfolio. Adjustable-rate mortgage loans for DKK 10.0bn, DKK 16.4bn and DKK 22.3bn were refinanced as of April 2017, October 2017 and January 2018, respectively.

Floating-rate loans based on Cibor and Cita fixings ("Cibor6" and "Kort Rente" loan products) are currently refinanced as of July. The refinancing as of July 2017 amounted to DKK 15bn. Euribor3 loans for EUR 180m were refinanced as of January 2018. Floating-rate loans accounted at end-2017 for 27% of the total loan portfolio of Nordea Kredit.

Results from refinancing auctions during 2017 gave new record-low interest rates. For 30-year annuity loans with reset every three years (F3) the interest rate was fixed at a record-low -0.12% as of October 2017, while the interest rate for F5 loans was fixed at 0.25%.

Risk and capital management

Management principles and control

The Board of Directors of Nordea Kredit has the responsibility for limiting and monitoring risk exposures as well as for approving the setting of target capital ratios and the individual solvency need and deciding on the risk appetite. Risk is measured and reported according to common principles and policies approved by the Board of Directors.

In accordance with the Danish Financial Business Act, the Board of Directors established a Board Risk Committee (BRIC) as of January 2017.

BRIC assists the Board of Directors in fulfilling its oversight responsibilities concerning the management and control of risk, risk frameworks as well as controls and processes associated with Nordea Kredit's operations. Furthermore, BRIC assesses whether the incentives of Nordea Kredit's remuneration structure take account of Nordea Kredit's risk, capital and liquidity as well as the likelihood of profit and timing for this.

The Executive Management has the responsibility for ensuring that effective risk, liquidity and capital management principles and controls are in place at Nordea Kredit.

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 Chief Executive Officer (CEO) of Nordea Kredit and is responsible for ensuring that an overall risk assessment is provided, ensuring coordination of risk control activities and ensuring adequate risk management practice within Nordea Kredit.

The Charter for the CRO of Nordea Kredit defines the role, responsibilities, tasks and mandate of the CRO and forms part of Nordea Kredit's risk management framework. The CRO mainly operates through established functions for risk management at Nordea such as Group Risk Management & Control (GRMC), Group Credit Risk Management and Group Treasury & ALM.

It is the responsibility of the CRO to ensure that the overall risk control at Nordea Kredit is conducted adequately. The CRO must provide a complete view of the whole range of risks at Nordea Kredit to the relevant governing bodies and ensure that all risks at Nordea Kredit are monitored.

Risk management

Nordea Kredit is exposed to credit risk on borrowers as well as operational risk because of Nordea Kredit's activities. Furthermore, Nordea Kredit is exposed to liquidity risk and market risk in the form of interest rate risk and modest currency risk related to its mortgage loans and the investment of capital.

Monitoring and reporting of risk is conducted on a daily basis for liquidity risk and market risk and on a quarterly basis for credit risk and operational risk. Reporting on the risk profile, the risk appetite and the individual solvency need (ISN) is presented to the Board of Directors, BRIC and the Executive Management on a quarterly basis.

Additional information on risk and capital management is presented in the Capital and Risk Management Report 2017 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.

Credit risks

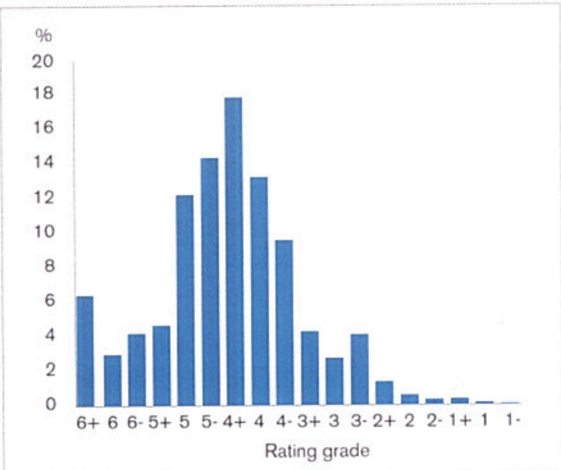
Nordea Kredit is exposed to credit risk on borrowers. The credit risk materialises if the borrowers are not able to fulfil their payment obligations or the value of the property that has been used as collateral for their loan falls below what is sufficient to cover their mortgage loan. As a consequence of Nordea Kredit's mortgage loans being offered in return for collateral in the form of property, the credit risk also depends on the general price trends on the property market. In connection to this there is a risk that economic developments affect one or more customer segments or industries in such a way that it increases the number of customers in arrears and loss reservations as well as eventual losses.

Rating and scoring of customers are used as integrated parts of the credit risk management and decision-making process including the credit approval process.

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-2017 (Figure 4) are shown below.

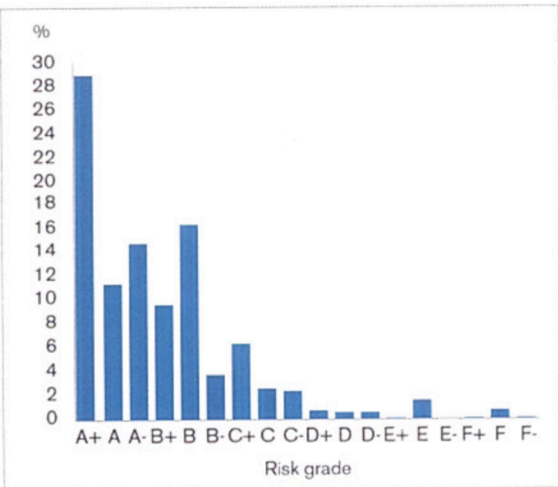
Improved credit quality was seen in 2017, both in the corporate and retail credit portfolios. 87% (85%) of the corporate exposure was rated 4- or higher and 97% (96%) of the retail exposure was rated C- or higher. Defaulted loans are not included in the rating/scoring distributions.

Figure 3. Rating distribution of loans to corporate customers[1]



[1]Rating grades 4- and better are comparable to investment grade as defined by external rating agencies such as Moody's and Standard & Poor's. Rating grades 2+ to 1- are considered as weak, and require special attention.

Figure 4. Risk scoring of loans to personal as well as small and medium-sized corporate customers[2]



[2]Scoring grades A+ to F- are non-defaulted. The best score is A+.

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 and the first loss guarantee from Nordea Denmark.

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 a 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 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.

The Danish FSA has amended the Executive Order on financial reports for credit institutions etc in order to implement IFRS 9 'Financial instruments'. The amended Executive Order changes the principles for impairment of loans due to credit risk. For further information see the below section 'The Danish FSA's implementation of new impairment rules from 1 January 2018'.

Market and liquidity risks

Nordea Kredit is exposed to interest rate risk from its investment of liquidity and capital. Nordea Kredit has a modest currency risk exposure related to the incoming payments of administration and reserve fees from customers with loans denominated in euros, which are exchanged to Danish kroner on an ongoing basis.

Nordea Kredit's primary liquidity risks are short-term liquidity risk, refinancing risk and the risk of increased supplementary collateral requirements.

Short-term liquidity risk means the risk that Nordea Kredit is unable to meet its short-term liquidity obligations. To mitigate the short-term liquidity risk, Nordea Kredit entered into a liquidity facility agreement with Nordea Denmark in 2017.

As mortgage loans to a certain extent are financed by bonds with a shorter maturity than the loans granted, Nordea Kredit is dependent on being able to refinance such loans by issuing new adjustable-rate mortgage bonds. Market developments can constitute a liquidity risk in connection with the refinancing auctions. The refinancing risk is thus the risk that one or more refinancing auctions fail.

Furthermore, there is a risk that Nordea Kredit can be met with increased supplementary collateral requirements as a consequence of decreasing property prices that lead to loan to value overruns or as a consequence of rating agencies increasing their requirement for supplementary collateral in order to maintain the current rating of Nordea Kredit's bonds.

As lending activities are match-funded in terms of both interest rates and liquidity, only limited interest rate and liquidity risks arise relating to mortgage lending and the associated bond issuance.

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

Interest rate risk

For the lending portfolio, the Executive Order on bond issuance, match-funding and risk management 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 226m (DKK 222m). For the securities portfolio, the interest rate risk must not exceed 8% of the capital base, or DKK 1,811m (DKK 1,775m).

DKKm	2017	2016
Interest rate risk		
Capital investments (IR sensitivity)	15	9
Specific balance principle (IR stress loss)	5	7

Currency risk
At end-2017 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. Financial market risks are described in Note 23.

Liquidity coverage ratio (LCR)
The common European LCR requirement has been effective from October 2015. For Nordea Kredit, the LCR requirement is 100%, as specified by the Delegated Act. In addition, Nordea Kredit has an LCR floor requirement of 100%, as specified by the Danish FSA, which is measured relative to 2.5% of Nordea Kredit's total lending. At the end of December 2017, the LCR requirement that was the binding constraint on the liquidity buffer was the floor requirement, and the LCR relative to the floor was 343%.

Operational and compliance risks
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 Kredit's activities which could result in material financial or reputational loss to Nordea Kredit, regulatory remarks or sanctions.

Managing operational and compliance risks 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. The compliance risks are monitored by the Chief Compliance Officer.

Capital management
Nordea Kredit strives to be efficient in its 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 Denmark. 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, 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 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.

Group Risk Management and Control and Group Compliance are the second line of defence. The flow of risk-related information from the business areas and the group functions to the Board of Directors passes through BRIC. Reporting from Group Compliance is presented directly to the Board of Directors as well as discussed in the Board Audit Committee (BAC).

Control and risk management in connection with the financial reporting process

Control environment

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.

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, 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.

Monitoring

The Executive Management of Nordea Kredit reports on an ongoing basis to the Board of Directors and the Board Audit 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, among other things by monitoring the financial reporting process and submitting 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. Finally, the audit committee reviews and monitors 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, pays special attention to whether the auditor provides Nordea Kredit with services other than auditing services.

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 Board Audit Committee.

Corporate social responsibility

Nordea issues a sustainability report for 2017. 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

The Board of Directors of Nordea Kredit was changed when the previous chairman, Peter Lybecker, retired from the Nordea Group in May 2017. Frank Vang-Jensen was appointed a member of the Board of Directors at an extraordinary general meeting on 30 May 2017. The Board of Directors appointed Frank Vang-Jensen as Chairman at 2 June 2017.

After the change, the Board of Directors consists of Frank Vang-Jensen (Chairman), Nicklas Ilebrand (Vice Chairman), Jørgen Holm, Torben Laustsen, Kim Skov Jensen and Anne Rømer (external member).

Changes to the Executive Management

Kamilla Hammerich Skytte joined the Executive Management on 22 May 2017.

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

Further information regarding members of the Board of Directors and the Executive Management is available on page 55.

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 expectedly in 2018.

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 considering 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.

Remuneration at Nordea

Nordea has a clear remuneration policy, instructions and processes, ensuring sound remuneration structures throughout the organisation.

The Board of Directors of Nordea 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 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.

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, as well as the importance of remuneration 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
The remuneration structure within Nordea comprises fixed remuneration and variable remuneration.

The fixed remuneration comprises the following components:
- Fixed Base Salary remunerates employees for full satisfactory performance. The individual salary is based on three cornerstones: job complexity and responsibility, performance and local market conditions.
- Allowance is a predetermined fixed remuneration component. Fixed Base Salary is, however, the cornerstone for all fixed remuneration. Allowances are not linked to performance or otherwise incentivising risk-taking.
- Pension and Insurance aims at ensuring employees an appropriate standard of living after retirement as well as personal insurance during employment. Pension and insurance provisions are in accordance with local laws, regulations and market practice either collectively agreed schemes or company determined schemes, or a combination thereof. Nordea aims to have defined contribution pension schemes.
- Benefits at Nordea are granted as a means to facilitate performance and stimulate well-being. Benefits are either individually agreed or based on local laws, collective bargaining agreements and company determined practice.

The variable remuneration comprises the following components:
- Executive Incentive Programme (EIP) is offered to recruit, motivate and retain selected managers and key employees, and aims to reward strong performance and efforts. Assessment of individual performance is based on a predetermined set of well-defined financial as well as non-financial success criteria, including Nordea Group criteria, business area/group function/division criteria and unit/individual criteria.
- Variable Salary Part (VSP) is offered to selected managers and specialists to reward strong performance. Individual performance is an assessment of the performance linked to a predetermined set of well-defined financial as well as non-financial success criteria, including Nordea Group criteria.
- Profit Sharing is offered groupwide to all Nordea employees except for Identified Staff eligible for EIP or VSP. Profit Sharing is offered irrespective of position and salary, and aims to stimulate value creation for the customers and shareholders. The performance criteria for the 2017 programme are return on capital at risk, return on equity relative to competitors and Customer Engagement Index both absolute and relative to Nordic peers.
- One Time Payment (OTP) can be granted to employees in the event of extraordinary performance that exceeds requirements or expectations or relating to temporary project work. The aim is to reward exceptional performance and to maintain cost flexibility for Nordea. Employees participating in EIP or VSP cannot be granted an OTP.

Subsequent events

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

Outlook for 2018

Nordea Kredit will continue to improve the customer experience through better digital solutions along with relevant and timely advice and improved availability. The property market is expected to continue the positive trends, leading to continued high activity and higher prices of owner-occupied dwellings in most parts of the country. The same trend is also expected for holiday homes in certain areas of the country.

On the corporate market, volumes are expected to increase in line with 2017, but still within the overall strategy of ensuring profitability in all customer relationships.

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

Nordea Kredit expects the positive market trends together with continued improved services to lead to higher borrowing and thereby somewhat higher interest income. Customers switching to loans with lower administration and reserve fees will, however, offset some of the effect.

Net commission income is expected to increase slightly due to higher activity and due to higher volumes being refinanced in 2018.

Total expenses are expected to decrease mainly driven by lower IT costs. The strong focus on digitalisation will continue, although with somewhat lower costs compared to 2017.

The quality of the loan portfolio is expected to continue to improve. However, 2018 will be affected by higher loan losses due to the implementation of new impairment rules.

The overall expectation is therefore that the profit for 2018 will be in line with 2017.

Financial statements - contents

Income statement

DKKm	Note	2017	2016
Interest income		9,460	10,149
Interest expense		-6,190	-7,157
Net interest income	2	**3,270**	**2,992**
Fee and commission income	3	549	618
Fee and commission expense	3	-1,134	-1,032
Net interest and fee income		**2,685**	**2,578**
Value adjustments	4	3	-4
Other operating income		7	8
Staff and administrative expenses	5	-314	-293
Depreciation and amortisation of tangible assets		0	0
Impairment losses on loans and receivables	10	-143	-138
Profit from investment in associated undertaking	6	4	1
Profit before tax		**2,242**	**2,152**
Tax	7	-492	-473
Net profit for the year		**1,750**	**1,679**
Attributable to			
Shareholder of Nordea Kredit Realkreditaktieselskab		1,750	1,679
Total		**1,750**	**1,679**

Statement of comprehensive income

DKKm	2017	2016
Net profit for the year	1,750	1,679
Other comprehensive income, net of tax	-	-
Total comprehensive income	**1,750**	**1,679**
Attributable to		
Shareholder of Nordea Kredit Realkreditaktieselskab	1,750	1,679
Total	**1,750**	**1,679**

Balance sheet

DKKm	Note	31 Dec 2017	31 Dec 2016
Assets			
Cash balance and demand deposits with central banks		300	375
Receivables from credit institutions and central banks	9	46,220	45,985
Loans and receivables at fair value	10	393,008	390,028
Investment in associated undertaking	11	19	15
Tangible assets		0	0
Current tax assets	7	4	-
Deferred tax assets	7	1	1
Assets in temporary possession	12	27	28
Other assets	13	609	575
Prepaid expenses		13	5
Total assets		**440,201**	**437,012**
Liabilities			
Debt to credit institutions and central banks	14	7,636	4,515
Bonds in issue at fair value	15	405,629	405,197
Current tax liabilities	7	-	13
Other liabilities	16	2,660	3,072
Deferred income		24	35
Total liabilities		**415,949**	**412,832**
Subordinated debt			
Subordinated debt	17	2,200	2,200
Equity			
Share capital		1,717	1,717
Other reserves		20	16
Retained earnings		19,003	18,569
Proposed dividend		1,312	1,678
Total equity		**22,052**	**21,980**
Total liabilities and equity		**440,201**	**437,012**
Contingent liabilities			
Guarantees etc		74	74
Credit commitments		1,761	1,599
Total contingent liabilities		**1,835**	**1,673**

Statement of changes in equity

DKKm	Share capital[1]	Other reserves[2]	Retained earnings	Proposed dividend	Total
Balance at 1 Jan 2017	1,717	16	18,569	1,678	21,980
Net profit for the year	-	4	1,746	-	1,750
Other comprehensive income, net of tax	-	-	-	-	-
Dividends paid	-	-	-	-1,678	-1,678
Proposed dividend	-	-	-1,312	1,312	-
Balance at 31 Dec 2017	**1,717**	**20**	**19,003**	**1,312**	**22,052**

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	-	-	-	-	-
Proposed dividend	-	-	-1,678	1,678	-
Balance at 31 Dec 2016	**1,717**	**16**	**18,569**	**1,678**	**21,980**

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 AB (publ), Stockholm, Sweden. All issued shares are fully paid. All shares are of the same class and hold equal rights.

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

The annual report for Nordea Bank AB (publ) is available on www.nordea.com.

5-year overview

Income statement (DKKm)	2017	2016	2015[3]	2014[3]	2013[3]
Net interest income	3,270	2,992	2,791	2,679	2,355
Net interest and fee income	2,685	2,578	2,568	2,380	2,015
Value adjustments	3	-4	-309	-40	-37
Other operating income	7	8	8	0	8
Staff and administrative expenses	-314	-293	-241	-201	-210
Depreciation, amortisation and impairment charges of tangible and intangible assets	0	0	0	0	-4
Impairment losses on loans and receivables	-143	-138	-114	-366	-390
Profit from investment in associated undertaking	4	1	1	2	1
Profit before tax	**2,242**	**2,152**	**1,913**	**1,775**	**1,383**
Tax	-492	-473	-449	-435	-346
Net profit for the year	**1,750**	**1,679**	**1,464**	**1,340**	**1,037**

Balance sheet (DKKm)	2017	2016	2015	2014	2013
Receivables from credit institutions and central banks	46,220	45,985	50,916	70,462	52,873
Loans and receivables at fair value	393,008	390,028	385,583	381,056	363,749
Loans and receivables at nominal value[1]	383,582	383,093	383,773	371,734	358,925
Other assets	973	999	1,368	409	416
Total assets	**440,201**	**437,012**	**437,867**	**451,927**	**417,038**
Debt to credit institutions and central banks	7,636	4,515	24,608	42,250	46,470
Bonds in issue at fair value	405,629	405,197	389,568	387,106	349,074
Other liabilities	4,884	5,320	3,390	3,733	3,996
Equity	22,052	21,980	20,301	18,838	17,498
Total liabilities and equity	**440,201**	**437,012**	**437,867**	**451,927**	**417,038**

Ratios and key figures	2017	2016	2015	2014	2013
Return on equity, %	7.9	7.9	7.5	7.4	6.1
Income/cost ratio	5.9	6.0	6.4	4.1	3.3
Cost/income ratio	11.7	11.3	10.6	8.6	10.8
Loans/equity ratio	17.4	17.7	19.0	20.2	20.8
Lending growth for the year, %	0.1	-0.2	3.2	3.6	2.7
Impairment ratio for the year	0.0	0.1	0.1	0.1	0.1
Total capital ratio[2]	32.9	35.3	29.7	28.6	16.4
Tier 1 capital ratio[2]	29.7	31.8	29.7	28.6	16.4
Tier 1 capital[2], DKKbn	20.4	20.0	20.0	18.6	14.8
Risk exposure amount[2], DKKbn	68.9	63.0	67.2	64.9	90.0
Number of employees (full-time equivalents)[2]	111	103	101	114	125
Average number of employees	106	100	110	125	129

[1] After adjustment for provisions for loan losses.
[2] End of year.
[3] Refinancing fees and pay-out fees have been reclassified from "Value adjustments" to "Net interest and fee income".

The Danish Financial Supervisory Authority's ratio system is shown in Note 21.

Business definitions

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

Income/cost ratio
Net interest and fee income, Value adjustments, Other operating income and Profit from equity investment in associated undertaking as a percentage of Staff and administrative expenses, Amortisation and depreciation as well as impairment losses on tangible and intangible assets, Other operating expenses and Impairment losses on loans and receivables.

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.

Operating income
Total of net interest and fee income, value adjustments and other operating income.

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 as a percentage of average equity for the year. Average equity including net profit for the year and dividend until paid.

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 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 shareholders' equity excluding proposed dividend, deferred tax assets and intangible assets.

Shortfall is deducted with 90% in tier 1 capital and 10% in tier 2 capital in 2017. For 2016 the shortfall was 80% in tier 1 capital and 20% 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

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1. Basis for presentation

The annual report for Nordea Kredit is prepared in accordance with the Danish Financial Business Act and the Executive Order on financial reports for credit institutions etc (the Executive Order).

The accounting policies applied are unchanged from last year.

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, that are adopted by the Board of Directors of Nordea Kredit.

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 10 "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".

Value adjustments

Realised and unrealised gains and losses on financial instruments measured at fair value through profit or loss are recognised in the item "Value adjustments".

Realised and unrealised gains and losses derive from:

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

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).

Impairment losses on loans and receivables

Impairment losses on loans and receivables at fair value on the balance sheet are reported as "Impairment losses on loans and receivables" (see section 8 "Financial instruments"). Losses are reported net of any collateral and other credit enhancements. Nordea Kredit's accounting policies for the calculation of impairment losses on loans and receivables can be found in section 9 "Loans and receivables at fair value".

Profit from investment in associated undertaking

The profit from investment in associated undertaking is defined as the post-acquisition change in Nordea Kredit's share of net assets in the associated undertaking. Nordea Kredit's share of items is accounted for in "Profit from investment in associated undertaking" and placed under equity, "Other reserves". Profits from investment in associated undertaking 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 undertaking.

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 "Value adjustments".

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 bonds 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.

7. Cash balance and demand deposits with central banks

Cash balance and demand deposits with central banks consist of cash and balances with central banks, where the following conditions are fulfilled:

- the central bank is domiciled in Denmark
- 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 "Debt to credit institutions and central banks". Cash delivered under reverse repurchase agreements is recognised on the balance sheet as "Receivables from credit institutions and central banks".

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 "Value adjustments".

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 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, 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.

Impairment losses on loans and receivables

If the carrying amount of the loans is higher than the sum of the net present value of the estimated cash flows (discounted with the 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 accumulated impairment losses are accounted for as changes in the allowance account and as "Impairment losses on loans and receivables" 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 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 "Impairment losses on loans and receivables". 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. Other tangible assets

Other tangible assets include 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.

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. The current estimate for machinery and equipment is 3-5 years.

11. Taxes

The item "Tax" in the income statement comprises current and deferred income tax. The 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.

12. 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 and administrative expenses".

Post-employment benefits
Pension plans
All pensions at Nordea Kredit are based on defined contribution arrangements that hold no pension liability for Nordea Kredit. Nordea Kredit also contributes to public pension systems.

13. 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.

14. Related-party transactions
Nordea Kredit defines related parties as
- shareholders with significant influence
- other undertakings of the Nordea Group
- associated undertakings
- members of the Board of Directors and the Executive Management
- members of the parent company's Board of Directors and Executive Management
- 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 11 "Investment in associated undertaking".

Members of the Board of Directors and the Executive Management
For information about compensation, pensions and other transactions with members of the Board of Directors and the Executive Management, see Note 5 "Staff and administrative expenses".

Other related parties
Other related parties comprise close family members to members of the Board of Directors and the Executive Management. Other related parties also include companies significantly influenced by members of the Board of Directors and the Executive Management of Nordea Kredit as well as companies significantly influenced by close family members to the members of the Board of Directors and the Executive Management.

Information concerning transactions between Nordea Kredit and other related parties is found in Note 20 "Related-party transactions".

Note 2
Net interest income

DKKm	2017	2016
Interest income		
Receivables from credit institutions and central banks[1,3]	-227	-235
Loans and receivables at fair value	6,266	7,208
Administration and reserve fees receivable	3,407	3,165
Interest rate derivatives	-	-2
Other interest income	14	13
Total interest income	**9,460**	**10,149**
Interest expense		
Debt to credit institutions and central banks[2,4]	25	9
Bonds in issue at fair value	-6,188	-7,160
Subordinated debt	-27	-7
Other interest expenses	-	1
Total interest expense	**-6,190**	**-7,157**
Net interest income	**3,270**	**2,992**
[1] Of which interest income on purchase and resale transactions	-222	-167
[2] Of which interest expense on sale and repurchase transactions	27	31
[3] Of which negative interest income	-227	-235
[4] Of which positive interest expense	27	31

Note 3
Net fee and commission income

DKKm	2017	2016
Loan processing fees	120	126
Brokerage	75	82
Refinancing fees and pay-out fees	314	371
Other fee and commission income	40	39
Fee and commission income	**549**	**618**
Guarantee commissions etc payable to Nordea Denmark	-956	-858
Brokerage payable to Nordea Denmark	-65	-75
Other fee and commission expenses	-113	-99
Fee and commission expenses	**-1,134**	**-1,032**
Net fee and commission income	**-585**	**-414**

Note 4
Value adjustments

DKKm	2017	2016
Mortgage loans	1,372	4,028
Foreign exchange gains/losses	0	-1
Interest rate derivatives	-79	-22
Bonds in issue[1]	-1,290	-4,009
Total	**3**	**-4**

[1] Including value adjustments on own positions.

Note 5
Staff and administrative expenses

DKKm	2017	2016
Salaries and remuneration (specification below)	-70	-73
Pension costs (specification below)	-7	-7
Social insurance contributions	-15	-12
Other administrative expenses	-222	-201
Total	**-314**	**-293**
Average number of employees	106	100

Salaries and remuneration		
To the Board of Directors:		
- Fixed salary and benefits	0	-
- Performance-related compensation	-	-
To the Executive Management:		
- Fixed salary and benefits	-4	-6
- Performance-related compensation	-1	-2
To employees that have significant influence on Nordea Kredit's risk profile:		
- Fixed salary and benefits	-	-
- Performance-related compensation	-	-
Total	**-5**	**-8**
To other employees	-65	-65
Total	**-70**	**-73**

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	-7
Total	**-7**	**-7**

Compensation including pension		
Board of Directors[1]	0	-
Executive Management[2]	-5	-8
Employees that have significant influence on Nordea Kredit's risk profile[3]	-	-
Total	**-5**	**-8**

[1] The Board of Directors included six individuals in 2017.
[2] The Executive Management included three individuals in 2017. The Chief Executive Officer participates in the incentive programme EIP (Executive Incentive Programme). The other members of the Executive Management participate in the Variable Salary Part (VSP). The programmes are described in the Board of Directors' report.
[3] No other employees had significant influence on Nordea Kredit's risk profile in 2017.

Nordea's Executive Incentive Programme ("EIP") aims to strengthen Nordea's capability to retain and recruit the best talents. The aim is further to stimulate the managers and key employees whose efforts have direct impact on Nordea's result, profitability and long term value growth. EIP reward performance meeting agreed predetermined targets on Group, business unit and individual level. The effect on the long term result is to be considered when determining the targets. The EIP shall not exceed the fixed salary. EIP shall be paid in the form of cash and be subject to Total Shareholder Returns (TSR)-indexation, deferral, forfeiture clauses and retention as per relevant remuneration regulations. The main part of EIP 2017 is paid no earlier than autumn 2021. Participation in the programme is offered to the Chief Executive Officer. The allocation of the EIP 2017 is decided during spring 2018, and a reservation of DKK 1m excl. social costs is made 2017. 80% of the allocated amount will be subject to TSR-indexation.

Note 5
Staff and administrative expenses *(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	2017
Board of Directors	
Anne Rømer (external member)[2, 3]	0.3

DKKm	2017
Executive Management	
Peter Smith	2.4
Claus H. Greve	1.7
Kamilla Hammerich Skytte[4]	1.3

[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] The external member of the Board of Directors, Anne Rømer, is the only member of the Board who receives remuneration as Board member. Remuneration relates to Board and Audit Committee fee.
[3] Anne Rømer joined as member of the Board of Directors on 1 January 2017.
[4] Kamilla Hammerich Skytte joined as member of the Executive Management on 22 May 2017.

Note 6
Profit from investment in associated undertaking

DKKm	2017	2016
Profit from investment in associated undertaking	4	1
Total	**4**	**1**

Note 7
Tax

Income tax expense

DKKm	2017	2016
Current tax	-492	-474
Deferred tax	0	1
Adjustment relating to prior years	-	-
Total	**-492**	**-473**

Profit before tax	2,242	2,152
Tax calculated at a tax rate of 22.0%	-492	-473
Non-deductible expenses	0	0
Adjustment relating to prior years	0	0
Tax charge	**-492**	**-473**
Average effective tax rate	22.0%	22.0%

Deferred tax

	Deferred tax assets		Deferred tax liabilities	
DKKm	2017	2016	2017	2016
Deferred tax related to:				
Machinery and equipment	1	1	-	-
Total	**1**	**1**	**-**	**-**

DKKm	2017	2016
Movements in deferred tax assets/liabilities, net are as follows:		
Deferred tax in the income statement	0	1
Total change	**0**	**1**
Current tax assets	**4**	**-**
Current tax liabilities	**-**	**13**

Nordea Kredit is jointly taxed with the Danish companies and branches of Nordea. The companies and branches 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 2017, the net taxes receivable from the Danish Central Tax Administration by the companies and branches included in the joint taxation amounted to DKK 473m (net taxes payable DKK 292m). 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 Nordea entities as a whole is not liable to others.

In terms of payroll tax and VAT, Nordea Kredit is registered jointly with Nordea Denmark and with the majority of the Danish subsidiary undertakings in Nordea and these companies are jointly and severally liable for such taxes.

Note 8
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 2017	31 Dec 2016
Loans etc		
Executive Management	8	12
Board of Directors	11	13

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

Loans to members of Nordea Kredit's Executive Management and Board of Directors consist of mortgage loans on terms based on market conditions. At the end of 2017 interest on the mortgage loans was payable at the rate of 0.1% to 2.5% 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 company Nordea consist of mortgage loans on market-based terms. At the end of 2017 the loans amounted to DKK 23m (DKK 18m) with interest rates of 0.1% to 3.0%.

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 9
Receivables from credit institutions and central banks

DKKm	31 Dec 2017	31 Dec 2016
Receivables from credit institutions	40,652	31,434
Receivables with notice from central banks	5,568	14,551
Total[1]	**46,220**	**45,985**
Of which genuine purchase and resale transactions	38,135	30,193

[1] Book value is a fair approximation to fair value.

Note 10
Loans and receivables at fair value

DKKm	31 Dec 2017	31 Dec 2016
Mortgage loans, nominal value		
Value at beginning of year	383,363	384,101
New loans (gross new lending)	70,000	71,285
Foreign exchange revaluations	22	-10
Redemptions and prepayments	-59,672	-63,313
Net new lending for the year	10,350	7,962
Scheduled principal payments	-9,883	-8,700
Mortgage loan portfolio at end of year	383,830	383,363
Mortgage loans, fair value		
Nominal value	383,830	383,363
Adjustment for interest rate risk etc	9,198	6,587
Adjustment for credit risk	-248	-270
Mortgage loan portfolio	392,780	389,680
Mortgage arrears and execution levied against debtors' properties	228	348
Loans and receivables	**393,008**	**390,028**

DKKm	31 Dec 2017	31 Dec 2016
Mortgage arrears		
Mortgage arrears before provisions	143	225
Execution levied against debtors' properties before provisions	85	123
Total mortgage arrears and execution levied against debtors' properties	**228**	**348**
Mortgage arrears mid-January following year	116	112

DKKm, 31 Dec 2017	Individually assessed	Collectively assessed
Provisions for loans		
At beginning of year	246	24
Movements during the year:		
- New provisions and value adjustments	257	27
- Reversals of provisions made in previous financial years	-145	-6
- Previous provisions now written off	-152	-
- Other disposals[1]	-3	-
At end of year	**203**	**45**

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**

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

Note 10
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 11.5bn (DKK 18.2bn) before allowances and DKK 11.3bn (DKK 18.0bn) after allowances.

Loans and receivables subject to collective impairment and provisioning amount to DKK 68.1bn (DKK 72.0bn) before allowances and DKK 68.1bn (DKK 72.0bn) after allowances.

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

DKKm	31 Dec 2017	31 Dec 2016
Provisions for other receivables from credit institutions and other items with credit risk		
At beginning of year	44	78
Movements during the year:		
- New provisions and value adjustments	11	11
- Reversals of provisions made in previous financial years	-5	-6
- Previous provisions now written off	-33	-51
- Other additions[1]	3	12
Total	**20**	**44**
Impaired other receivables before provisions and value adjustments	53	89
Impaired other receivables after provisions and value adjustments	33	45

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

DKKm	31 Dec 2017	31 Dec 2016
Age distribution of mortgage loans in arrears before provisions		
More than 3 months and up to 6 months	978	1,161
More than 6 months and up to 1 year	435	562
More than 1 year	604	389
Total	**2,017**	**2,112**

(%)	31 Dec 2017	31 Dec 2016
Mortgage loan portfolio by property category (nominal value)		
Owner-occupied dwellings	64	64
Holiday homes	3	3
Subsidised housing	0	0
Private rental property	9	7
Commercial property	1	1
Office and retail property	8	9
Agricultural property etc	12	13
Property for social, cultural and educational purposes	1	1
Other property	2	2
Total	**100**	**100**

Note 11
Investment in associated undertaking

DKKm	31 Dec 2017	31 Dec 2016
Acquisition value at beginning of year	1	1
Acquisitions during the year	-	-
Sales during the year	0	-
Acquisition value at end of year	**1**	**1**
Revaluation at beginning of year	14	14
Revaluation during the year	4	0
Total revaluation at end of year	**18**	**14**
Total	**19**	**15**

The associated undertaking aggregated balance sheet and income statement can for the latest available annual report for 2016 be summarised as follows:

DKKm	31 Dec 2017	31 Dec 2016
Total assets	158	148
Total liabilities	73	70
Operating income	82	73
Operating profit/loss	5	7

DKKm, 31 Dec 2017	Registration number	Domicile	Carrying amount	Voting power of holding %
e-nettet A/S	21270776	Copenhagen	19	18

Note 12
Assets in temporary possession

DKKm	31 Dec 2017	31 Dec 2016
Repossessed properties	27	28
Total	**27**	**28**

Note 13
Other assets

DKKm	31 Dec 2017	31 Dec 2016
Interest receivable on mortgage loans etc[1]	574	507
Interest receivable on bonds etc	13	13
Other	22	55
Total	**609**	**575**

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

Note 14
Debt to credit institutions and central banks

DKKm	31 Dec 2017	31 Dec 2016
Other banks	7,636	4,515
Total[1]	**7,636**	**4,515**
Of which sale and repurchase transactions	5,725	3,960

[1] Book value is a fair approximation to fair value.

Note 15
Bonds in issue at fair value

DKKm	31 Dec 2017	31 Dec 2016
Bonds in issue at beginning of year (nominal value)	423,017	427,231
Bonds issued during the year	130,045	144,275
Exchange differences	22	67
Scheduled payments and notified prepayments	-45,964	-39,435
Redemptions and other prepayments	-83,541	-109,121
Bonds in issue at end of year (nominal value)	**423,579**	**423,017**
Adjustment at fair value	9,735	7,012
Own bonds at fair value offset	-27,685	-24,832
Bonds in issue at end of year at fair value	**405,629**	**405,197**
Of which pre-issued (nominal value)	5,550	3,883
Drawn for redemption at next payment date (nominal value)	9,926	11,988

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 406bn (DKK 405bn). 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 2017 by approximately DKK 0.6bn (increase of approximately DKK 0.9bn) due to changes in own credit risk. The cumulative change since designation was a decrease of approximately DKK 3.7bn (decrease of approximately DKK 4.3bn). 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 16
Other liabilities

DKKm	31 Dec 2017	31 Dec 2016
Interest payable on bonds in issue	2,376	2,897
Other interest and commissions payable	144	74
Other	140	101
Total	**2,660**	**3,072**

Note 17
Subordinated debt

DKKm	31 Dec 2017	31 Dec 2016
Other subordinated debt	2,200	2,200
Total	**2,200**	**2,200**
Interest	-27	-7
Cost of increase in and repayments of subordinated debt	-	-
Total	**-27**	**-7**

At 31 December 2017 one loan – with terms specified below – was outstanding.

Issued by	Year of issue/ maturity	Call date	Nom value DKKm	Carrying amount DKKm	Interest rate (coupon)
Nordea Kredit Realkreditaktieselskab	2016/2026	28 September 2021	2,200	2,200	Floating rate

Subordinated debt is subordinated to other liabilities.

Pursuant to the Danish Financial Business Act repayment of subordinated debt may not take place at the initiative of the lender nor without the approval of the Danish Financial Supervisory Authority.

Note 18
Capital adequacy

Transitional own funds

DKKm, 31 Dec 2017 **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	18,565	-
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	20	-
5	Minority interests (amount allowed in consolidated CET1)	-	-
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	438	-
6	**Common equity tier 1 (CET1) capital before regulatory adjustments**	**20,740**	**-**
	Common equity tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	-4	-
8	Intangible assets (net of related tax liability) (negative amount)	-	-
12	Negative amounts resulting from the calculation of expected loss amounts	-259	65
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount)	-1	-
25b	Foreseeable tax charges relating to CET1 items (negative amount)	-	-
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-32	-
28	**Total regulatory adjustments to common equity tier 1 (CET1)**	**-297**	**-**
29	**Common equity tier 1 (CET1) capital**	**20,443**	**-**
	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	-	-32
45	**Tier 1 capital (T1 = CET1 + AT1)**	**20,443**	**-**
	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	25	-
51	**Tier 2 (T2) capital before regulatory adjustments**	**2,225**	**-**
	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	-32	-32
	of which shortfall	-32	-
57	**Total regulatory adjustments to tier 2 (T2) capital**	**-32**	**-**
58	**Tier 2 (T2) capital**	**2,193**	**-**
59	**Total capital (TC = T1 + T2)**	**22,636**	**-**
60	**Total risk-weighted assets**	**68,898**	**-**

Note 18
Capital adequacy *(continued)*

DKKm, 31 Dec 2017	(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)	29.7%	-
62 Tier 1 (as a percentage of risk exposure amount)	29.7%	-
63 Total capital (as a percentage of risk exposure amount)	32.9%	-
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)	2.2%	-
65 of which: capital conservation buffer requirements	1.3%	-
66 of which: countercyclical buffer requirement	0.0%	-
67 of which: systemic risk buffer requirement	0.9%	-
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)	23.7%	-
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)	25	-
79 Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	344	-
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 18
Capital adequacy *(continued)*

Summary of items included in own funds

DKKm	31 Dec[3] 2017	31 Dec[3] 2016
Calculation of own funds		
Equity in the consolidated situation	22,052	21,980
Proposed/actual dividend	-1,312	-1,678
Common equity tier 1 capital before regulatory adjustments	**20,740**	**20,302**
IRB provisions shortfall (-)[1]	-324	-324
Other items, net	27	62
Total regulatory adjustments to common equity tier 1 capital	-297	-262
Common equity tier 1 capital (net after deduction)	**20,443**	**20,040**
Tier 1 capital (net after deduction)	**20,443**	**20,040**
Tier 2 capital before regulatory adjustments	2,200	2,200
IRB provisions excess (+) / shortfall (-)	25	16
Other items, net	-32	-64
Total regulatory adjustments to tier 2 capital	**-7**	**-48**
Tier 2 capital	**2,193**	**2,152**
Own funds (net after deduction)[2]	**22,636**	**22,192**

[1] Total shortfall in 2017: transition rules allow 90% to be deducted in common equity tier 1 and 10% in tier 2 capital. For 2016 the shortfall was 80% in common equity tier 1 and 20% in tier 2 capital.
[2] Own funds adjusted for IRB provisions, ie adjusted own funds equal DKK 22,935m by 31 December 2017.
[3] Including profit for the year.

Minimum capital requirements and risk exposure amount (REA)

DKKm	31 Dec 2017 Minimum capital requirement	31 Dec 2017 REA	31 Dec 2016 Minimum capital requirement	31 Dec 2016 REA
Credit risk	**5,202**	**65,024**	**4,717**	**58,960**
- of which counterparty credit risk	29	360	-	-
IRB	4,590	57,372	4,714	58,929
- sovereign	6	68	-	-
- corporate	2,257	28,218	2,175	27,189
- advanced	2,257	28,218	2,175	27,189
- foundation	-	-	-	-
- institutions	1	7	0	0
- retail	2,293	28,665	2,513	31,416
- secured by immovable property collateral	2,193	27,411	2,370	29,625
- other retail	100	1,254	143	1,791
- other	33	414	26	324
Standardised	612	7,652	3	31
- central governments or central banks	0	3	0	3
- regional governments or local authorities	-	-	1	4
- institutions	610	7,621	-	-
- equity	2	28	2	24
Market risk	**-**	**-**	**-**	**-**
Operational risk	**310**	**3,874**	**283**	**3,536**
Standardised	310	3,874	283	3,536
Additional risk exposure amount due to Article 3 CRR	-	-	36	458
Sub-total	**5,512**	**68,898**	**5,036**	**62,954**
Adjustment for Basel I floor				
Additional capital requirement according to Basel I floor	8,885	111,065	8,920	111,491
Total	**14,397**	**179,963**	**13,956**	**174,445**

Note 18
Capital adequacy *(continued)*

Minimum capital requirement and capital buffers

Percentage	Minimum capital requirements	Capital buffers					Total
		CCoB	CCyB	SII	SRB	Capital buffers total[1]	
Common equity tier 1 capital	4.5	1.25	0.0	0.0	0.9	2.2	6.7
Tier 1 capital	6	1.25	0.0	0.0	0.9	2.2	8.2
Own funds	8	1.25	0.0	0.0	0.9	2.2	10.2
DKKm							
Common equity tier 1 capital	3,100	861	6	-	620	1,487	4,587
Tier 1 capital	4,134	861	6	-	620	1,487	5,621
Own funds	5,512	861	6	-	620	1,487	6,999

[1] Only the maximum of the SRB and the SII is used in the calculation of the total capital buffers.

Common equity tier 1 available to meet capital buffers

Percentage points of REA	31 Dec 2017	31 Dec[1] 2016
Common equity tier 1 capital	23.7	25.8

[1] Including profit for the year.

Capital ratios, excl Basel I floor (%)	31 Dec 2017	31 Dec 2016
Common equity tier 1 capital ratio, including profit	29.7	31.8
Tier 1 capital ratio, including profit	29.7	31.8
Total capital ratio, including profit	32.9	35.3

Capital ratios, incl Basel I floor (%)	31 Dec 2017	31 Dec 2016
Common equity tier 1 capital ratio, including profit	11.5	11.6
Tier 1 capital ratio, including profit	11.5	11.6
Total capital ratio, including profit	12.7	12.9

Leverage ratio[1]

	31 Dec 2017	31 Dec 2016
Tier 1 capital, transitional definition, DKKm	20,443	20,040
Leverage ratio exposure, DKKm	440,635	437,369
Leverage ratio	4.6	4.6

[1] Including profit for the year.

Note 18
Capital adequacy *(continued)*

Credit risk exposures for which internal models are used, split by rating grade

	On-balance exposure, DKKm	Off-balance exposure, DKKm	Exposure value (EAD), DKKm[1]	of which EAD for off-balance, DKKm	Exposure-weighted average risk weight
Sovereign, foundation IRB:	5,894	-	6,070	-	1
of which					
- rating grades 7	5,890	-	6,066	-	1
- unrated	4	-	4	-	163
Corporate, foundation IRB	-	-	-	-	-
Corporate, advanced IRB:	118,007	666	94,020	479	30
of which					
- rating grades 6	14,847	191	14,814	139	7
- rating grades 5	30,871	201	28,328	146	16
- rating grades 4	48,803	147	34,888	107	32
- rating grades 3	12,261	97	8,434	70	43
- rating grades 2	3,038	9	2,051	6	74
- rating grades 1	618	-	411	-	97
- unrated	1,095	15	741	11	69
- defaulted	6,474	6	4,353	-	125
Institutions, foundation IRB:	10	-	8	-	100
of which					
- rating grades 5	2	-	2	-	25
- unrated	8	-	6	-	122
Retail, of which secured by real estate:	260,744	1,170	261,529	785	10
of which					
- scoring grades A	156,596	599	156,996	400	4
- scoring grades B	67,823	349	68,059	237	9
- scoring grades C	23,749	142	23,844	95	18
- scoring grades D	2,975	59	3,014	40	37
- scoring grades E	3,805	13	3,813	8	63
- scoring grades F	2,208	1	2,209	1	94
- not scored	4	2	6	1	31
- defaulted	3,584	5	3,588	3	139
Retail, of which other retail:	14,568	-	5,087	-	25
of which					
- scoring grades A	3,455	-	3,455	-	11
- scoring grades B	1,878	-	1,154	-	18
- scoring grades C	4,595	-	144	-	37
- scoring grades D	1,107	-	32	-	53
- scoring grades E	1,402	-	69	-	61
- scoring grades F	763	-	68	-	82
- not scored	1	-	-	-	-
- defaulted	1,367	-	165	-	303
Other non credit-obligation assets:	414	-	414	-	100

Nordea does not have the following IRB exposure classes: equity exposures, central governments and central banks, qualifying revolving retail.

[1] Includes EAD for on-balance, off-balance, derivatives and securities financing.

Note 19
Maturity analysis for assets and liabilities

Remaining maturity

31 Dec 2017, DKKm	Note	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Total
Receivables from credit institutions and central banks	9	2,517	43,703	-	-	-	46,220
Loans and receivables at fair value	10	143	2,373	8,139	48,277	334,076	393,008
Debt to credit institutions and central banks	14	-	7,636	-	-	-	7,636
Bonds in issue at fair value	15	-	26,580	76,009	143,564	159,476	405,629

31 Dec 2016, DKKm	Note	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Total
Receivables from credit institutions and central banks	9	1,241	44,744	-	-	-	45,985
Loans and receivables at fair value	10	225	2,120	10,466	45,013	332,204	390,028
Debt to credit institutions and central banks	14	555	3,960	-	-	-	4,515
Bonds in issue at fair value	15	-	23,095	56,205	169,967	155,930	405,197

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 20
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 2017	31 Dec 2016
Operating items		
Interest income:		
Interest on receivables from credit institutions	-182	-166
Forward premium on derivatives	0	-1
Interest expense:		
Interest on debt to credit institutions	25	10
Fee and commission expense:		
Guarantee commissions etc	-956	-858
Brokerage	-65	-75
Value adjustments:		
Interest rate derivatives	-79	-22
Staff and administrative expenses:		
IT expenses	-42	-43
Other administrative expenses	-48	-42
Systems development costs	-61	-40
Rent	-8	-9
Internal audit	-3	-3
Profit from investment in associated undertaking	4	1
Assets		
Receivables from credit institutions	40,651	31,434
Interest receivable from credit institutions	15	14
Investment in associated undertaking	19	15
Other assets	129	226
- of which derivatives	129	226
Liabilities		
Debt to credit institutions	7,645	4,515
Interest payable	14	8
IT expenses payable	4	0
Other liabilities	27	38
Guarantee commissions payable	144	75
Guarantees		
Nordea Denmark provides on an ongoing basis guarantees to cover the first loss of the principal of mortgage loans disbursed.	105,581	103,589
Nordea Denmark 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.	15,439	9,155
Liquidity support agreement with Nordea Denmark	48,658	-

The main part of the transactions is between Nordea Kredit and Nordea Denmark.

The majority of the mortgage loans originated by Nordea Kredit are disbursed through Nordea Denmark.

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

In 2017 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 20
Related-party transactions *(continued)*

Compensation and loans to Board of Directors and Executive Management
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 8.

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 the Board of Directors and the Executive Management of Nordea Kredit as well as companies significantly influenced by related parties to the Board of Directors and the Executive Management.

Note 21
The Danish Financial Supervisory Authority's ratio system

	2017	2016	2015	2014	2013
Total capital ratio	32.9	35.3	29.7	28.6	16.4
Tier 1 capital ratio	29.7	31.8	29.7	28.6	16.4
Pre-tax return on equity, %	10.2	10.2	9.8	9.8	8.1
Post-tax return on equity, %	7.9	7.9	7.5	7.4	6.1
Income/cost ratio	5.90	6.00	6.39	4.13	3.30
Foreign exchange exposure as % of tier 1 capital	0.6	0.1	0.2	0.7	1.0
Loans/equity ratio	17.4	17.7	19.0	20.2	20.8
Lending growth for the year, %	0.1	-0.2	3.2	3.6	2.7
Impairment ratio for the year	0.0	0.1	0.1	0.1	0.1
Return on assets, %	0.4	0.4	0.3	0.3	0.3

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 22
Series financial statements

DKKm	Note	Capital centre 2	Capital centre 1 (General Capital Centre)	Total
Income statement for 2017				
Income from lending		3,351	68	3,419
Interest, net		-136	4	-132
Administrative expenses, net		-850	-52	-902
Provisions for loan losses		-114	-29	-143
Tax		-495	3	-492
Total		**1,756**	**-6**	**1,750**
Balance sheet, 31 Dec 2017				
Assets				
Mortgage loans		387,931	5,084	393,015
Other assets		69,784	5,400	75,184
Total assets	1	**457,715**	**10,484**	**468,199**
Liabilities and equity				
Bonds in issue	2	427,512	9,004	436,516
Other liabilities		9,465	166	9,631
Equity	3	20,738	1,314	22,052
Total liabilities and equity		**457,715**	**10,484**	**468,199**

Note 1 Balance sheet, series financial statements

Balance sheet total, Nordea Kredit's annual financial statements	440,201
Own bonds, not offset in series financial statements	27,685
Interest receivable on own bonds	313
Balance sheet total, series financial statements	**468,199**

Note 2 Bonds in issue, series financial statements

Bonds in issue, Nordea Kredit's annual financial statements	405,629
Own bonds, not offset in series financial statements	27,685
Deferred income	3,202
Bonds in issue, series financial statements	**436,516**

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 2017.

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

Note 23
Risk disclosures

Market risk[1]

DKKm	31 Dec 2017	31 Dec 2016
Derivatives		
Currency forwards:		
Market value, positive	-	-
Market value, negative	-	-
Nominal value	-	-
Interest rate risk, options:		
Market value, positive	111	203
Market value, negative	35	34
Nominal value	17,416	20,301

At the end of 2017 and 2016 there were no spot transactions.

DKKm, 31 Dec 2017	Total risk	Max	Min
Interest rate risk	20	31	2
Currency risk	0	0	0
Total	**20**	**31**	**2**

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

[1] Market risk is described in the Board of Directors' report under Market and liquidity risks, page 12.

Note 23
Risk disclosures *(continued)*

Credit risk[2]

DKKm	31 Dec 2017	31 Dec 2016
Maximum credit risk of on-balance sheet items		
Receivables from credit institutions and central banks	46,520	46,360
Loans and receivables at fair value	393,008	390,028
- of which owner-occupied dwellings and holiday homes	265,877	263,923
- of which commercial properties	127,131	126,105
Loans and receivables at amortised cost	-	-
Bonds at fair value	-	-
Investment in associated undertaking	19	15
Other asset items	654	609
Loan commitments	1,761	1,599
Security received		
The maximum credit risk on loans to credit institutions is secured by own bonds in connection with purchase and resale transactions	38,135	30,193
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 9.		
In addition Nordea Denmark provides on an ongoing basis loss guarantees covering the first loss of the principal of mortgage loans disbursed	105,581	103,589
In connection with the disbursement of loans, Nordea Denmark additionally provides statutory guarantees relating to registration with the Land Registry	15,439	9,155
Liquidity support agreement with Nordea Denmark	48,658	-

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 and capital management in the Board of Directors' report, pages 9-13. See also Note 1, section 9 and Note 10, 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 and other reserves	18,585
Net profit for the year	1,746
Transferred to Other reserves	4
Total	**20,335**

The Board of Directors proposes that the profit for 2017 is distributed as follows:

DKKm	
Proposed dividends to the shareholder	1,312
Retained earnings	19,003
Other reserves	20
Total	**20,335**

The company's distributable earnings amount to DKK 20,315m. After the proposed distribution of earnings, the company's unrestricted shareholders' equity amounts to DKK 19,003m.

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 2017.

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 2017 and of the results of the company's operations for the financial year 1 January-31 December 2017.

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 2018

Board of Directors

Frank Vang-Jensen
(Chairman)

Kim Skov Jensen

Torben Laustsen

Nicklas Ilebrand
(Vice Chairman)

Jørgen Holm

Anne Rømer

Executive Management

Peter Smith
(Chief Executive Officer)

Claus H. Greve
(Deputy Chief Executive Officer)

Kamilla Hammerich Skytte
(Deputy Chief Executive Officer)

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 2017 and of the results of the Company's operations for the financial year 1 January to 31 December 2017 in accordance with the Danish Financial Business Act.

Our opinion is consistent with our Auditor's Long-form Report to the Audit Committee and the Board of Directors.

What we have audited

The Financial Statements of Nordea Kredit Realkreditaktieselskab for the financial year 1 January to 31 December 2017 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 ("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 the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark. We have also fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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

Appointment

We were first appointed auditors of Nordea Kredit Realkreditaktieselskab on 27 February 2015 for the financial year 2015. We have been reappointed annually by shareholder resolution for a total period of uninterrupted engagement of 3 years including the financial year 2017.

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 2017. 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 10 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 relevant internal controls over:

- Internal rating 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.

Management's responsibilities 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 scepticism 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 2018

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Business registration no 33 77 12 31

Erik Stener Jørgensen
State Authorised Public Accountant
MNE no 9947

Benny Voss
State Authorised Public Accountant
MNE no 15009

Management

Board of Directors of Nordea Kredit

Frank Vang-Jensen (Chairman)
Internal assignments
Country Senior Executive and Head of Personal Banking Denmark.

External assignments
First Vice Chairman of the Board of Directors of Finance Denmark.

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

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

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

External assignments
None.

Jørgen Holm
Internal assignments
Executive Vice President in Group Credit Risk Management, Nordea Bank AB (publ).

External assignments
Member of the credit council of Finance Denmark.

Torben Laustsen
Internal assignments
Head of Customer Interaction and Communications, 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
Deputy Chairman of the Board of Directors of the Danish Foundation for Entrepreneurship.
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.

Anne Rømer
Internal assignments
None.

External assignments
VP CFO of DFDS Logistics of DFDS A/S.
Member of the Board of Directors of DFDS Logistics Contracts AB.
Member of the Board of Directors of DFDS Logistics OY, Kotka, Finland.
Alternative member of the Board of Directors of Italcargo Sweden AB.

Executive Management of Nordea Kredit

Peter Smith (Chief Executive Officer)
Internal assignments
Member of the Board of Directors of Danbolig A/S .

External assignments
Vice Chairman of the Board of Directors of e-nettet A/S.
Member of the Board of Directors of the Association of Danish Mortgage Banks.

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

External assignments
None.

Kamilla Hammerich Skytte (Deputy Chief Executive Officer)
Internal assignments
None.

External assignments
Member of the Board of Directors of the Association of Danish Mortgage Banks.

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