Nordea

Annual Report 2019

Nordea Kredit Realkreditaktieselskab

Business registration number 15134275

Godkendt på generalforsamlingen den
19. februar 2020.

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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. Nordea Kredit is part of the Nordea Group. Nordea is the leading bank in the Nordic region. The Nordea share is listed on the Nasdaq Helsinki, Nasdaq Copenhagen and Nasdaq Stockholm exchanges. Read more about us on nordea.com.

Contents

Key financial figures

Income statement, key items (DKKm)	2019	2018	Change %	2017	2016
Total operating income	2,687	2,540	6	2,695	2,583
Total operating expenses	-306	-286	7	-314	-293
Impairment losses on loans and receivables	-6	-215	-97	-143	-138
Profit before tax	2,373	2,042	16	2,242	2,152
Net profit for the year	1,850	1,593	16	1,750	1,679

Balance sheet, key items (DKKm)					
Receivables from credit institutions and central banks	67,462	43,440	55	46,220	45,985
Loans and receivables at fair value	404,998	394,916	3	393,008	390,028
Loans and receivables at nominal value[1]	398,497	387,159	3	383,582	383,093
Debt to credit institutions and central banks	5,597	10,841	-48	7,636	4,515
Bonds in issue at fair value	440,929	400,817	10	405,629	405,197
Equity	22,590	22,333	1	22,052	21,980
Total assets	473,277	438,825	8	440,201	437,012

Ratios and key figures					
Return on equity, %[2]	8.2	7.2		7.9	7.9
Cost/income ratio	11.4	11.3		11.7	11.3
Write-down ratio, basis points[3]	0.1	5.4		3.6	3.5
Common equity tier 1 capital ratio, %	24.4	23.9		29.7	31.8
Tier 1 capital ratio, %	24.4	23.9		29.7	31.8
Total capital ratio, %	27.0	26.5		32.9	35.3
Own funds, DKKm	22,803	22,463		22,636	22,192
Tier 1 capital, DKKm	20,603	20,263		20,443	20,040
Risk exposure amount, DKKm	84,322	84,807		68,898	62,954
Number of employees (full-time equivalents)[4]	119	113		111	103

[1] After adjustment for provisions for loan losses.
[2] The return on equity ratio excluding the negative transition effect from the new impairment rules in 2018 was 8.0%.
[3] The write-down ratio excluding the negative transition effect from the new impairment rules in 2018 was 0.9 bps.
[4] End of year.

Board of Directors' report

Nordea Kredit Realkreditaktieselskab is a wholly owned subsidiary of Nordea Bank Abp. 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 Abp Group and "Nordea Bank" refers to the parent company Nordea Bank Abp. The figures in brackets refer to 2018.

Green mortgage loans for corporate customers

To support the green transition in Denmark, Nordea Kredit started to offer green mortgage loans to corporate customers in November 2019.

Green mortgage loans are offered to corporate customers that have invested or wish to invest in green properties, facilities that produce renewable energy and organic farming.

The green mortgage loans will be funded by green covered bonds. Nordea Kredit's green covered bonds are issued as part of the Nordea Green Bond Framework which is based on the International Capital Market Association's Green Bond Principles.

Nordea Kredit follows a well-defined process when selecting and evaluating financing of mortgage loans within the green bond asset categories that qualify as mortgage loans to be included in Nordea Kredit's green bond asset portfolio. Nordea Kredit's Green Bond Committee as well as external partners confirm the assessments made by the staff in relation to the green bond asset categories.

Enhancing the digital customer experience

With a strong focus on the digital customer experience, Nordea Kredit has over the past years introduced a smoother and more transparent process for mortgage customers. In 2019 Nordea Kredit updated the design of one of the best digital solutions in the market – the eBolig portal – and improved the user experience on mobile devices.

The very low interest rates have made it advantageous for homeowners with fixed-rate mortgage loans to remortgage. As a result, Nordea Kredit recorded an all-time high level of remortgaging activity in the second half of 2019. A record-high number of customers remortgaged their mortgage loans online through the eBolig portal.

Nordea Kredit will continue to improve its operational performance through improved customer experience in front line as well as by improving the digital customer journey.

Nordea improved its overall value proposition to its customers by introducing fixed-rate bank mortgage loans for both owner-occupied and cooperative dwellings, supplementing Nordeas portfolio of mortgage products.

To strengthen its availability and relevance towards customers, Nordea's opening hours have been extended for financial advice. Furthermore, existing customers have been contacted with relevant advice on remortgaging opportunities.

Comments on the year-end result

Profit before tax was up by 7% to DKK 2,373m compared to DKK 2,222m in 2018 (the figure for 2018 is excluding the transition effect of DKK 180m due to the new impairment rules), mainly explained by increased fee and commission income following the very high remortgaging activity in 2019. Including the transition effect due to new impairment rules in 2018, profit before tax increased by 16% to DKK 2,373m (DKK 2,042m).

Interest rates fell in 2019 to an all-time low, resulting in the highest number of remortgages ever at Nordea Kredit. Gross new lending in 2019 increased to DKK 131bn, which was significantly higher than the gross new lending volume of DKK 70bn in 2018. Profit before tax for 2019 exceeded expectations due to the very high remortgaging activity. Total lending at nominal value increased by 3% to DKK 398bn (DKK 387bn). The increase was related to both owner-occupied dwellings and commercial properties. In addition to new lending to customers, the high remortgaging activity had a positive impact on lending volumes as several customers took advantage of the opportunity for top-up lending.

Operating income
Net interest income decreased by 1% to DKK 3,156m (DKK 3,190m) due to lower income from administration and reserve fees caused by the customers' orientation towards fixed-rate loans or adjustable-rate loans with a longer fixing period, making customers less financially dependent on future interest rates and reducing refinancing risk. As expected, this resulted in lower average margins. The decrease in margins was to a large extent offset by increased loan volumes. Furthermore, net interest income was affected by negative interest income from the investment of capital.

Fee and commission income was up by 50% to DKK 815m (DKK 542m), positively affected by higher remortgaging activity following the lower interest rate level in 2019. Refinancing fees decreased as expected following lower refinancing volumes in 2019 compared to 2018.

Fees and commissions paid increased by 11% to DKK 1,301m (DKK 1,177m) mainly due to higher remortgaging activity in 2019.

Staff and administrative expenses
Total staff and administrative expenses were up by 7% to DKK 306m (DKK 286m).

Staff costs increased slightly to DKK 107m (DKK 106m). In 2019 the average number of full-time equivalent employees was 114 (110).

Administrative expenses increased by 11% to DKK 199m (DKK 180m) mainly due to an increase in fees to the authorities.

Impairment losses on loans and receivables
Impairment losses on loans and receivables decreased to DKK 6m (DKK 215m). Excluding the effect from the new impairment rules in 2018 amounting to DKK 180m, impairment losses on loans and receivables were DKK 35m in 2018.

Impairment losses on loans and receivables remained at a very low level, reflecting the strong credit quality in general and the first loss guarantee coverage by Nordea Bank. The first loss guarantees covered 97% (97%) of all loans at Nordea Kredit.

The write-down ratio decreased to 0.1 bps of the loan portfolio (5.4 bps including the transition effect from the new impairment rules in 2018 and 0.9 bps excluding the transition effect).

Tax
Income tax expense was DKK 523m (DKK 449m) and the effective tax rate was 22% (22%).

Net profit for the year
Net profit for the year increased to DKK 1,850m (DKK 1,593m), corresponding to a return on equity in 2019 of 8.2% (7.2%). Net profit for 2018 adjusted for the effect of the new impairment rules was DKK 1,733m, corresponding to a return on equity of 7.8%.

Comments on the balance sheet

Assets
Total assets increased by 8% to DKK 473bn (DKK 439bn).

Receivables from credit institutions and central banks, mainly consisting of deposits with Nordea Bank, increased to DKK 67bn (DKK 43bn) following higher customer redemption levels.

Loans and receivables at fair value increased to DKK 405bn (DKK 395bn), while total lending at nominal value after loan losses increased by 3% to DKK 398bn (DKK 387bn). The increase was related to both owner-occupied dwellings and commercial properties. Owner-occupied dwellings increased by 3%, commercial properties increased by 7% and agricultural properties decreased by 5%, which was in line with expectations.

Table 1. Lending at nominal value by property category

DKKbn	2019	2018	Change %
Owner-occupied dwellings and holiday homes	269	262	3%
Commercial properties	87	81	7%
Agricultural properties	42	44	-5%
Total	**398**	**387**	**3%**

The quality of the loan portfolio is considered satisfactory. The accumulated loan loss provisions decreased to DKK 243m (DKK 323m). Accumulated loan loss provisions regarding stages 2 and 3 amounted to DKK 55m (DKK 83m) and DKK 188m (DKK 240m), respectively.

Loss guarantees from Nordea Bank increased to DKK 115bn (DKK 107bn) at end-2019, covering loans totalling DKK 387bn (DKK 375bn). The share of the loans covered by the loss guarantees was 97% (97%). The loss guarantee is in general a first loss guarantee, reducing the loan losses at Nordea Kredit.

Assets held temporarily consisted of a total of 10 (26) repossessed properties by the end of 2019 with a carrying amount of DKK 12m (DKK 59m). All the repossessed properties are owner-occupied dwellings.

Debt
Debt to credit institutions and central banks amounted to DKK 6bn (DKK 11bn). The decrease was related to lower short-term funding from Nordea Bank.

Bonds in issue at fair value totalled DKK 441bn (DKK 401bn) after offsetting the portfolio of own bonds of DKK 12bn (DKK 24bn).

Equity
Shareholders' equity amounted to DKK 23bn (DKK 22bn) at the end of 2019. Net profit for the year was DKK 1.9bn (DKK 1.6bn).

It is proposed that DKK 1.4bn of the net profit is distributed as dividend. The proposed dividend payment of DKK 1.4bn is equivalent to DKK 81 (DKK 93) per share.

Capital adequacy

At year-end the risk exposure amount (REA) of Nordea Kredit was DKK 84.3bn (DKK 84.8bn). The common equity tier 1 ratio was 24.4% (23.9%) and the total capital ratio was 27.0% (26.5%) at end-2019. The increase in the ratios is mainly driven by the increase in capital due to inclusion of profit after proposed dividend at year-end 2019. The main changes in REA consist of a decrease related to exposures calculated according to internal ratings-based (IRB) models and an increase related to the change in exposures calculated according to the standardised approach.

Nordea Kredit complies with the conditions for temporary use of internal models in accordance with the European Central Bank (ECB) ruling of 16 August 2018 for Nordea and approved for Nordea Kredit by the Danish Financial Supervisory Authority (the Danish FSA) in December 2018. As part of the approval, Nordea has committed to a model improvement development plan with applications expected no later than 2020.

Nordea Kredit will issue additional tier 2 capital of approximately DKK 1.5bn (corresponding to EUR 200m) to the parent company Nordea Bank during the first half of 2020 in order to meet future capital and debt buffer requirements with a satisfactory margin. Measured on the end-2019 capital figures the additional tier 2 capital will increase the total capital ratio by 1.8% points to 28.8%.

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 under Investor Information 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 were in effect by January 2018. The two benchmarks for interest-only lending and short-term funding will have effect from 2020.

Nordea Kredit complied with all the benchmarks of the supervisory diamond for mortgage institutions throughout 2019.

Table 2. The supervisory diamond

	2019	Limit
1. Lending growth		
• Owner-occupied dwellings and holiday homes	3%	15%
• Residential rental properties	12%	15%
• Agriculture	-5%	15%
• Other	2%	15%
2. Borrower's interest rate risk[1]	15%	25%
3. Interest-only lending[2]	7%	10%[5]
4. Short-term funding[3]		
• Annually	14%	25%[5]
• Quarterly	2%	12.5%[5]
5. Large exposures[4]	36%	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 is limited to 25%/12.5% of the total portfolio.

[4] The 20 largest exposures less CRR deductions are limited to 100% of CET1.

[5] In effect from 2020.

New legislation

Capital regulation

The Capital Requirement Directive IV (CRD IV) and the Capital Requirements Regulation (CRR) entered into force on 1 January 2014 followed by the Bank Recovery and Resolution Directive (BRRD) on 15 May 2014. The CRR became applicable in all EU countries from 1 January 2014 while the CRD IV and the BRRD were implemented through national law within all EU member states from 2014.

In June 2019 the banking package with revisions to the BRRD, the CRD and the CRR was adopted. The amendments to the CRR, being a regulation, will be directly applicable in all EU countries once implemented, whereas the amendments to the CRD and the BRRD, being directives, need to be implemented into national legislation before being applicable. The revisions include the introduction of a binding net stable funding ratio (NSFR) of 100%, changes to the large exposures framework, the introduction of a strict leverage ratio requirement of 3% to be met by tier 1 capital, a new set-up for the SME factor for small and medium-sized companies and amendments to the pillar 2 and macroprudential framework. The revised CRD and BRRD must be applied from 28 December 2020, while the majority of the changes to the CRR must be applied from 28 June 2021.

The new European Covered Bond Directive and Regulation have been finalised. The directive entered into force on 8 January 2020, the national transposition period will last until 8 July 2021 and national measures must be applied starting at the latest from 8 July 2022. The regulation will apply from 8 July 2022, in parallel with the deadline for the directive's measures.

On 26 April 2019 the amendment to the CRR as regards minimum loss coverage for non-performing exposures (NPEs) (defined as past due 90 days, stage 3 or unlikeness to pay) entered into force and applies to exposures that are originated and become non-performing from this date. The regulation is binding in its entirety and directly applicable in all member states.

The amendment includes mandatory and calendar-based minimum provisioning rules. The coverage requirements for institutions increase progressively up to 100% after three years for unsecured NPEs, after nine years for NPEs secured by immovable property and after seven years for NPEs secured by other eligible credit protection. Insufficient loss coverage will have to be deducted from the CET1 capital. The minimum coverage also applies to institutions active on the secondary market. It is only possible for competent authorities to go beyond the requirements on a case-by-case basis.

The countercyclical buffer rate (CCyB) increased in Denmark from 0% to 0.5% valid from 31 March 2019 and further to 1.0% valid from 30 September 2019. In 2019 further increases were decided: in July 2019 an increase to 1.5% valid from 30 June 2020 and in the fourth quarter further to 2.0% valid from 31 December 2020. The capital conservation buffer rate (CCoB) applies unchanged with a rate of 2.5%. In 2019 Nordea Kredit was reappointed as a systemically important financial institution (SIFI) in Denmark and thereby subject to an unchanged 1.5% systemic risk buffer (SRB) requirement in 2020.

On 27 September 2019 (updated 29 November 2019) the Danish FSA published a model for a new pillar 2 liquidity coverage ratio (LCR) add-on for mortgage institutions. The new pillar 2 add-ons must be reported in an observation period starting with data based on figures from 31 December 2019 and running until the overcollateral (OC) requirement of the European Covered Bond Directive is implemented in Danish legislation. At that time – with possible changes – it is expected to replace the current requirement of 2.5% based on lending exposure. The model for LCR pillar 2 add-ons is institution-specific and risk-sensitive and will include risk types not included in the current LCR.

Debt buffer requirement

As part of the implementation of the BRRD in Denmark, mortgage institutions such as Nordea Kredit must fulfil a debt buffer requirement. The requirement is 1.8% from 15 June 2019 and 2.0% when fully implemented in June 2020. According to legislation, the debt buffer requirement must be fulfilled using tier 1/tier 2 instruments or unsecured senior debt instruments.

The Danish Financial Business Act was amended in May 2018 regarding the debt buffer requirement for mortgage institutions. However, the main principle for a SIFI mortgage institution belonging to an international group with a parent company outside Denmark – such as Nordea Kredit – is that besides the current debt buffer requirement of 2%, no additional requirement will apply if an 8% minimum requirement for eligible liabilities (MREL) is fulfilled on group level. The requirement is valid from 1 January 2022.

Finalised Basel III framework ("Basel IV")

Basel III is the global, regulatory framework on bank capital adequacy, stress testing and liquidity risk. In December 2017 the finalised Basel III framework, often called the Basel IV package, was published. The Basel IV package will be implemented in 2022 and includes revisions to credit risk, market risk, operational risk, credit valuation adjustment (CVA) risk and leverage ratio and introduces a new output floor.

On credit risk, the package includes revisions to the IRB approach, where restrictions to the use of IRB for certain exposures are implemented, as well as to the standardised approach. Also for market risk, the internal models approach and the standardised approach have been revised. For operational risk, the existing three approaches will be replaced by one standardised approach to be used by all banks. On CVA risk, the internally modelled approach will be removed and the standardised approach revised. The package also includes the implementation of a minimum leverage ratio requirement of 3% to be met with tier 1 capital.

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, market and operational risks. The floor will be phased in, starting with 50% from 2022, to be fully implemented at 72.5% from 1 January 2027.

Before being applicable to Nordea Kredit, the Basel IV package needs to 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. In October 2019 the European Commission issued a consultation document on the implementation of the final Basel III reforms in the EU. The European Commission is expected to publish the proposal for implementation in mid-2020 after which time the negotiations in the council and parliament will begin.

The property market

The economy

Since 2013 the Danish economy has grown at an annual average rate of some 2%. Growth has been underpinned by labour market reforms and has not been driven by excessive credit growth. Growth is therefore more balanced than in the mid-2000s.

So far, the economy has proved robust to the past year's slowdown in the global economy and in the economies of several of Denmark's most important trading partners.

In Europe growth has slowed down in the manufacturing industries, including Germany and Sweden, while the service and construction industries are still moving forward. In the UK the uncertainty related to Brexit is keeping activity down, and in the US the impact of the trade war with China has led to a slowdown in consumption and investment growth.

However, as Denmark is a small open economy, some impact cannot be avoided. Over time the weaker trends abroad will affect the Danish economy, and there are already signs of a slowdown in the labour market. Over the past months employment growth has slowed, and business confidence in Danish industry is close to a 3-year low.

The Danish economy is well positioned to withstand the effects of the global slowdown. Both households and businesses have built up huge savings that can be used if the global slowdown intensifies.

There are no major imbalances in the housing market, and more and more homeowners are taking advantage of the sharp drop in interest rates to remortgage into fixed-rate loans to protect themselves against future interest rate rises.

Lastly the diversity of Danish exports is significant, making Danish exports less vulnerable to a global slowdown compared to many other countries. Pharmaceutical products and green technology are very important for Danish exports. The two product groups are characterised by being only slightly affected by the global business cycle.

After several years of high activity, growth is consequently expected to decline slightly in the coming years. Uncertainties to the growth outlook are predominantly negative and primarily linked to a sharper slowdown in global growth than assumed, a severe Brexit and an escalation of the US-China trade conflict.

Interest rates

Danish mortgage rates have fallen noticeably in 2019, and new records have been set on fixed-rate and short-term loans. At the beginning of 2019, 30-year fixed interest rates stood at 2% but rapidly declined to 1.5% initially, then 1% and in August 2019 to just 0.5%. Since then interest rates have risen slightly, but they are still close to all-time lows.

Interest rates on both adjustable-rate mortgage loans and Kort Rente loans (floating-rate Cita6-based mortgage loans) also set records in 2019. At Nordea Kredit's auction in August, the F1 rate fell to -0.43%, the F3 rate to -0.58% and the F5 rate to -0.51%. The levels have never been lower at a refinancing auction.

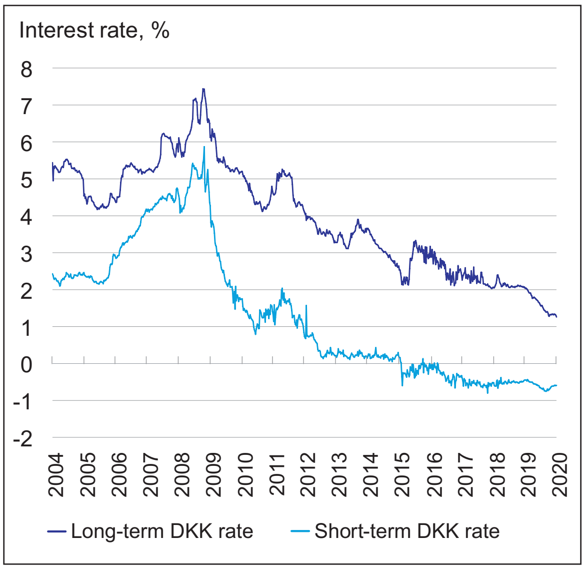
Kort Rente loans have interest rates fixed semi-annually, and in the second half of 2019 some homeowners with Kort Rente loans paid the lowest interest rate ever at just -0.37%.

The ECB eased monetary policy in 2019. The deposit rate was reduced by 10 bps from -0.40% to -0.50% and the ECB introduced a two-tiered reserve system to support the bank-based transmission mechanism of monetary policy.

According to the ECB's forward guidance, the Governing Council has stated that rates are expected to remain at their present or lower levels until it has seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within its projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics.

In 2019 the ECB also restarted its net asset purchase programme at a monthly volume of EUR 20bn. The bank intends to continue as long as it is necessary to reinforce the accommodative impact of its policy rates, and not to end the purchase programme before it starts raising its key interest rates.

Figure 1. Mortgage interest rates



Property prices and market activity

Owner-occupied dwellings

2019 was a good year in the housing market. House prices rose over most of the country and preliminary data suggest that trading activity is setting a record. The improvement resulted in lower supply and shorter times on market. The same picture is evident in the market for holiday homes.

In the first half of 2019 prices of owner-occupied flats were stable across Denmark, but with minor price declines in Copenhagen, Aarhus and Aalborg. The slowdown in the big cities was a result of already high prices limiting the number of buyers, tighter loan regulations and a significant number of new construction projects considerably increasing the housing supply.
In addition, the housing tax reform, scheduled to take effect in 2021 but now postponed until

2024, dampened demand especially for large and expensive flats.

Prices of owner-occupied flats have lately been rising. The improvement is primarily due to the sharp fall in interest rates experienced in the summer of 2019 and the postponement of the housing tax reform.

2020 is expected to be another good year in the housing market. Specifically, house prices are expected to rise by just over 3% and by a further just under 3% in 2021. If house prices increase as forecast, it will be the seventh consecutive year of rising prices. The trend is expected to be supported by rising incomes and continued low interest rates.

Medium-sized cities are expected to see the sharpest price rises. Urbanisation is still strong, and more and more people want to live in the cities, thus boosting housing prices. In the largest cities, however, prices are already high, which limits the number of buyers. The regulations for so-called growth municipalities and homeowners with high loan to income ratios, which determine the loan types homebuyers can get and how much money they can borrow, will also put a damper on prices in the most expensive areas.

In the market for owner-occupied flats in Copenhagen and Aarhus, a slowdown is expected where prices are more closely aligned to changes in household incomes and changes in interest rates.

Residential rental properties
2019 saw a significant decline in transaction volumes, especially in the first half of the year. Both domestic and foreign buyers showed restraint given high price expectations and the uncertainty over section 5(2) of the Danish act on temporary regulation of housing conditions.

High price levels are expected in Copenhagen, while prices are not expected to rise at the same pace in the Aarhus and Aalborg areas. In Odense and the Triangle Region in Jutland, minor price increases are expected due to the limited supply of attractive residential rental properties.

Office properties
There is high demand and low vacancy levels, especially for modern and well-located office properties. Foreign investors were not as active in 2019 as previously, but due to the low vacancy rates, yield levels for well-located properties saw downward pressure in the large cities driven by Copenhagen and Aarhus.

Retail properties
Generally, vacancies are increasing with pressure on rent prices as a consequence of online trading.

Warehouse and logistics properties
There is solid demand for modern and well-located properties with good infrastructure. Here vacancy rates are low, rent levels are good and yield levels are falling.

Agricultural properties
In agriculture, the results performance for 2019 will be better – especially as a result of rising pig prices due to the spread of African swine fever in Asia. The outlook for 2020 seems reasonable for milk production and extremely good for pig production due to the very high pork prices. However, the situation can change rapidly if African swine fever spreads to Denmark or the countries to which Danish farmers export piglets.

In 2019 trading activity for land and crop properties was good, and prices were stable but with some geographical variation. Both well-capitalised neighbour farmers and external investors saw potential in investing in land. The turnover of properties with pig production was positively influenced by rising pig prices, while the turnover of properties with milk production was under pressure. Trading activity is expected to be unchanged in 2020.

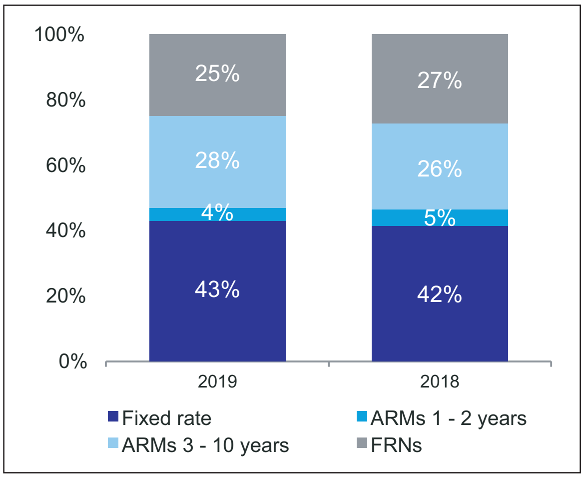
Nordea Kredit's lending

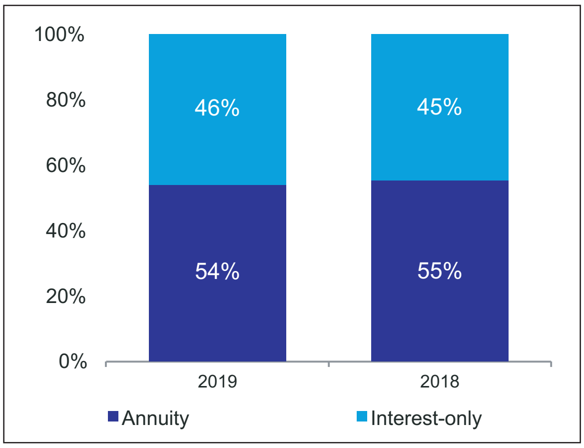
The loan portfolio
Total lending at nominal value after loan losses amounted to DKK 398bn by end-2019 (DKK 387bn).

Due to historically low 30-year interest rates, remortgaging activity reached an all-time high in the second half of 2019 and the share of fixed-rate loans in Nordea Kredit's portfolio continued to increase. By end-2019 43% of the portfolio was fixed-rate loans. The second-most popular loan type in 2019 was F5 loans. Personal as well as corporate customers made less use of floating-rate products (Cibor6 and Kort Rente loans).

Interest-only lending increased slightly in 2019 and by end-December 2019 46% of the portfolio was interest-only loans.

Figure 2. Total loan portfolio by loan type





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

The loan to value (LTV) ratio for total lending at Nordea Kredit was down by 0.2% point to 58.4% (58.6%) at end-2019.

The LTV ratio for owner-occupied dwellings decreased by 0.3% point to 63.2% in 2019, while the LTV ratio for rental properties decreased by 0.5% point to 52.2%. The LTV ratio for agriculture rose by 0.3% point to 48.4%.

The supplementary collateral required based on the LTV ratios for the individual loans was DKK 9bn at end-2019 (DKK 11bn).

LTV figures can be found in the quarterly investor presentations and the European Covered Bond Council (ECBC) covered bond labelling report. Both reports are available under Investor Information on www.nordeakredit.dk.

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 192bn nominal in 2019 (DKK 145bn), all financed by means of covered bonds. The increase mainly related to remortgaging.

At end-2019 the total outstanding nominal value of bonds, before offsetting the portfolio of own bonds, amounted to DKK 446bn (DKK 417bn). Of this amount, mortgage bonds accounted for DKK 3bn (DKK 4bn) and covered mortgage bonds accounted for DKK 443bn (DKK 413bn). At end-2019 the fair value of the total outstanding volume of bonds was DKK 441bn (DKK 401bn) 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 4% at end-2019, while adjustable-rate mortgages with longer interest reset periods (F3-F5) amounted to 28% of the portfolio. Adjustable-rate mortgage loans for DKK 10.4bn, DKK 9.1bn and DKK 11.8bn were refinanced as of January 2019, April 2019 and October 2019, 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 2019 amounted to DKK 28.4bn. At end-2019 floating-rate loans accounted for 25% of the total loan portfolio of Nordea Kredit.

Refinancing auctions during 2019 resulted in low interest rates for customers. The interest rate for adjustable-rate mortgage loans with refinancing in January 2020 was fixed at -0.25% for a 30-year annuity loan with reset every three years (F3).

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 of Nordea Kredit.

In accordance with the Danish Financial Business Act, the Board of Directors has established a Board Risk Committee (BRIC). 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 is appointed by the Board of Directors of Nordea Kredit and functionally reports to the Executive Management of Nordea Kredit. The CRO is the overall manager with specific responsibility for the risk management function at Nordea Kredit – including the responsibility 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 CRO independently reports directly to the Board of Directors of 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 & Compliance, Group Credit Risk Management and Group Finance.

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.

In accordance with the Danish Executive Order on Management and Control of Banks etc, Nordea Kredit has appointed a Chief Compliance Officer (CCO). The CCO is appointed by the Executive Management of Nordea Kredit and functionally reports to the Executive Management of Nordea Kredit. The CCO has the overall functional responsibility for the compliance function at Nordea Kredit – including the responsibility for monitoring compliance which is based on collecting information and providing independent assessments of the compliance risks. Furthermore, the compliance function advises and supports the first line of defence on ways to effectively and efficiently manage compliance obligations. The CCO independently reports directly to the Board of Directors of Nordea Kredit.

The Charter for the CCO of Nordea Kredit defines the role and responsibilities of the CCO and forms part of Nordea Kredit's internal control framework. The compliance function utilises the functional framework within Group Risk & Compliance, Group Compliance.

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 2019 in accordance with the CRR, which is based on the Basel III framework issued by the Basel Committee on Banking Supervision. The report is available under Investor Relations on www.nordea.com.

Credit risk management

The credit approval process follows directives and guidelines for Nordea. Within the powers to act granted by the Board of Directors of Nordea Kredit, internal credit risk limits are approved by credit decision-making authorities on different levels in the Nordea organisation constituting the maximum risk appetite on the customer in question. The risk categorisation and the exposure of the customer determine at what level the decision will be made. The customer responsible units take individual credit decisions with a primary focus on the customer's creditworthiness based on mandates and instructions from Nordea Kredit. Furthermore, individual credit decisions for mortgage loans with a primary focus on the property are made within Nordea Kredit.

The assessment and monitoring of credit risks lies with the customer responsible unit. Customers are risk categorised by a rating or score in accordance with Nordea's rating and scoring guidelines. The rating and scoring of customers aims to predict their probability of default and to consequently rank them according to their respective default risk. Rating and scoring of customers are used as integrated parts of the credit risk management and decision-making process. Representatives from the credit organisation approve the rating independently.

Credit risks

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 loans falls below what is sufficient to cover their mortgage loans.

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 with 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.

To mitigate the credit risk of Nordea Kredit and to align incentives, loss guarantees are provided by Nordea Bank typically covering the 25% first loss of the principal of mortgage loans disbursed.

Measurement of loans and receivables at fair value due to changes in underlying credit risk

All mortgages are tested for changes in underlying credit risk. The mortgage loans are divided into three groups depending on the stage of credit deterioration. Stage 1 includes mortgage loans where it has been assessed that there has not been a significant increase in credit risk since the first recognition of the mortgage loan. The assessment is made using a portfolio approach. Stage 2 includes mortgage loans where there has been a significant increase in credit risk and stage 3 includes credit-impaired mortgage loans. All mortgage loans are assessed individually for staging. Significant mortgage loans in stage 3 are tested for impairment either on an individual basis or by using a statistical model. Mortgage loans in stage 1 and stage 2 are tested for impairment by using a statistical model. Impairment testing applies three forward-looking and weighted scenarios.

The quality of credit exposures is continuously reviewed throughout the process of identifying and mitigating credit impairment. Weak and credit-impaired exposures are closely monitored and reviewed at least on a quarterly basis regarding a possible need for provisions.

Calculation of provisions regarding changes in underlying credit risk

A change in the underlying credit risk is recognised as a provision if based on credit events and observable data, a negative impact is likely on the customer's expected future cash flow to the extent that full repayment is unlikely (pledged properties and guarantees received considered). The size of the provision is equal to the estimated loss, which is the difference between the carrying amount of the outstanding exposure and the discounted value of the expected future cash flow, including the value of pledged properties and guarantees received.

The calculation of provisions regarding changes in underlying credit risk is executed quarterly. One important driver for provisions is the trigger for transferring mortgage loans from stage 1 to stage 2. For mortgage loans recognised from 1 January 2018 changes to the lifetime probability of default are used as the trigger. In addition, customers with forbearance measures and customers with payments more than 30 days past due are also transferred to stage 2. In stage 1, the provisions are based on changes to the 12-month expected loss assessed as a net amount of the portfolio. In stages 2 and 3, the provisions equal the lifetime expected loss. The output is complemented with an expert-based analysis process to ensure adequate provisioning.

Credit impaired (stage 3)

Customers with exposures that are past due more than 90 days, customers in bankruptcy or considered unlikely to pay are regarded as credit impaired. If a customer recovers from being credit impaired, the customer is seen as cured. Typically, this situation occurs if the customer succeeds in ensuring a balance between income and expenses. In order to be cured the recovery should include the customer's total liabilities with Nordea. The customer will be kept in stage 3 for a penalty period to ensure sufficient recovery.

The provisioning for credit-impaired exposures is either calculated individually or by the statistical model.

Forbearance

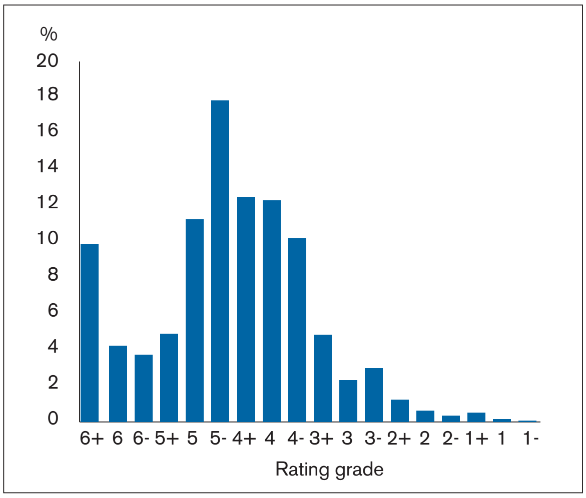
Forbearance is negotiated terms or restructuring due to the borrower experiencing or about to experience financial difficulties. The intention with granting forbearance for a limited time period is to ensure full repayment of the outstanding debt. Examples of negotiated terms are changes in the amortisation profile or reduced administration and reserve fees due to financial stress. Forbearance is undertaken on a selective and individual basis and followed by impairment testing. Loan loss provisions are recognised if necessary.

Rating and scoring distribution

One way of assessing credit quality is through analysis of the distribution across rating grades, for rated corporate customers, as well as risk grades for scored household and small business customers, that is, retail exposures.

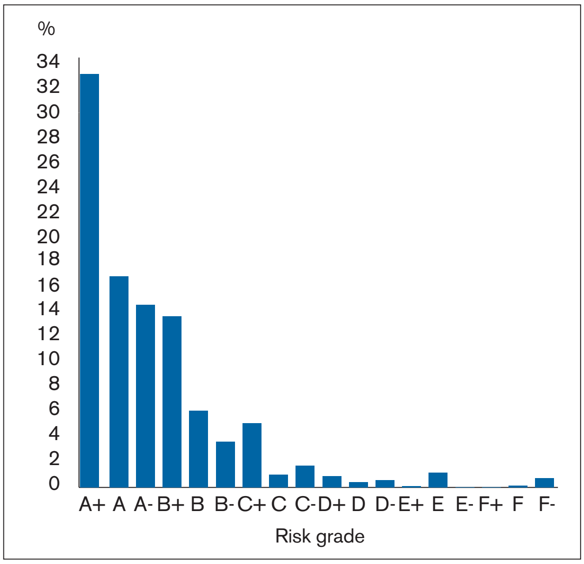
87% (83%) of the corporate exposure (Figure 3) was rated 4- or higher and 96% (97%) of the retail exposure (Figure 4) was rated C- or higher, which indicates a probability of default of 1% or lower. Defaulted loans are not included in the rating/ scoring distributions.

Figure 3. Rating distribution IRB 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 grade distribution IRB retail customers[2]



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

Market and liquidity risks

Nordea Kredit is exposed to interest rate risk from its investment of liquidity and capital.

Nordea Kredit's primary liquidity risks are short- and medium-term liquidity risk, refinancing risk and the risk of increased supplementary collateral requirements as outlined in the Internal Liquidity Adequacy Assessment Process (ILAAP).

Short-term liquidity risk means the risk that Nordea Kredit is unable to meet its short-term liquidity obligations in accordance with LCR requirements. In addition, an annual ILAAP is performed.

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.

The matched-funded bond issuance undertaken by Nordea Kredit applies the specific balance principle to both capital centres. To mitigate the short- and medium-term liquidity risk and refinancing risk, Nordea Kredit has a liquidity support agreement with Nordea Bank. Lastly, 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.

Interest rate risk

For the lending portfolio, the Danish 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 calculated based on the specific balance principle must not exceed 1% of the capital base, or DKK 228m (DKK 225m). For the securities portfolio, the interest rate risk on capital investments must not exceed 8% of the capital base, or DKK 1,824m (DKK 1,797m).

Nordea Kredit is significantly below both of the above-mentioned limits.

DKKm	31 Dec 2019	31 Dec 2018
Interest rate risk[1]		
Capital investments (IR sensitivity)	14	27
Specific balance principle (IR stress loss)	6	4

[1] The interest rate risk expresses the expected loss on fixed-income positions from a general increase in interest rates of 1% point.

Currency risk

At end-2019 the currency risk amounted to DKK 0.4m (DKK 0.3m) with effect on profit before tax and equity and relates solely to exposures in euros. Financial market risks are described in Note 24.

Liquidity coverage ratio (LCR)

The common European LCR requirement for Nordea Kredit is 100% of net liquidity outflows over a 30-calendar day stress period, 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 31 December 2019 the LCR requirement that was the binding constraint on the liquidity buffer was the floor requirement, and the LCR relative to the floor was 413% (LCR relative to the Delegated Act was 1,783%).

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 applicable laws, regulations, standards, supervisory requirements and related internal rules governing Nordea Kredit's activities.

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 compliance function.

Group Risk & Compliance is 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.

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

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 a compliance function, which is responsible for independently monitoring, providing advice and assurance, and reporting of compliance risks.

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 Board 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 Board 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 2019. The report includes Nordea Kredit. The sustainability report is available under Sustainability on www.nordea.com/en/sustainability. The disclosures are not covered by the statutory audit.

Changes to the Board of Directors

At the beginning of 2019 the Board of Directors consisted of Nicklas Ilebrand (Chair), Mads Skovlund Pedersen (Vice Chair), Jørgen Holm, Kim Skov Jensen, Anita Nedergaard Nielsen, Anne Rømer (external member) and Torben Laustsen. The Board of Directors was expanded when Marte Kopperstad was elected as a member at the Extraordinary General Meeting on 7 May 2019. At end-December 2019 Nicklas Ilebrand and Torben Laustsen informed the Extraordinary General Meeting of their resignations from the Board of Directors. At the same Extraordinary General Meeting Thomas Vedel Kristensen was appointed as a member. At the first board meeting in 2020 the board elected Mads Skovlund Pedersen as Chair and Anne Rømer as Vice Chair.

After the changes, the Board of Directors consists of Mads Skovlund Pedersen (Chair), Anne Rømer (Vice Chair and external member), Jørgen Holm, Marte Kopperstad, Thomas Vedel Kristensen, Kim Skov Jensen and Anita Nedergaard Nielsen.

Changes to the Executive Management

On 6 February 2019 the former Chief Executive Officer Peter Smith left Nordea Kredit. At the same time Deputy Chief Executive Officer Claus H. Greve was appointed as interim Chief Executive Officer. At the board meeting on 27 February 2019 Claus Greve was appointed as Chief Executive Officer. Kamilla Hammerich Skytte continued as Deputy Chief Executive Officer.

The Executive Management consists of Claus H. Greve (Chief Executive Officer) and Kamilla Hammerich Skytte (Deputy Chief Executive Officer).

Further information regarding members of the Board of Directors and the Executive Management is available on page 60.

Balanced gender composition

The Nordea Group Board of Directors has approved a policy to promote gender balance when selecting board members of subsidiaries of Nordea Bank Abp. The Board of Directors of Nordea Kredit has endorsed this policy and the target was to strive to ensure a gender balance of 40/60 in 2019. The target for gender balance was met throughout 2019.

The Executive Management consists of one woman and one man and therefore also complies with the Danish Business Authority's guidance on gender balance.

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.

Nordea continuously follows up on diversity measures and social data. See the latest sustainability report under Sustainability on www.nordea.com.

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 must

- Support Nordea's ability to recruit, develop and retain highly motivated, competent and performance-oriented employees and hence support the Group strategy.
- Ensure that employees are offered a competitive and market-aligned total reward offering.
- Support sustainable results and the long-term interest of the shareholders.
- Ensure that remuneration at Nordea is aligned with efficient risk management, the Nordea Purpose and Values and applicable regulations.

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

Nordea's remuneration structure comprises fixed remuneration and variable remuneration.

Fixed remuneration components:

- Fixed Base Salary remunerates employees for role and position and is impacted by job complexity, responsibility, performance and local market conditions.
- Allowance is a predetermined fixed remuneration component. Fixed Base Salary is, however, the cornerstone of 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 awarded as a part of the total rewards being either individually agreed or based on local laws, market practice, collective bargaining agreements and company-determined practice.

Variable remuneration components:

- Executive Incentive Programme (EIP) is offered

to recruit, motivate and retain selected people leaders 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 goals, including Nordea Group goals, business area/group function goals (if relevant) and team/personal goals.
- Variable Salary Part (VSP) may be offered to selected people leaders and specialists to reward strong performance. Assessment of individual performance is based on a predetermined set of well-defined financial as well as non-financial goals, including Nordea Group goals, business area/group function goals and team/personal goals.
- Profit Sharing Plan (PSP) is offered groupwide to all Nordea employees but not to Identified Staff and employees who are eligible for any of Nordea's other formal annual variable remuneration plans. For eligible employees, the PSP is offered irrespective of position and salary and aims to reward employees based on achievement against predetermined financial goals as well as goals relating to customer satisfaction. The PSP is capped financially, and the outcome is not linked to the value of Nordea's share price.

Subsequent events

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

Outlook for 2020

Nordea Kredit expects that lending volumes for owner-occupied dwellings and commercial properties will continue to increase in 2020, while lending to the agricultural market is expected to decline slightly. However, as seen in recent years customers switching to loans with lower administration and reserve fees will likely offset the increase in interest income. In total, net interest income is expected to be at the same level as in 2019. However, changes in negative interest income on the investment of capital will also affect net interest income.

Commission income is expected to decrease due to lower remortgaging activity and lower refinancing volumes in 2020. Commission expenses will decrease, and costs will increase following a new agreement with Nordea Bank regarding customer related services. Other cost items are expected to be on the same level.

Loan losses are expected to increase from a very low level in 2019.

On an overall level, profit before tax for 2020 is expected to be lower than in 2019 dependent on the development in interest rates and the remortgaging activity.

Financial statements – contents

Income statement

DKKm	Note	2019	2018
Operating income			
Interest income		8,601	9,046
Interest expenses		-5,445	-5,856
Net interest income	2	**3,156**	**3,190**
Fee and commission income	3	815	542
Fees and commissions paid	3	-1,301	-1,177
Net interest and fee income		**2,670**	**2,555**
Value adjustments	4	13	-18
Other operating income		4	3
Staff and administrative expenses	5	-306	-286
Depreciation of tangible assets		0	0
Impairment losses on loans and receivables	6	-6	-215
Profit from equity investment in associated undertaking	7	-2	3
Profit before tax		**2,373**	**2,042**
Tax	8	-523	-449
Net profit for the year		**1,850**	**1,593**
Attributable to			
Shareholder of Nordea Kredit Realkreditaktieselskab		1,850	1,593
Total		**1,850**	**1,593**

Statement of comprehensive income

DKKm	2019	2018
Net profit for the year	1,850	1,593
Other comprehensive income, net of tax	-	-
Total comprehensive income	**1,850**	**1,593**
Attributable to		
Shareholder of Nordea Kredit Realkreditaktieselskab	1,850	1,593
Total	**1,850**	**1,593**

Balance sheet

DKKm	Note	31 Dec 2019	31 Dec 2018
Assets			
Cash in hand and demand deposits with central banks		50	225
Receivables from credit institutions and central banks	10	67,462	43,440
Loans and receivables at fair value	11	404,998	394,916
Loans and receivables at amortised cost		1	1
Investment in associated undertaking	12	20	22
Tangible assets		0	-
Deferred tax assets	8	3	1
Assets held temporarily	13	12	59
Other assets	14	723	150
Prepaid expenses		8	11
Total assets		**473,277**	**438,825**
Debt			
Debt to credit institutions and central banks	15	5,597	10,841
Bonds in issue at fair value	16	440,929	400,817
Current tax liabilities	8	19	15
Other liabilities	17	1,919	2,600
Deferred income		23	19
Total debt		**448,487**	**414,292**
Subordinated debt			
Subordinated debt	18	2,200	2,200
Equity			
Share capital		1,717	1,717
Other reserves		21	23
Retained earnings		19,464	19,000
Proposed dividend		1,388	1,593
Total equity		**22,590**	**22,333**
Total equity and debt		**473,277**	**438,825**
Contingent liabilities			
Guarantees etc		75	75
Credit commitments		1,498	1,232
Total contingent liabilities		**1,573**	**1,307**

Statement of changes in equity

DKKm	Share capital[1]	Other reserves[2]	Retained earnings	Proposed dividend	Total
Balance at 1 Jan 2019	1,717	23	19,000	1,593	22,333
Net profit for the year	-	-2	1,852	-	1,850
Other comprehensive income, net of tax	-	-	-	-	-
Dividends paid	-	-	-	-1,593	-1,593
Proposed dividend	-	-	-1,388	1,388	-
Balance at 31 Dec 2019	**1,717**	**21**	**19,464**	**1,388**	**22,590**

DKKm	Share capital[1]	Other reserves[2]	Retained earnings	Proposed dividend	Total
Balance at 1 Jan 2018	1,717	20	19,003	1,312	22,052
Net profit for the year	-	3	1,590	-	1,593
Other comprehensive income, net of tax	-	-	-	-	-
Dividends paid	-	-	-	-1,312	-1,312
Proposed dividend	-	-	-1,593	1,593	-
Balance at 31 Dec 2018	**1,717**	**23**	**19,000**	**1,593**	**22,333**

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 Abp, Helsinki, Finland. 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.

5-year overview

Income statement (DKKm)	2019	2018	2017	2016	2015
Net interest income	3,156	3,190	3,270	2,992	2,791
Net interest and fee income	2,670	2,555	2,685	2,578	2,568
Value adjustments	13	-18	3	-4	-309
Other operating income	4	3	7	8	8
Staff and administrative expenses	-306	-286	-314	-293	-241
Depreciation of tangible assets	0	0	0	0	0
Impairment losses on loans and receivables	-6	-215	-143	-138	-114
Profit from equity investment in associated undertaking	-2	3	4	1	1
Profit before tax	**2,373**	**2,042**	**2,242**	**2,152**	**1,913**
Tax	-523	-449	-492	-473	-449
Net profit for the year	**1,850**	**1,593**	**1,750**	**1,679**	**1,464**

Balance sheet (DKKm)	2019	2018	2017	2016	2015
Receivables from credit institutions and central banks	67,462	43,440	46,220	45,985	50,916
Loans and receivables at fair value	404,998	394,916	393,008	390,028	385,583
Loans and receivables at nominal value[1]	398,497	387,159	383,582	383,093	383,773
Other assets	817	469	973	999	1,368
Total assets	**473,277**	**438,825**	**440,201**	**437,012**	**437,867**
Debt to credit institutions and central banks	5,597	10,841	7,636	4,515	24,608
Bonds in issue at fair value	440,929	400,817	405,629	405,197	389,568
Other liabilities	4,161	4,834	4,884	5,320	3,390
Equity	22,590	22,333	22,052	21,980	20,301
Total equity and debt	**473,277**	**438,825**	**440,201**	**437,012**	**437,867**

Ratios and key figures	2019	2018	2017	2016	2015
Return on equity, %	8.2	7.2	7.9	7.9	7.5
Cost/income ratio	11.4	11.3	11.7	11.3	10.6
Write-down ratio, basis points	0.1	5.4	3.6	3.5	3.0
Loans/equity ratio	17.9	17.7	17.4	17.7	19.0
Lending growth for the year, %	3.0	1.0	0.1	-0.2	3.2
Common equity tier 1 capital ratio, %	24.4	23.9	29.7	31.8	29.7
Tier 1 capital ratio, %	24.4	23.9	29.7	31.8	29.7
Total capital ratio, %	27.0	26.5	32.9	35.3	29.7
Own funds, DKKbn	22.8	22.5	22.6	22.2	20.0
Tier 1 capital, DKKbn	20.6	20.3	20.4	20.0	20.0
Risk exposure amount, DKKbn	84.3	84.8	68.9	63.0	67.2
Number of employees (full-time equivalents)[2]	119	113	111	103	101
Average number of employees	114	110	106	100	110

[1] After adjustment for provisions for loan losses.
[2] End of year.

The Danish Financial Supervisory Authority's ratio system is shown in Note 22.

Glossary

The following definitions apply for ratios and key figures.

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

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

Lending growth
The change in loans and receivables at nominal value during the year divided by loans and receivables at nominal value beginning of year.

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.

Loans/equity ratio
Loans and receivables at fair value divided by equity end of year.

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 is 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
The tier 1 capital of an institution consists of the sum of the common equity tier 1 capital and additional tier 1 capital of the institution. Common equity tier 1 capital includes shareholders' equity excluding proposed dividend, deferred tax assets and the full expected shortfall deduction (the negative difference between expected losses and provisions).

Tier 1 capital ratio
Tier 1 capital as a percentage of risk exposure amount.

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

Write-down ratio
Impairment losses on loans and receivables during the year as a percentage of the closing balance of loans and receivables before impairment losses on loans and receivables.

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, including the Danish Financial Supervisory Authority's Executive Order on Financial Reports for Credit Institutions and Investment Firms etc (the Executive Order), as well as the Nasdaq OMX Nordic rules for issuers of bonds.

The accounting policies and methods of computation are the same as last year except for changes to the Executive Order following the implementation of IFRS 16 Leases mentioned below in section 2 "Changed accounting policies" and section 3 "Changed presentation of negative interest income and negative interest expenses".

2. Changed accounting policies
The Executive Order adopted changes in IFRS 16 Leases regarding recognition, measurement, presentation and disclosure with effect from 1 January 2020. The requirements have been preimplemented at 1 January 2019.

The recognition requirements in the Executive Order state that all leases, except for short-term leases and small ticket leases, should be accounted for on the balance sheet of the lessee as a right to use the asset and a corresponding lease liability, and the lease payments should be recognised as amortisation and interest expense instead of a leasing expense.

The right-to-use asset and the lease liability are initially measured as the present value of the lease payments. The discount rate used to calculate the lease liability for each contract is the incremental borrowing rate at commencement of the contract.

The right-to-use asset is presented as 'Tangible assets' on the balance sheet and the lease liability is presented as 'Other liabilities'.

In accordance with the transition provisions in the amendments to the Executive Order, the comparative figures have not been restated.

Impact on the balance sheet at transition
The impact from the changed accounting policy on Nordea Kredit's financial statements comes from the accounting of leased vehicles. At transition on 1 January 2019, the recognition of leased vehicles on the balance sheet increased "Tangible assets", "Total assets" and "Other liabilities" by DKK 0.2m. There was no impact on equity and CET1 at transition.

3. Changed presentation of negative interest income and negative expenses
Negative interest income was in previous years presented as part of interest income and negative interest expenses were previously presented as part of interest expenses. As the interest rate level further decreased during 2019, the total amounts for negative interest income and expenses have increased. It has therefore been decided to reclassify negative interest income to interest expenses and negative interest expenses to interest income. Net interest income is unchanged. The negative interest income and expenses are presented on separate lines in Note 2. The comparative figures are adapted to the new presentation of negative interest income and expenses.

4. 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 impact 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, and
- measurement of changes in the fair value of the credit risk on 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 8 "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 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.

Measurement of changes in the fair value of the credit risk on loans and receivables at fair value
Nordea Kredit's accounting policy for measurement of changes in the fair value of the credit risk on loans and receivables at fair value is described in section 11 "Loans and receivables at fair value".

Management is required to exercise critical judgements and estimates when calculating changes in the fair value of the credit risk. The fair value of the credit risk is calculated based on the impairment rules for loans at amortised cost with relevant fair value adjustments. The fair value of the credit risk is recognised in the balance sheet as loan impairment allowances.

When calculating allowances for individually impaired loans, judgement is exercised to estimate the value of the collateral received and the timing of the sale of the collateral.

Judgement is exercised in the choice of modelling approaches covering parameters used when calculating the expected losses, such as the expected lifetime, as well as in the assessment of whether the parameters based on historical experience are relevant for estimating future losses. The statistical models used to calculate provisions are based on macroeconomic scenarios, which requires management to exercise judgement when identifying such scenarios and when assigning the likelihood of the different scenarios occurring. Judgement is also exercised in the assessment of to what extent the parameters for the different scenarios, based on historical experience, are relevant for estimating future losses.

5. 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 customers. The recognition of commission income depends on the purpose for which the fees are received. Fee income is recognised either when or as performance obligations are satisfied.

Fees categorised as loan processing, brokerage, refinancing fees and pay-out fees are recognised at a point of time. Other fee and commission income is generally transaction based and recognised in the period when the services are performed.

Expenses for bought financial guarantees are amortised over the duration of the instruments. Other commission expenses are transaction based and recognised in the period when the services are received.

Value adjustments
Realised and unrealised gains and losses on financial instruments measured at fair value through profit and 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 under-takings 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
Changes in the fair value of the credit risk on loans and receivables at fair value on the balance sheet are reported as "Impairment losses on loans and receivables". Nordea Kredit's accounting policies for the calculation of changes in the fair value of the credit risk on loans and receivables at fair value can be found in section 11 "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 profit 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.

6. 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 10 "Financial instruments".

7. Translation of assets and liabilities denominated in foreign currencies
Unrealised translation differences on unsettled foreign currency monetary assets and liabilities are recognised in the income statement in the item "Value adjustments".

8. 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 interest-bearing securities and 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 are described in section 10
- 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.

9. Cash in hand and demand deposits with central banks
Cash in hand 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.

10. Financial instruments
Each financial instrument has been classified into one of the following categories: amortised cost, fair value through profit and loss or fair value through other comprehensive income. The classification of a financial instrument is dependent on the business model for the portfolio in which the instrument is included and on whether the cash flows are solely payments of principal and interest (SPPI).

Financial assets with cash flows that are not solely payments of principal and interest (SPPI) are measured at fair value through profit and loss. All other assets are classified based on the business model.

All financial assets and liabilities are initially measured at fair value. The classification of financial instruments into different categories forms the basis for how each instrument is subsequently measured on the balance sheet and how changes in its value are recognised.

Mortgage loans and the related bonds issued are based on the analyses of the business model and the SPPI review and according to the Executive Order classified at fair value through profit and loss.

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 default, bankruptcy and insolvency of Nordea Kredit and the counterparties, and if the intent is to settle the items net or realise the asset and settle the liability simultaneously.

11. Loans and receivables at fair value

Recognition and presentation
Financial instruments classified into the category "Loans and receivables at fair value" are measured at fair value. The fair value of loans and receivables is based on the fair value of the underlying bonds issued adjusted for changes in the fair value of the credit risk on the customers. Changes in the fair value of the credit risk are measured based on the impairment rules for loans at amortised cost with relevant fair value adjustments.

Loans and receivables at fair value are recognised gross with an offsetting allowance for changes in the fair value of the credit risk. The allowance account is disclosed net on the face of the balance sheet, but the allowance account is disclosed separately in the notes. Changes in the allowance account are recognised in the income statement and classified as "Impairment losses on loans and receivables".

If the change in the fair value of the credit risk is regarded as final, it is reported as a realised loss and the carrying amount of the loan and the related allowance for changes in the fair value of credit risk are derecognised. An impairment loss is regarded as final when the collateral is sold in either an agreed sale or a forced sale.

Changes in the fair value of the credit risk
Nordea Kredit classifies all exposures into stages on an individual basis. Stage 1 includes assets where there has been no significant increase in credit risk, stage 2 includes assets where there has been a significant increase in credit risk and stage 3 includes credit-impaired assets. Nordea Kredit monitors whether there are indicators of exposures being credit impaired (stage 3) by identifying events that have a detrimental impact on the estimated future cash flows (loss event). Nordea Kredit applies the same definition of default as the Capital Requirements Regulation. More information on the identification of loss events can be found in the Risk and Capital management section in the Board of Directors' report. Exposures without individually calculated allowances will be covered by the model-based impairment calculation.

For credit-impaired exposures impairment tested on an individual basis, the carrying amount of the exposure is compared with the sum of the net present value of the collaterals and the first loss guarantee. If the carrying amount is higher, the difference is recognised as an impairment loss.

For credit-impaired exposures with impairment not calculated on an individual basis, the impairment loss is measured using the model described below but based on the fact that the exposures are already credit impaired.

Model-based calculation of changes in the fair value of the credit risk
For exposures not impairment tested on an individual basis, a statistical model is used for calculating impairment losses. The provisions are calculated as the exposure at default times the change in probability of default (PD) times the loss given default. In stage 3 the expected loss is calculated based on the actual probability of default.

Changes in the fair value of the credit risk are measured based on a distribution of loans and receivables into three groups depending on the stage of credit deterioration:
- Stage 1 includes loans and receivables where management has assessed that there has not been a significant increase in credit risk since first recognition. The assessment is made using a portfolio approach and covers the coming 12 months' expected loss.
- Stage 2 includes loans and receivables with a significant increase in credit risk, but which are not credit impaired. The provision is based on the lifetime expected loss. In addition, customers with forbearance measures and customers with payments more than 30 days past due are also transferred to stage 2, unless already identified as credit impaired (stage 3). There has been a significant increase in credit risk in the following situations:
    - An increase in PD of 100% for the expected maturity for the exposure and an increase in the 12-month PD of 0.5% point for exposures when the 12-month PD at initial recognition was less than 1%.
    - An increase in PD of 100% for the expected maturity for the exposure or an increase in the 12-month PD of 2% points for exposures when the 12-month PD at initial recognition was 1% or higher.
- Stage 3 includes credit-impaired loans and receivables.

When calculating the expected loss, the calculation is based on probability-weighted forward-looking information. Nordea Kredit applies three macroeconomic scenarios to address the non-linearity in expected credit losses. The different scenarios are used to adjust the relevant parameters for calculating expected losses and a probability-weighted average of the expected losses under each scenario is recognised as a provision.

Besides the model-based impairments, management judgements are made to include impairments related to risks that are not captured by the impairment model.

Assets held temporarily
At Nordea Kredit the item "Assets held temporarily" consists of repossessed properties.

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 is presented in the income statement under "Impairment losses on loans and receivables".

12. Tangible assets
Tangible assets include IT equipment, furniture and other equipment. Tangible assets are measured at cost less accumulated depreciation and accumulated impairment losses. The cost of a tangible asset comprises its purchase price as well as any directly attributable costs of bringing the asset to the working condition for its intended use.

Tangible assets are 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 tangible assets is 3-5 years.

13. 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.

14. 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.

15. 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.

16. Related-party transactions
Nordea Kredit defines related parties as
- the parent company Nordea Bank Abp
- 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.

Other undertakings of the Nordea Group
Other undertakings of the Nordea Group consist of subsidiaries of Nordea Bank Abp.

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

Associated undertakings
Further information on the associated undertakings is found in Note 12 "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 of 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 of 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 21 "Related-party transactions".

Note 2
Net interest income

DKKm	2019	2018
Interest income		
Loans and receivables at fair value	4,897	5,518
Administration and reserve fees	3,342	3,363
Positive interest expenses	348	152
Other interest income	14	13
Total interest income	**8,601**	**9,046**
Interest expenses		
Debt to credit institutions and central banks	-2	-2
Bonds in issue at fair value	-5,057	-5,571
Subordinated debt	-25	-25
Negative interest income	-361	-258
Total interest expenses	**-5,445**	**-5,856**
Net interest income	**3,156**	**3,190**

Note 3
Net fee and commission income

DKKm	2019	2018
Loan processing fees	191	95
Brokerage	137	60
Refinancing fees and pay-out fees	436	349
Other fee and commission income	51	38
Fee and commission income	**815**	**542**
Guarantee commissions etc payable to Nordea Bank	-1,000	-990
Brokerage payable to Nordea Bank	-129	-54
Other fee and commission expenses	-172	-133
Fees and commissions paid	**-1,301**	**-1,177**
Net fee and commission income	**-486**	**-635**

Note 4
Value adjustments

DKKm	2019	2018
Mortgage loans	-1,188	-2,437
Foreign exchange gains/losses	0	0
Interest rate derivatives	24	-53
Bonds in issue[1]	1,177	2,472
Total	**13**	**-18**

[1] Including value adjustments on own positions.

Note 5
Staff and administrative expenses

DKKm	2019	2018
Salaries and remuneration (specification below)	-79	-78
Pension costs (specification below)	-8	-8
Social insurance contributions	-20	-20
Administrative expenses	-199	-180
Total	**-306**	**-286**
Average number of employees	114	110

Salaries and remuneration		
To the Board of Directors:		
- Board and Audit Committee fee	-1	0
To the Executive Management:		
- Fixed salary and benefits	-4	-5
- Performance-related compensation	-1	-1
To employees that have significant influence on Nordea Kredit's risk profile:		
- Fixed salary and benefits	-5	-5
- Performance-related compensation	0	0
Total	**-11**	**-11**
To other employees	-68	-67
Total	**-79**	**-78**

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

Compensation including pension		
Board of Directors[1]	-1	0
Executive Management[2]	-5	-6
Employees that have significant influence on Nordea Kredit's risk profile[3]	-5	-5
Total	**-11**	**-11**

1 The Board of Directors included eight individuals in 2019 and seven individuals at 1 January 2020.
2 The Executive Management included two individuals from February 2019. The Executive Management participates in the incentive programme EIP (Executive Incentive Programme).
3 Other employees that had significant influence on Nordea Kredit´s risk profile in 2019 included seven individuals (eight).

Executive Incentive Programme (EIP) was offered to recruit, motivate and retain selected people leaders 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 goals, including Nordea Group goals, business area/group function/division goals and individual goals and legal entity goals. Individual EIP awards will not exceed annual fixed salary.

All awards from 2019 EIP are allocated partly in cash and partly in financial instruments with subsequent retention. Parts of the awards for participants in EIP are subject to a five-year pro-rata deferral period with forfeiture conditions applying during the deferral period.

Note 5
Staff and administrative expenses *(continued)*

Disclosure according to section 77d (4) 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 (4) of the Danish Financial Business Act.

DKKm	2019	2018
Board of Directors[2]		
Nicklas Ilebrand[5]	0.2	-
Mads Skovlund Pedersen	-	-
Jørgen Holm	-	-
Torben Laustsen[5]	0.1	-
Kim Skov Jensen	-	-
Anita Nedergaard Nielsen	-	-
Marte Kopperstad[3]	-	-
Thomas Vedel Kristensen[4]	-	-
Anne Rømer	0.4	0.3

DKKm	2019	2018
Executive Management		
Claus H. Greve	2.2	1.7
Kamilla Hammerich Skytte	2.3	1.8
Peter Smith[6]	0.3	2.5

According to section 77d (4) of the Danish Financial Business Act, Nordea Kredit is required to disclose the total remuneration for the members of the Board of Directors and the Executive Management, including the remuneration the person has earned as a member of the Board of Directors and/or the Executive Management of companies within Nordea.

[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] A Board member does not receive remuneration, if the member is an employee in Nordea Group. Remuneration relates to fees from Board and Board Audit Committee work.
[3] Marte Kopperstad was appointed member of the Board of Directors from 7 May 2019.
[4] Thomas Vedel Kristensen was appointed member of the Board of Directors from 1 January 2020.
[5] Nicklas Ilebrand and Torben Laustsen left the Board of Directors on 1 January 2020.
[6] Peter Smith left the Executive Management on 6 February 2019.

Note 6
Impairment losses on loans and receivables

DKKm	2019	2018
Transition effect from new impairment rules	**-**	**-180**
Stage 2		
New and increased impairment charges	-11	-29
Reversals of impairment charges	39	37
Impairment losses on loans and receivables, non-credit impaired	**28**	**8**
Stage 3, credit impaired		
Realised loan losses	-100	-157
Decrease in impairment charges to cover realised loan losses	91	145
Recoveries on previous realised loan losses	11	11
New and increased impairment charges	-245	-393
Reversals of impairment charges	209	351
Impairment losses on loans and receivables, credit impaired	**-34**	**-43**
Impairment losses on loans and receivables	**-6**	**-215**

Note 7
Profit from equity investment in associated undertaking

DKKm	2019	2018
Profit from equity investment in associated undertaking	-2	3
Total	**-2**	**3**

Note 8
Tax

Income tax expense

DKKm	2019	2018
Current tax	-525	-449
Deferred tax	2	0
Adjustment relating to prior years	0	-
Total	**-523**	**-449**

Profit before tax	2,373	2,042
Tax calculated at a tax rate of 22.0%	-522	-449
Income from associated undertaking	-1	0
Non-deductible expenses	0	0
Adjustment relating to prior years	0	-
Tax charge	**-523**	**-449**
Average effective tax rate	22.0%	22.0%

Deferred tax

	Deferred tax assets		Deferred tax liabilities	
DKKm	2019	2018	2019	2018
Deferred tax related to:				
Provision	3	1	-	-
Total	**3**	**1**	**-**	**-**

DKKm	2019	2018
Movements in deferred tax assets/liabilities, net are as follows:		
Amount at beginning of year (net)	1	1
Deferred tax in the income statement	2	0
Amount at end of year (net)	**3**	**1**
Current tax liabilities	**19**	**15**

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 2019, the net taxes receivable from the Danish Tax Agency by the companies and branches included in the joint taxation amounted to DKK 352m (net taxes receivable DKK 406m). 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 are not liable to others.

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

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

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

DKKm	31 Dec 2019	31 Dec 2018
Loans etc		
Executive Management	-	6
Board of Directors	28	21

Interest income on these loans to members of Nordea Kredit's Executive Management and Board of Directors amounts to DKK 0.5m (DKK 0.5m).

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 2019 interest on the mortgage loans was payable at the rate of 0.2% to 1.5% 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 Bank consist of mortgage loans on market-based terms. At the end of 2019 the loans amounted to DKK 12m (DKK 13m) with interest rates of 0.2% to 1.0%.

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 10
Receivables from credit institutions and central banks

DKKm	31 Dec 2019	31 Dec 2018
Receivables from credit institutions	67,462	43,440
Total[1]	**67,462**	**43,440**
Of which genuine purchase and resale transactions	66,432	41,669

[1] Carrying amount is a fair approximation to fair value.

Note 11
Loans and receivables at fair value

DKKm	31 Dec 2019	31 Dec 2018
Mortgage loans, nominal value		
Value at beginning of year	387,482	383,830
New loans (gross new lending)	130,874	69,539
Foreign exchange revaluations	6	29
Redemptions and prepayments	-110,535	-57,277
Net new lending for the year	20,345	12,291
Scheduled principal payments	-9,087	-8,639
Mortgage loan portfolio at end of year	**398,740**	**387,482**
Mortgage loans, fair value		
Nominal value	398,740	387,482
Adjustment for interest rate risk etc	6,348	7,595
Adjustment for credit risk (see below)	-243	-323
Mortgage loan portfolio	404,845	394,754
Mortgage arrears (see below)	153	162
Loans and receivables at fair value	**404,998**	**394,916**

DKKm	Stage 1[1]	Stage 2	Stage 3	Total
Movements of allowance account for credit risk value changes				
Balance at 1 January 2019	-	83	240	323
New impairment charges	-	5	138	143
Increased impairment charges	-	6	103	109
Reversals of impairment charges	-	-39	-208	-247
Write-off through decrease in allowance account	-	-	-83	-83
Other changes[2]	-	-	-2	-2
Balance at 31 December 2019	**-**	**55**	**188**	**243**

DKKm	Stage 1[1]	Stage 2	Stage 3	Total
Movements of allowance account for credit risk value changes				
Balance at 1 January 2018	-	92	336	428
New impairment charges	-	10	69	79
Increased impairment charges	-	18	317	335
Reversals of impairment charges	-	-37	-348	-385
Write-off through decrease in allowance account	-	0	-130	-130
Other changes[2]	-	0	-4	-4
Balance at 31 December 2018	**-**	**83**	**240**	**323**

[1] Stage 1 includes loans and receivables where management has assessed that there has not been a significant increase in credit risk since first recognition. The assessment is made using a portfolio approach.
[2] Relates to transfer of impairment charges on loans to Assets held temporarily.

Loans and receivables at fair value with no adjustment for credit risk due to the value of the mortgaged property and the first loss guarantee from Nordea Bank amount to DKK 8bn (DKK 6bn).

Collateral for loans and receivables at fair value consists of mortgaged properties and first loss guarantees from Nordea Bank. The value of the collateral for credit-impaired loans is estimated to amount to more than 95% of the gross carrying amount at 31 December 2019.

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

DKKbn, 31 Dec 2019	Stage 1	Stage 2	Stage 3	Total
Rating/risk grade for loans and receivables measured at fair value (gross carrying amount)				
6+ / A+	95	0	0	95
6 / A	47	0	0	47
6- / A-	42	0	0	42
5+ / B+	41	0	0	41
5 / B	37	0	0	37
5- / B-	28	0	0	28
4+ / C+	30	2	0	32
4 / C	19	2	0	21
4- / C-	17	4	0	21
3+ / D+	6	4	0	10
3 / D	3	2	0	5
3- / D-	3	3	0	6
2+ / E+	0	2	0	2
2 / E	2	3	0	5
2- / E-	0	1	0	1
1+ / F+	0	1	0	1
1 / F	0	1	0	1
1- / F-	0	2	0	3
0+ / 0 / 0-	0	0	8	8
Unrated customers	0	0	0	0
Total	**370**	**27**	**9**	**405**

DKKbn, 31 Dec 2018[1]	Stage 1	Stage 2	Stage 3	Total
Rating/risk grade for loans and receivables measured at fair value (gross carrying amount)				
6+ / A+	93	0	0	93
6 / A	47	0	0	47
6- / A-	42	0	0	42
5+ / B+	40	0	0	41
5 / B	34	0	0	34
5- / B-	28	0	0	28
4+ / C+	29	2	0	31
4 / C	18	0	0	19
4- / C-	18	4	0	22
3+ / D+	6	3	0	9
3 / D	3	2	0	5
3- / D-	3	2	0	5
2+ / E+	0	2	0	2
2 / E	2	3	0	5
2- / E-	0	0	0	1
1+ / F+	0	0	0	1
1 / F	0	0	0	0
1- / F-	0	2	0	3
0+ / 0 / 0-	0	0	9	9
Unrated customers	0	0	0	0
Total	**363**	**21**	**10**	**395**

[1] The split of loans and receivables on rating/risk grades has been corrected compared to the annual report for 2018.

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

DKKm	31 Dec 2019	31 Dec 2018
Mortgage arrears[1]		
Mortgage arrears before provisions	78	89
Execution levied against debtors' properties before provisions	75	73
Total	**153**	**162**
Mortgage arrears mid-January following year	57	60

[1] Impairments on mortgage arrears and execution levied against debtors' properties are included in the allowance account for credit risk value changes.

DKKm	31 Dec 2019	31 Dec 2018
Age distribution of mortgage loans in arrears before allowance for credit risk value changes[1]		
More than 3 months and up to 6 months	833	712
More than 6 months and up to 1 year	307	203
More than 1 year	84	130
Total	**1,224**	**1,045**

[1] Mortgage loans at nominal value.

(%)	31 Dec 2019	31 Dec 2018
Mortgage loan portfolio by property category (nominal value)		
Owner-occupied dwellings	64	64
Holiday homes	4	3
Subsidised housing	0	0
Private rental property	10	10
Commercial property	1	1
Office and retail property	8	8
Agricultural property etc	11	12
Property for social, cultural and educational purposes	0	0
Other property	2	2
Total	**100**	**100**

For additional information on credit risks, see Note 24.

Note 12
Investment in associated undertaking

DKKm	31 Dec 2019	31 Dec 2018
Acquisition value at beginning of year	1	1
Acquisition value at end of year	**1**	**1**
Revaluation at beginning of year	21	18
Revaluation during the year	-2	3
Total revaluation at end of year	**19**	**21**
Total	**20**	**22**

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

DKKm	31 Dec 2018	31 Dec 2017
Total assets	171	167
Total liabilities	68	68
Operating income	95	86
Operating profit/loss	4	16

DKKm, 31 Dec 2019	Registration number	Domicile	Carrying amount	Voting power of holding %
e-nettet A/S	21270776	Copenhagen	20	18

Note 13
Assets held temporarily

DKKm	31 Dec 2019	31 Dec 2018
Repossessed properties	12	59
Total	**12**	**59**

Note 14
Other assets

DKKm	31 Dec 2019	31 Dec 2018
Interest receivable on mortgage loans etc[1]	667	109
Interest receivable on bonds etc	0	7
Other	56	34
Total	**723**	**150**

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

Note 15
Debt to credit institutions and central banks

DKKm	31 Dec 2019	31 Dec 2018
Debt to credit institutions	5,597	10,841
Total[1]	**5,597**	**10,841**
Of which sale and repurchase transactions	5,591	5,723

[1] Carrying amount is a fair approximation to fair value.

Note 16
Bonds in issue at fair value

DKKm	31 Dec 2019	31 Dec 2018
Bonds in issue at beginning of year (nominal value)	417,323	423,579
Bonds issued during the year	191,505	145,297
Exchange differences	6	31
Scheduled payments and notified prepayments	-59,019	-33,798
Redemptions and other prepayments	-103,472	-117,786
Bonds in issue at end of year (nominal value)	**446,343**	**417,323**
Adjustment at fair value	6,525	7,203
Own bonds at fair value offset	-11,939	-23,709
Bonds in issue at end of year at fair value	**440,929**	**400,817**
Of which pre-issued (nominal value)	5,581	5,600
Drawn for redemption at next payment date (nominal value)	31,183	6,928

Changes in fair value of financial liabilities attributable to changes in credit risk
The financial liabilities designated at fair value through profit and loss are bonds issued, DKK 441bn (DKK 401bn). For the bonds issued a change in the liability's credit risk and price will have a corresponding effect on the value of the loan.

The fair value of bonds issued increased in 2019 by approximately DKK 0.7bn (decrease of approximately DKK 0.4bn) due to changes in own credit risk. The cumulative change since designation was a decrease of approximately DKK 3.4bn (decrease of approximately DKK 4.1bn). 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 17
Other liabilities

DKKm	31 Dec 2019	31 Dec 2018
Interest payable on bonds in issue	1,661	1,909
Other interest and commissions payable	84	80
Other	174	611
Total	**1,919**	**2,600**

Note 18
Subordinated debt

DKKm	31 Dec 2019	31 Dec 2018
Other subordinated debt	2,200	2,200
Total	**2,200**	**2,200**
Interest	-25	-25
Cost of increase in and repayments of subordinated debt	-	-
Total	**-25**	**-25**

At 31 December 2019 Nordea Kredit had one subordinated loan with the terms specified below.

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 neither take place at the initiative of the lender nor without the approval of the Danish Financial Supervisory Authority.

Note 19
Capital adequacy

DKKm, 31 Dec 2019

	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	19,023	-
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	0	-
5	Minority interests (amount allowed in consolidated CET1)	-	-
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	463	-
6	**Common equity tier 1 (CET1) capital before regulatory adjustments**	**21,203**	**-**
	Common equity tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	-185	-
8	Intangible assets (net of related tax liability) (negative amount)	-	-
12	Negative amounts resulting from the calculation of expected loss amounts	-415	-
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)		-
25b	Foreseeable tax charges relating to CET1 items (negative amount)	-	-
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-	-
28	**Total regulatory adjustments to common equity tier 1 (CET1)**	**-600**	**-**
29	**Common equity tier 1 (CET1) capital**	**20,603**	**-**
	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	-	-
45	**Tier 1 capital (T1 = CET1 + AT1)**	**20,603**	**-**
	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	-	-
51	**Tier 2 (T2) capital before regulatory adjustments**	**2,200**	**-**
	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	-	-
	of which shortfall	-	-
57	**Total regulatory adjustments to tier 2 (T2) capital**	**-**	**-**
58	**Tier 2 (T2) capital**	**2,200**	**-**
59	**Total capital (TC = T1 + T2)**	**22,803**	**-**
60	**Total risk exposure amount**	**84,322**	**-**

Note 19
Capital adequacy *(continued)*

DKKm, 31 Dec 2019	(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)	24%	-
62 Tier 1 (as a percentage of risk exposure amount)	24%	-
63 Total capital (as a percentage of risk exposure amount)	27%	-
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)	5%	-
65 of which: capital conservation buffer requirements	2%	-
66 of which: countercyclical buffer requirement	1%	-
67 of which: systemic risk buffer requirement	1%	-
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)	20%	-
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)	-	-
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)	3	-
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)	-	-
79 Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	427	-
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 19
Capital adequacy *(continued)*

Summary of items included in own funds

DKKm	31 Dec 2019	31 Dec 2018
Calculation of own funds		
Equity in the consolidated situation	22,590	22,333
Proposed/actual dividend	-1,388	-1,593
Common equity tier 1 capital before regulatory adjustments	**21,203**	**20,740**
IRB provisions shortfall (-)[1]	-415	-407
Other items, net	-185	-70
Total regulatory adjustments to common equity tier 1 capital	-600	-477
Common equity tier 1 capital (net after deduction)	**20,603**	**20,263**
Tier 1 capital (net after deduction)	**20,603**	**20,263**
Tier 2 capital before regulatory adjustments	2,200	2,200
Total regulatory adjustments to tier 2 capital	**-**	**-**
Tier 2 capital	**2,200**	**2,200**
Own funds (net after deduction)[2]	**22,803**	**22,463**

[1] Total shortfall in 2019 and 2018 was 100% deducted in common equity tier 1.
[2] Own funds adjusted for IRB provisions, ie adjusted own funds, equal DKKm 23,218 by 31 December 2019.

Note 19
Capital adequacy *(continued)*

Minimum capital requirements and risk exposure amount (REA)

DKKm	31 Dec 2019 Minimum capital requirement	31 Dec 2019 REA	31 Dec 2018 Minimum capital requirement	31 Dec 2018 REA
Credit risk	**6,417**	**80,205**	**6,402**	**80,023**
- of which counterparty credit risk	108	1,346	16	196
IRB	5,695	71,189	5,771	72,131
- sovereign	-	-	-	-
- corporate	2,532	31,656	2,677	33,461
- advanced	2,532	31,656	2,677	33,461
- foundation	-	-	-	-
- institutions	1	6	0	4
- retail	3,144	39,300	3,086	38,577
- secured by immovable property collateral	3,085	38,568	3,013	37,667
- other retail	59	732	73	910
- other	18	227	8	89
- corporate	-	-	0	1
Standardised	722	9,016	631	7,892
- central governments or central banks	1	7	0	3
- regional governments or local authorities	-	-	-	-
- institutions	701	8,767	615	7,690
- corporate	0	1	0	0
- secured by mortgages on immovable properties	18	222	14	175
- in default	-	-	0	1
- equity	2	19	2	22
Market risk	**-**	**-**	**-**	**-**
Operational risk	**328**	**4,100**	**327**	**4,091**
Standardised	328	4,100	327	4,091
Additional risk exposure amount related to Swedish RW floor due to Article 3 CRR	1	17	2	22
Additional risk exposure amount due to Article 3 CRR	-	-	54	671
Total	**6,746**	**84,322**	**6,785**	**84,807**

Note 19
Capital adequacy *(continued)*

Minimum capital requirement and capital buffers

31 Dec 2019 (%)	Minimum capital requirements	Capital buffers CCoB	CCyB	SII	SRB	Capital buffers total[1]	Total
Common equity tier 1 capital	4.5	2.5	1.0	0.0	1.5	5.0	9.5
Tier 1 capital	6	2.5	1.0	0.0	1.5	5.0	11.0
Own funds	8	2.5	1.0	0.0	1.5	5.0	13.0

31 Dec 2019 (DKKm)							
Common equity tier 1 capital	3,795	2,108	843	-	1,265	4,216	8,010
Tier 1 capital	5,059	2,108	843	-	1,265	4,216	9,275
Own funds	6,746	2,108	843	-	1,265	4,216	10,962

[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 2019	31 Dec 2018
Common equity tier 1 capital	18.4	17.9

Capital ratios, excl Basel I floor (%)	31 Dec 2019	31 Dec 2018
Common equity tier 1 capital ratio	24.4	23.9
Tier 1 capital ratio	24.4	23.9
Total capital ratio	27.0	26.5

Leverage ratio[1]

	31 Dec 2019	31 Dec 2018
Tier 1 capital, transitional definition, DKKm	20,603	20,263
Leverage ratio exposure, DKKm	473,450	438,960
Leverage ratio	4.4	4.6

Note 19
Capital adequacy *(continued)*

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

31 Dec 2019	On-balance sheet exposure, DKKm	Off-balance sheet exposure, DKKm	Exposure value (EAD), DKKm[1]	of which EAD for off-balance, DKKm	Exposure-weighted average risk weight
Corporate, advanced IRB:	120,625	627	93,514	426	34
of which					
- rating grades 6	16,103	72	16,204	52	7
- rating grades 5	36,408	254	30,878	184	30
- rating grades 4	45,427	216	31,754	157	40
- rating grades 3	13,682	17	9,199	12	44
- rating grades 2	3,720	1	1,984	1	70
- rating grades 1	1,034	5	670	4	91
- unrated	275	22	178	16	52
- defaulted	3,976	40	2,647	-	91
Institutions, foundation IRB:	9	-	6	-	97
of which					
- rating grades 5	2	-	2	-	27
- rating grades 4	1	-	-	-	-
- unrated	6	-	4	-	124
Retail, of which secured by real estate:	272,590	941	273,204	614	14
of which					
- scoring grades A	174,313	501	174,640	327	10
- scoring grades B	63,429	207	63,564	135	12
- scoring grades C	21,466	96	21,528	62	18
- scoring grades D	4,960	103	5,028	68	37
- scoring grades E	3,466	14	3,475	9	66
- scoring grades F	2,424	7	2,428	4	102
- not scored	6	10	13	7	28
- defaulted	2,526	3	2,528	2	150
Retail, of which other retail:	11,626	-	3,229	-	23
of which					
- scoring grades A	2,252	-	2,251	-	11
- scoring grades B	1,083	-	654	-	19
- scoring grades C	3,095	-	100	-	37
- scoring grades D	1,936	-	56	-	55
- scoring grades E	1,363	-	47	-	62
- scoring grades F	893	-	49	-	98
- not scored	2	-	-	-	-
- defaulted	1,002	-	72	-	294
Other non credit-obligation assets:	227	-	227	-	100

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

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

Note 20
Maturity analysis for assets and liabilities

Remaining maturity

31 Dec 2019, DKKm	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Total
Receivables from credit institutions and central banks	1,030	66,432	-	-	-	67,462
Loans and receivables at fair value	78	2,627	8,579	48,862	344,852	404,998
Debt to credit institutions and central banks	-	5,597	-	-	-	5,597
Bonds in issue at fair value	-	9,027	31,079	194,802	206,021	440,929

31 Dec 2018, DKKm	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Total
Receivables from credit institutions and central banks	1,771	41,669	-	-	-	43,440
Loans and receivables at fair value	89	2,479	8,317	48,833	335,198	394,916
Debt to credit institutions and central banks	-	10,841	-	-	-	10,841
Bonds in issue at fair value	-	15,150	61,747	157,741	166,179	400,817

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 bonds issued are allocated through the maturity distribution in comparison to the refinancing period.

Note 21
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 2019	31 Dec 2018
Operating items		
Interest income:		
Positive interest expenses	126	38
Interest expense:		
Interest on debt to credit institutions	-27	-27
Negative interest income	-351	-221
Fee and commission income:		
Other fee and commission income	5	4
Fees and commissions paid:		
Guarantee commissions etc	-1,000	-990
Brokerage	-129	-54
Value adjustments:		
Interest rate derivatives	24	-53
Staff and administrative expenses:		
IT expenses	-65	-67
Other administrative expenses	-57	-60
Rent	-14	-11
Internal audit	-4	-1
Profit from investment in associated undertaking	-2	3
Assets		
Receivables from credit institutions	67,462	43,440
Interest receivable from credit institutions	0	3
Investment in associated undertaking	20	22
Other assets	88	72
- of which derivatives	88	72
Debt		
Debt to credit institutions	5,597	10,841
Bonds in issue at fair value	25,894	17,298
Interest payable	8	3
IT expenses payable	20	12
Guarantee commissions payable	84	80
Subordinated debt	2,200	2,200
Guarantees		
Nordea Bank provides on an ongoing basis guarantees to cover the first loss of the principal of mortgage loans disbursed	114,537	107,085
Nordea Bank 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	14,311	9,702

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

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

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

Nordea Kredit has entered into an agreement where Nordea Bank provides liquidity support in case it is needed to meet the Liquidity Coverage Ratio (LCR) requirements or to honour payment obligations in Nordea Kredit. The agreement also formalises that Nordea Kredit shall provide liquidity to Nordea Bank, however only to the extent that Nordea Kredit do not breach LCR or other legal restrictions.

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.

In 2019 there were no unusual related-party transactions.

Note 21
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 9.

Related parties
Related parties are the parent company, other Nordea 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 22
The Danish Financial Supervisory Authority's ratio system

	2019	2018	2017	2016	2015
Total capital ratio, %	27.0	26.5	32.9	35.3	29.7
Tier 1 capital ratio, %	24.4	23.9	29.7	31.8	29.7
Pre-tax return on equity, %	10.6	9.2	10.2	10.2	9.8
Post-tax return on equity, %	8.2	7.2	7.9	7.9	7.5
Income/cost ratio	8.60	5.10	5.90	6.00	6.39
Foreign exchange exposure as % of tier 1 capital	1.6	1.1	0.6	0.1	0.2
Loans/equity ratio	17.9	17.7	17.4	17.7	19.0
Lending growth for the year, %	3.0	1.0	0.1	-0.2	3.2
Impairment ratio for the year, %	0.0	0.1	0.0	0.1	0.1
Return on assets, %	0.4	0.4	0.4	0.4	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 23
Series financial statements

DKKm	Note	Capital centre 2	Capital centre 1 (General Capital Centre)	Total
Income statement for 2019				
Income from lending		3,335	21	3,356
Interest, net		-173	-9	-182
Administrative expenses, net		-751	-44	-795
Provisions for loan losses		-6	0	-6
Tax		-529	6	-523
Total		**1,876**	**-26**	**1,850**
Balance sheet, 31 Dec 2019				
Assets				
Mortgage loans		402,140	2,853	404,993
Other assets		78,201	2,094	80,295
Total assets	**1**	**480,341**	**4,947**	**485,288**
Liabilities and equity				
Bonds in issue	2	451,013	3,595	454,608
Other liabilities		8,030	60	8,090
Equity	3	21,298	1,292	22,590
Total liabilities and equity		**480,341**	**4,947**	**485,288**

Note 1 Balance sheet, series financial statements

Balance sheet total, Nordea Kredit's annual financial statements	473,277
Own bonds, not offset in series financial statements	11,939
Interest receivable on own bonds	72
Balance sheet total, series financial statements	**485,288**

Note 2 Bonds in issue, series financial statements

Bonds in issue, Nordea Kredit's annual financial statements	440,929
Own bonds, not offset in series financial statements	11,939
Deferred income	1,740
Bonds in issue, series financial statements	**454,608**

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 2019.

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

Note 24
Risk disclosures

Market risk

DKKm	31 Dec 2019	31 Dec 2018
Derivatives		
Interest rate risk, options:		
Market value, positive	95	63
Market value, negative	51	29
Nominal value	3,070	7,655

At the end of 2019 and 2018 there were no spot transactions.

DKKm, 31 Dec 2019	Total risk	Max	Min
Interest rate risk	20	42	7
Currency risk	0	0	0
Total	**20**	**42**	**7**

DKKm, 31 Dec 2018	Total risk	Max	Min
Interest rate risk	31	34	5
Currency risk	0	0	0
Total	**31**	**34**	**5**

Market and liquidity risk are described in the Board of Directors' report under Market and liquidity risks, page 15.

Note 24
Risk disclosures *(continued)*

Credit risk

DKKm	31 Dec 2019	31 Dec 2018
Maximum exposure to credit risk		
Receivables from credit institutions and central banks	67,512	43,665
Loans and receivables at fair value	404,998	394,916
- of which owner-occupied dwellings and holiday homes	274,896	267,521
- of which commercial properties	130,102	127,395
Loans and receivables at amortised cost	1	1
Investment in associated undertaking	20	22
Other asset items	746	221
Guarantees etc	75	75
Loan commitments	1,498	1,232

Credit risk is described and illustrated in the section on Risk and capital management in the Board of Directors' report, page 12. See also Note 1, section 10 and Note 11.

Security received

The maximum credit risk on loans to credit institutions is secured by own bonds in connection with purchase and resale transactions	66,432	41,669

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 11.

In addition, Nordea Bank provides on an ongoing basis loss guarantees covering the first loss of the principal of mortgage loans disbursed	114,537	107,085
In connection with the disbursement of loans, Nordea Bank additionally provides statutory guarantees relating to registration with the Land Registry	14,311	9,702

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.

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	19,023
Net profit for the year	1,850
Total	**20,873**

The Board of Directors proposes that the profit for 2019 is distributed as follows:

DKKm	
Proposed dividends to the shareholder	1,388
Retained earnings	19,464
Other reserves	21
Total	**20,873**

The company's distributable earnings amount to DKK 20,852m. After the proposed distribution of earnings, the company's unrestricted shareholders' equity amounts to DKK 19,464m.

Statement by the Board of Directors and the Executive Management

The Board of Directors and the Executive Management have discussed and approved the annual report of Nordea Kredit Realkreditaktieselskab for the financial year 2019.

The annual report has been prepared in accordance with the Danish Financial Business Act, including the Danish Financial Supervisory Authority's Executive Order on Financial Reports for Credit Institutions and Investment Firms etc, as well as the Nasdaq OMX Nordic rules for issuers of bonds.

It is our opinion that the financial statements give a true and fair view of the company's financial position at 31 December 2019 and of the results of the company's operations for the financial year 1 January-31 December 2019.

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, 19 February 2020

Board of Directors

Mads Skovlund Pedersen
(Chair)

Anne Rømer
(Vice Chair)

Kim Skov Jensen

Jørgen Holm

Anita Nedergaard Nielsen

Marte Kopperstad

Thomas Vedel Kristensen

Executive Management

Claus H. Greve
(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 2019 and of the results of the Company's operations for the financial year 1 January to 31 December 2019 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 2019 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 5 years including the financial year 2019.

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 2019. 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	How our audit addressed the key audit matter
Impairment of loans and receivables at fair value Impairment of loans and receivables at fair value are key focus area as accounting for loans to customers at fair value is complex and requires subjective judgements over both the timing of the recognition of impairment and the estimation of the size of any such provision for impairment. The principles for impairments of loans and receivables at fair value are described in note 1 section 4 – Critical judgements and estimation uncertainty and note 11 – Loans and receivables at fair value to the Financial Statements. The Company makes provisions for expected losses both on an individual basis in terms of individual loans and on a model-based basis. Important areas within impairment of loans to customers relate to: • Identification of credit impaired loans (stage 3) or loans with material weaknesses (stage 2), 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. • The model-based impairments in stages 1 and 2, including Management's assessment of the model variables. • Assumptions and judgements made by Management including the variables in the model underlying the calculation of individual and model-based impairment provisions.	Our audit included a combination of testing of relevant internal controls over financial reporting and substantive testing. We assessed and tested relevant internal controls over: • Individually assessed loan impairment calculations (stage 3 and stage 2 with weaknesses) • Valuation of collaterals held • Model-based assessed loan impairment calculations • Internal rating and stage classification We performed detailed testing on a sample of loans to ascertain whether we concur with the risk assessment as expressed by the internal rating and stage classification. We tested the impairment calculation on a sample of impaired loans, including assessment of expected future cash flow, fair value of collaterals (real estate) and various outcomes of the financial position of the customer (scenarios). We examined a sample of loans which had not been identified by Management as impaired. We also assessed the appropriateness of the Company's validation of the model and relevant parameters in the model-based 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, 19 February 2020

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Business registration no 33 77 12 31

Christian Fredensborg Jakobsen
State Authorised Public Accountant
mne16539

Benny Voss
State Authorised Public Accountant
mne15009

Management

Board of Directors of Nordea Kredit

Mads Skovlund Pedersen (Chair)
Member of the Board of Directors of Danbolig A/S.
Member of the Board of Directors of Velliv, Pension & Livsforsikring A/S. (Mads Skovlund Pedersen left the Board of Directors on 28 March 2019.)

Anne Rømer[1] (Vice Chair)
Member of the Board of Directors of DFDS Logistics Contracts AB.
Member of the Board of Directors of DFDS Logistics Partners AB.
Member of the Board of Directors of DFDS Logistics OY.

Kim Skov Jensen
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.

Jørgen Holm
None.

Anita Nedergaard Nielsen
None.

Marte Kopperstad
Member of the Board of Directors of Nordea Hypotek AB.
Member of the Board of Directors of Nordea Mortgage Bank Plc.
Member of the Board of Directors of Gjensidige Bank ASA.
Member of the Board of Directors of Nordea Eiendoms-kreditt AS.
Member of the Board of Directors of BITS AS.

Thomas Vedel Kristensen
None.

[1] Anne Rømer, CFO, DFDS Logistics is considered by the board as the independent member of the audit committee with expertise in accounting and/or audit pursuant to the requirements of the Executive Order on audit committees of companies and groups that are supervised by the Danish FSA.

Executive Management of Nordea Kredit

Claus H. Greve (Chief Executive Officer)
None.

Kamilla Hammerich Skytte (Deputy Chief Executive Officer)
Member of the Board of Directors of Danbolig A/S.

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