

Nordea

Interim Report 1st quarter 2020

Nordea Direct Bank



Nordea Direct Bank ASA is part of the Nordea Group. Nordea build strong and close relationships through our engagement with customers and society. Whenever people strive to reach their goals and realise their dreams, we are there to provide relevant financial solutions. We are one of the largest banks in the Nordic region and among the ten largest financial groups in Europe in terms of total market capitalisation with around 10 million customers. The Nordea share is listed on the Nasdaq Helsinki, Nasdaq Copenhagen and Nasdaq Stockholm exchanges.

Read more about us on [Nordea.com](https://www.nordea.com).

Key financial figures

Summary of income statement

NOKt	Jan-Mar 2020	Jan-Mar 2019	Year 2019
Net interest income	183,364	265,718	1,042,782
Net commission income and other operating income	-57,370	3,274	-38,024
Total income	125,993	268,992	1,004,758
Staff costs	33,141	44,944	160,043
Other expenses	45,204	85,820	298,198
Total operating expenses	78,345	130,764	458,241
Loan losses (negative figures are reversals)	42,464	58,946	228,074
Operating profit	5,185	79,282	318,442
Income tax expense	6,301	19,820	80,241
Net profit for the period	-1,117	59,461	238,202

Summary of balance sheet

NOKt	31 Mar 2020	31 Mar 2019	31 Dec 2019
Loans to the public (gross)	43,168,208	50,590,786	43,203,811
Allowance for loan losses	-415,439	-384,637	-385,807
Deposits and borrowings from the public	15,823,384	21,757,970	17,306,523
Total assets	49,162,344	58,955,613	49,062,417
Equity	4,266,631	4,439,767	3,572,127
Assets under management	491,667	31,511,183	957,893

Ratios and key figures

		Jan-Mar 2020	Jan-Mar 2019	Year 2019
Net interest margin, annualised	%	1.50	1.87	1.82
Loss rate	%	0.40	0.47	0.45
Non-performing loans in % of gross lending ¹	%	1.47	1.30	1.34
Return on equity, annualised	%	-0.64	5.68	5.33
Deposit-to-loan ratio at the end of the period	%	36.7	43.0	40.1
Capital adequacy ratio ²	%	23.0	17.5	19.9
Tier 1 capital ratio ²	%	21.5	15.5	18.3
Common equity Tier 1 capital ratio ²	%	19.2	13.9	16.0
Cost/income ratio	%	62.2	48.6	45.6
Liquidity Coverage Ratio	%	356	856	473
Average total assets	NOKt	49,125,818	57,773,246	57,428,906
Number of employees	Number	117	167	115
Total deposit above NOK 2 million	NOK billion	3.21	7.54	4.19

¹ Gross default over 90 days

² The profit for the period is not included in the calculation for the quarters, with the exception of fourth quarter

For more detailed information regarding ratios and key figures defined as Alternative performance measures, see www.nordea.com/en/investor-relations/.

Nordea Direct Bank ASA

Introduction

(Previous year comparable figures for the company are shown in brackets)

Nordea Direct Bank ASA is a wholly owned subsidiary of Nordea Bank Abp. The bank was established in 2007 and has administrative offices in Oslo and Førde. During autumn 2019, the company's car finance lending activities were transferred to Nordea Finans Norge AS.

Income statement

The profit before tax expense decreased to NOK 5.2m (NOK 79.3m). The decrease was driven by loss on financial instruments and transfer of car finance lending activities to Nordea Finans Norge AS.

Total income amounted to NOK 126.0m (NOK 269.0 m).

Net interest income amounted to NOK 183.4m (NOK 265.7m). The decrease was mainly driven by car finance transfer mentioned above. Adjusted for car finance, net interest income was 8% higher compared to same period last year. The improvement was driven by lending growth and improved margins.

Net commission income and other income amounted to negative NOK 57.4m (positive NOK 3.3m). The decrease was primarily driven by losses on financial instruments. The widening of credit spreads in the bond market resulted in mark to market losses from the liquidity reserve. The reduced interest level resulted in mark to market losses from interest rate swaps hedging fixed interest customer loans.

Net interest margin¹ was 1.50% (1.87%). The decrease was driven by the change in portfolio composition and increase in financing cost.

Operating expenses were NOK 78.3m (NOK 130.8m). The decrease was mainly driven by car finance transfer to Nordea Finans Norge AS. Adjusted for car finance, expenses were 10% lower compared to same period last year. The decrease was driven by lower acquisition expenses.

The cost/income ratio increased to 62.2% (48.6%), driven by loss on financial instruments. Normalized cost/income ratio was at satisfactory level of 42%.

Total write-downs and losses amounted to NOK 42.5m (NOK 58.9m). The decrease was driven by car finance transfer to Nordea Finans Norge AS.

Adjusted for car finance, total write-downs and losses increased by 6%. The increase was driven by a one-time clean-up with corresponding write-offs of old debit cards that have been misused primarily by off-line usage.

Write-downs and losses were 0.40% (0.47%) of average gross lending. The decrease was mainly driven by consumer loans.

Gross lending in default over 90 days increased to NOK 632.4m (NOK 656.5m). The decrease is driven by car finance transfer to Nordea Finans Norge AS. Gross loans in default over 90 days were 1.62% (1.00%) of total gross lending.

The weighted average loan-to-value ratio² was estimated to be 60.7% (60.7%) for the mortgage portfolio.

Lending, deposits and investments growth

Gross lending decreased by 14.7% and amounted to NOK 43,168.2m (NOK 50,590.8 m) as of 31 March 2020. Adjusted for car finance, gross lending increased by 5.6%. Deposits decreased by 27.3%, reaching NOK 15,823.4m (NOK 21,758.0 m).

Assets under management decreased to NOK 0.49b (NOK 31.5b) as of 31 March 2020. The decrease was driven by the termination of an institutional mandate and Gjensidige Pensjonsforsikring.

Capital position

As of 31 March 2020, the Nordea Direct Bank Group had a capital adequacy ratio of 23.0% (17.5%). The total capital held by the bank was NOK 4,546.2m (NOK 4,898.4m), of which NOK 3,800.8m (NOK 3,903.6 m) was common equity Tier 1 capital. The common equity Tier 1 capital ratio was 19.2% (13.9%).

Rating

Nordea Direct Bank ASA and its subsidiary Nordea Direct Boligkreditt AS had a long-term and short-term counterparty credit rating of A+/A-1, outlook 'positive'. The covered bonds portfolio issued by Nordea Direct Boligkreditt AS had a long-term rating of AAA and the outlook 'positive'.

¹ The net interest margin is calculated as net interest income as a percentage of average total assets, annualised.

² The loan-to-value ratio estimate is calculated on the basis of the exposure on the reporting date and the property valuation, including any higher priority pledge(s), at the time the loan was approved.

Nordea Direct Boligkreditt AS will hold the amount of over-collateralisation required to maintain the current rating for Nordea Direct Boligkreditt AS's covered bond program.

Debt securities issued

Net issues of debt securities, including subordinated loan capital, amounted to NOK 23,034.8m (NOK 29,737.3 m) as of 31 March 2020. The total face value of the securities issued by the bank was NOK 22,773.5m.

Repayments through ordinary maturity and buy back of bonds from investors were NOK 2,087.0m in the period.

Liquidity

As of 31 March 2020, the Nordea Direct Bank Group had net liquid assets of NOK 7,546.1m, divided between NOK 536.2m in bank deposits and NOK 7,009.9m in debt securities. Of the latter assets NOK 1,677.9m were investments in covered bonds from Nordea Direct Boligkreditt AS (eliminated in the consolidated accounts). The net liquid assets were at an adequate level that covers the bond debt that is due in the next 19 months.

Events after the balance sheet date

No significant events have occurred after the end of the quarter.

Nordea Direct Bank ASA

Oslo, 13 May 2020



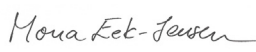
John Arne Sætre
Chairman



Sjur Loen
Board member



Marte Kopperstad
Board member



Mona Eek-Jensen
Board member



Per Kumle
Board member



Hans-Jacob Starheim
Employee representative



Krister G. Aanesen
Chief Executive Officer

Income statement

Nordea Direct Bank Group

NOKt	Note	Jan-Mar 2020	Jan-Mar 2019	Year 2019
Interest income etc, amortised cost		382,484	451,198	1,851,371
Interest income etc, fair value		22,150	19,875	81,592
Interest costs etc.		221,271	205,355	890,181
Net interest income		183,364	265,718	1,042,782
Dividends from investments in shares and funds				1,053
Fee and commission income		9,534	41,305	125,819
Fee and commission expense		11,683	49,000	179,572
Net gains on financial instruments at fair value		-55,210	10,276	13,292
Other operating income		-11	693	1,383
Net commission income and other operating income		-57,370	3,274	-38,024
Total income		125,993	268,992	1,004,758
Staff costs		33,141	44,944	160,043
Depreciation		4,205	6,872	26,147
Other operating expenses		40,999	78,948	272,052
Total operating expenses		78,345	130,764	458,241
Profit / (loss) before loan losses		47,649	138,228	546,517
Loan losses	4	42,464	58,946	228,074
Operating profit		5,185	79,282	318,442
Income tax expense		6,301	19,820	80,241
Net profit for the period		-1,117	59,461	238,202
Basic/diluted earnings per share, NOK		-1.3	67.9	271.9

Statement of comprehensive income

Nordea Direct Bank Group

NOKt	Jan-Mar 2020	Jan-Mar 2019	Year 2019
Net profit for the period	-1,117	59,461	238,202
Components of other comprehensive income			
Items that are not reclassified subsequently to profit or loss			
Actuarial gains/ (loss) on pensions			-5,492
Tax on items that are not reclassified to profit or loss			1,373
Items that may be reclassified subsequently to profit or loss			
Tax on items that may be reclassified to profit or loss			
Total components of other comprehensive income			-4,119
Total comprehensive income for the period	-1,117	59,461	234,083

Balance sheet

Nordea Direct Bank Group

NOKt	Note	31 Mar 2020	31 Mar 2019	31 Dec 2019
Assets				
Cash and balances with central banks		68,156	55,134	60,668
Loans to credit institutions	6	468,043	2,564,759	549,864
Loans to the public	2,4	42,752,768	50,206,149	42,818,003
Interest-bearing securities	8	5,332,041	5,609,968	5,313,708
Derivatives	8	251,567	67,848	50,547
Shares (and other securities with variable yield)		11,934	7,386	11,934
Intangible assets		21,947	34,844	25,714
Deferred tax assets		11,809	18,860	10,349
Fixed assets		2,042	3,662	2,289
Other assets		-2,738	-1,183	28,844
Advance payments and accrued income		244,774	388,186	190,497
Total assets		49,162,344	58,955,613	49,062,417
Liabilities and equity				
Liabilities to credit institutions	6	5,456,000	2,500,000	2,956,000
Deposits and borrowings from the public	2	15,823,384	21,757,970	17,306,523
Debt securities in issue	3,6,8	22,734,936	29,187,443	24,565,210
Derivatives	8	40,794	30,264	55,976
Current tax liabilities		21,826	55,804	69,735
Other liabilities		211,595	99,899	18,354
Accrued expenses and prepaid income		279,453	311,691	190,792
Retirement benefit obligations		27,815	22,958	27,815
Subordinated loan capital	3	299,910	549,817	299,887
Total liabilities		44,895,713	54,515,845	45,490,290
Equity				
Share capital		667,512	979,368	666,020
Share premium reserve		1,814,374	1,201,278	1,115,866
Perpetual Tier 1 capital	9	445,530	444,976	445,441
Other paid-in equity		2,647	3,779	2,647
Retained earnings		1,337,684	1,750,905	1,342,153
Net profit for the period		-1,117	59,461	
Total equity		4,266,631	4,439,767	3,572,127
Total liabilities and equity		49,162,344	58,955,613	49,062,417

Statement of changes in equity

Nordea Direct Bank Group

NOKt	Share capital	Share premium reserve	Perpetual Tier 1 capital	Other paid-in equity	Other equity	Total equity
Balance at 1 Jan 2020	666,020	1,115,866	445,441	2,647	1,342,153	3,572,127
Net profit for the period			4,469		-5,585	-1,117
Other comprehensive income, net of tax						
Total comprehensive income			4,469		-5,585	-1,117
Capital expansion	1,492	698,508				700,000
Share-based payment transactions settled in equity						
AT1 capital						
Paid interest on AT 1 capital			-4,380			-4,380
Balance at 31 Mar 2020	667,512	1,814,374	445,530	2,647	1,336,568	4,266,631

NOKt	Share capital	Share premium reserve	Perpetual Tier 1 capital	Other paid-in equity	Other equity	Total equity
Balance at 1 Jan 2019	979,368	1,201,278	444,848	3,779	1,755,142	4,384,415
Net profit for the period			16,661		221,540	238,202
Other comprehensive income, net of tax					-4,119	-4,119
Total comprehensive income			16,661		217,421	234,083
Capital expansion	876	399,124				400,000
Demerger car finance business	-314,224	-484,536		-1,132	-624,925	-1,424,817
Share-based payment transactions settled in equity					-2,022	-2,022
Tax payable and deferred tax relating to items recognised directly in equity					-3,463	-3,463
AT1 capital						
Paid interest on AT 1 capital			-16,068			-16,068
Balance at 31 Dec 2019	666,020	1,115,866	445,441	2,647	1,342,153	3,572,127

NOKt	Share capital	Share premium reserve	Perpetual Tier 1 capital	Other paid-in equity	Other equity	Total equity
Balance at 1 Jan 2019	979,368	1,201,278	444,848	3,779	1,755,142	4,384,415
Net profit for the period			3,942		55,520	59,461
Other comprehensive income, net of tax						
Total comprehensive income			3,942		55,520	59,461
Share-based payment transactions settled in equity					-295	-295
AT1 capital						
Paid interest on AT 1 capital			-3,813			-3,813
Balance at 31 Mar 2019	979,368	1,201,278	444,976	3,779	1,810,366	4,439,767

Number of shares at end of period 876,000

Cash flow statement

Nordea Direct Bank Group

NOKt	Jan-Mar 2020	Jan-Mar 2019	Year 2019
Operating activities			
Net payment of loans to customers	29,449	1,015,382	8,366,688
Net payment of deposits by customers	-1,483,139	-1,369,334	-5,816,454
Payment of interest from customers	369,701	417,735	1,816,783
Payment of interest to customers	-10,418	-20,973	-264,687
Net payment of interest from credit institutions etc.	-64,225	-47,511	-54,622
Taxes paid	-31,005	-72,436	-108,419
Net other commission income	-1,627	11,524	31,183
Payment to operations	-174,101	-277,182	-682,419
Net received/paid (-) upon purchase and sale of financial instruments and interest-bearing securities	-174,732	128,875	411,919
Net cash flow from operating activities	-1,540,096	-213,920	3,699,972
Investment activities			
Net purchase of intangible assets and fixed assets	-192	-7,142	-16,941
Net cash flow from investment activities	-192	-7,142	-1,441,758
Financing activities			
Net receipts/payments on deposits from credit institutions	2,500,000	2,500,000	2,956,000
Receipts of interest-bearing securities			
Payment of interest-bearing securities	-2,087,000	-187,000	-5,000,000
Interest payments on interest-bearing securities	360,110	59,305	-200,747
Receipts of subordinated debt	24	22	-249,908
Interest payments on subordinated debt	-2,799	-4,138	-13,537
Issued Additional Tier 1 capital			
Paid interest on Additional Tier 1 capital	-4,380	-3,813	-16,068
Capital increases	700,000		400,000
Cash flow from financing activities	1,465,954	2,364,376	-2,124,261
Cash flow for the period	-74,334	2,143,313	133,953
Cash and cash equivalents			
Cash and cash equivalents at 1 January	610,533	476,580	476,580
Cash and cash equivalents at end of the period	536,199	2,619,893	610,533
Change	-74,334	2,143,313	133,953
The following items are included in cash and cash equivalents:			
Cash and balances with central banks	68,156	55,134	60,668
Loans to credit institutions	468,043	2,564,759	549,864
Total cash and cash equivalents	536,199	2,619,893	610,533

The cash flow statement shows payments of cash and cash equivalents made and received throughout the year. The statement has been adjusted for items that do not initiate cash flows, such as provisions, depreciation and write-downs of loans and guarantees. Cash flows are classified as operating activities, investment activities or financing activities. The liquid assets are defined as cash and claims on central banks and loans to and claims on credit institutions.

Notes to the financial statements

Nordea Direct Bank Group

Note 1 Accounting policies

The consolidated financial statements as of the first quarter of 2020, concluded on 31 March 2020, comprise Nordea Direct Bank ASA and its subsidiary Nordea Direct Boligkreditt AS. With the exception of the changes described below, the accounting policies applied in the interim report is the same as those used in the annual report for 2019.

The consolidated financial statements as of the first quarter of 2020 have been prepared in accordance with IFRS and IAS 34 Interim Financial Reporting. The interim report does not include all the information required in a complete annual report and should be read in conjunction with the annual report for 2019.

As of 1 November 2019 the car finance business was de-merged into Nordea Finans Norge AS. The accounting principle for the de-merger was continuity by transfer to another company in the same group. The reduction in share capital was determined by the terms of the trade.

Changes in accounting policies

As a main rule, all income and expenses shall be shown in the income statement. The exception to this rule is the effect of changes to accounting principles. In the event of fundamental accounting reforms/ changes in accounting policies, figures for previous years must be recalculated to enable comparison. If items in the financial statement are reclassified, comparative figures must be calculated for the previous periods and reported in the financial statements.

Changes in IFRSs not yet applied

A number of new standards, changes to standards and interpretations have been issued for financial years beginning after 1 January 2020. They have not been applied when preparing these consolidated financial statements. Nordea Direct Bank ASA does not plan early implementation of these standards.

Other amendments to IFRS

Other amendments to IFRS are not assessed to have any significant impact on Nordea Direct Bank ASAs financial statements, capital adequacy or large exposures in the period of initial application.

Preparation of the interim accounts involves using assessments, estimates and assumptions that affect the use of accounting policies and recognised amounts for assets and liabilities, revenues and expenses. The actual results may deviate from these estimates. The most material assessments relating to the use of the company's accounting policies and the key sources of uncertainty in the estimates are the same when preparing the interim accounts as in the annual accounts for 2019.

All amounts are shown in NOK thousands (NOKt) unless otherwise indicated. Due to rounding off differences, figures and percentages may not add up exactly to the totals indicated.

A complete audit of the interim report has not been carried out.

Note 2 Segment information

NOKt	31 Mar 2020	31 Dec 2019	30 Sep 2019	30 Jun 2019	31 Mar 2019	31 Dec 2018	30 Sep 2018	30 Jun 2018
Deposit by sector and industry								
Retail market	12,809,973	13,306,516	14,011,422	14,327,489	14,395,522	15,248,247	15,575,702	16,348,016
Other	3,013,411	4,000,008	5,208,129	6,356,140	7,362,448	7,874,731	7,982,470	7,718,015
Total deposits	15,823,384	17,306,523	19,219,551	20,683,630	21,757,970	23,122,977	23,558,173	24,066,031
Loans to customers divided by sector and industry								
Private individuals	43,168,208	43,203,811	51,300,415	49,667,800	48,350,696	49,458,634	47,187,441	46,320,627
Commercial business			2,233,483	2,342,381	2,240,090	2,123,833	1,981,615	1,885,335
Gross loans	43,168,208	43,203,811	53,533,898	52,010,181	50,590,786	51,582,467	49,169,056	48,205,962

Note 3 Liabilities on the issue of securities

NOKt	Nominal value			Carrying amount		
	31 Mar 2020	31 Mar 2019	31 Dec 2019	31 Mar 2020	31 Mar 2019	31 Dec 2019
Liabilities opened for the issue of securities						
Bond debt ¹	15,976,500	21,923,500	18,010,500	16,007,026	21,940,222	18,019,689
Subordinated loan capital	300,000	550,000	300,000	299,910	549,817	299,887
- Own non-amortised certificates/bonds	-303,000		-250,000	-303,197		-250,000
Total liabilities at amortised cost	15,973,500	22,473,500	18,060,500	16,003,739	22,490,039	18,069,576
Liabilities opened for the issue of securities						
Bond debt	6,800,000	7,200,000	6,800,000	7,031,107	7,247,221	6,795,521
Total liabilities included in fair value hedge	6,800,000	7,200,000	6,800,000	7,031,107	7,247,221	6,795,521
Total liabilities	22,773,500	29,673,500	24,860,500	23,034,846	29,737,260	24,865,097

¹ Minus covered bonds held by Nordea Direct Bank ASA issued by Nordea Direct Boligkreditt AS with a nominal at NOK 1,670.0m (895.0m) as of 31 March 2020. The cover pool market value was NOK 2,145.9m (1,098.0m).

Maturity

Remaining maturity (nominal value)	31 Mar 2020	31 Mar 2019	31 Dec 2019
2019		2,232,000	
2020	1,816,000	5,095,000	2,514,000
2021	5,711,000	7,100,000	7,100,000
2022	7,446,500	7,446,500	7,446,500
2023	5,950,000	5,950,000	5,950,000
2025	1,350,000	1,350,000	1,350,000
2027	500,000	500,000	500,000
Total	22,773,500	29,673,500	24,860,500

The maturity of subordinated loan capital is presented at first call date in the above table.

New issues in 2020
Repayments in 2020

2,087,000

Note 4 Write-downs and losses on loans

Write-downs and losses on loans

NOKt	31 Mar 2020	31 Mar 2019	31 Dec 2019
Write-downs and losses for the period			
+/- Change in group write-downs for the period (ECL)	29,632	55,213	56,383
+ Write-off during the period	12,517	3,690	171,941
- Payments on previously written-off accounts	315	44	-250
Write-downs and losses for the period	42,464	58,946	228,074
Loss allowance			
Loss allowance at the start of the period	385,807	329,424	329,424
+/- Change in loss allowance for the period	29,632	55,213	56,383
Loss allowance at the end of the period	415,439	384,637	385,807
Defaulted loans			
Gross default over 90 days	632,421	656,454	580,281

Credit quality by risk group

31 Mar 2020 NOKt	Stage 1 12-month ECL	Stage 2 lifetime ECL	Stage 3 lifetime ECL	Total
Loans to and claims on customers				
Low	39,575,305	3,766	13,537	39,592,608
Medium	1,304,618	364,082	13,680	1,682,380
High	409,189	930,493	57,941	1,397,623
Not classified	3,445	312	1	3,758
Impaired and written down			641,142	641,142
Adjustment ¹	-149,304			-149,304
Total	41,143,253	1,298,654	726,300	43,168,208
Loss allowance	43,374	45,506	326,560	415,439
Total net	41,099,879	1,253,148	399,741	42,752,768

Note 4 Write-downs and losses on loans (cont.)

31 Mar 2019 NOKt	Stage 1 12-month ECL	Stage 2 lifetime ECL	Stage 3 lifetime ECL	Total
Loans to and claims on customers				
Low	43,486,549	277,106	51,537	43,815,192
Medium	4,363,235	600,279	19,573	4,983,087
High	550,465	361,777	29,733	941,975
Not classified	374		691,500	691,874
Impaired and written down	131,308	37,503	316	169,128
Adjustment ¹	-10,646	176		-10,470
Total	48,521,285	1,276,842	792,659	50,590,786
Loss allowance	49,875	49,895	284,866	384,637
Total net	48,471,410	1,226,947	507,793	50,206,149

31 Dec 2019 NOKt	Stage 1 12-month ECL	Stage 2 lifetime ECL	Stage 3 lifetime ECL	Total
Loans to and claims on customers				
Low	39,433,026	342	17,965	39,451,332
Medium	1,141,656	426,291	8,531	1,576,478
High	521,011	981,161	58,839	1,561,011
Not classified	3,982	159	43	4,184
Impaired and written down	959	6	588,824	589,789
Adjustment ¹	21,016			21,016
Total	41,121,650	1,407,959	674,202	43,203,811
Loss allowance	31,998	47,456	306,354	385,807
Total net	41,089,652	1,360,503	367,848	42,818,003

¹Market value adjustment for fixed interest loans and overaft facilities balance with credit balance.

Loans to and claims on customers by past due status

NOKt	31 Mar 2020		31 Mar 2019		31 Dec 2019	
	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
0-29 days	42,369,449	78,801	49,256,944	80,442	42,467,867	70,486
30-59 days	117,421	20,218	550,703	30,853	109,557	18,161
60-89 days	48,916	11,544	126,685	15,696	46,106	13,902
90+ days	632,421	304,876	656,454	257,646	580,281	283,258
Total	43,168,208	415,439	50,590,786	384,637	43,203,811	385,807

Note 4 Write-downs and losses on loans (cont.)

The following tables reconcile the opening and closing balances for accumulated loan loss allowance on financial Instruments.

Reconciling items includes the following:

- Changes in allowance due to the origination of new financial instruments during the period.
- Changes in allowance due to the derecognition of financial instruments during the period.
- Transfers between stages due to changes in credit risk. This includes the difference in loan loss allowance balance from one period to another.
- Changes in balance with no transfer between stages are related to financial instruments that did not move between stages but had changes in balances and hence resulting in changes in loan loss allowance.

Balances shown are loan loss allowance balances as of end of period except for "financial assets that have been derecognised" which are as of the beginning of period.

Loss allowance

NOKt	Stage 1 12-month ECL	Stage 2 lifetime ECL	Stage 3 lifetime ECL	Total allowance
Loss allowance as at 1 Jan 2020	31,998	47,456	306,354	385,808
Transfer to stage 1	2,843	-8,674	-973	-6,803
Transfer to stage 2	-2,791	19,373	-131	16,451
Transfer to stage 3	-391	-16,375	24,253	7,487
New Financial assets originated during the period	3,308	1,973	102	5,384
Financial assets that have been derecognised	-771	-1,510	-7,206	-9,487
Changes in balance with no transfer between stages	9,178	3,263	4,160	16,601
Loss allowance as at 31 Mar 2020	43,374	45,506	326,560	415,440

NOKt	Stage 1 12-month ECL	Stage 2 lifetime ECL	Stage 3 lifetime ECL	Total allowance
Loss allowance as at 1 Jan 2019	46,377	40,302	242,745	329,424
Transfer to stage 1	631	-8,453	-2,769	-10,590
Transfer to stage 2	-2,355	33,817	-1,039	30,423
Transfer to stage 3	-953	-16,415	42,238	24,871
New Financial assets originated during the period	9,396	3,084	276	12,756
Financial assets that have been derecognised	-2,798	-2,107	-4,963	-9,868
Changes in balance with no transfer between stages	-424	-333	8,378	7,621
Loss allowance as at 31 Mar 2019	49,875	49,895	284,866	384,637

NOKt	Stage 1 12-month ECL	Stage 2 lifetime ECL	Stage 3 lifetime ECL	Total allowance
Loss allowance as at 1 Jan 2019	46,376	40,302	242,745	329,424
Transfer to stage 1	2,167	-7,126	-1,860	-6,819
Transfer to stage 2	-2,235	25,501	-140	23,126
Transfer to stage 3	-3,605	-14,751	122,530	104,175
New Financial assets originated during the period	5,724	19,050	25,844	50,618
Financial assets that have been derecognised	-22,534	-16,277	-41,900	-80,711
Changes in balance with no transfer between stages	6,103	756	-40,866	-34,006
Loss allowance as at 31 Dec 2019	31,998	47,456	306,354	385,807

Note 4 Write-downs and losses on loans (cont.)

NOKt	31 Mar 2020	31 Mar 2019	31 Dec 2019
Stage 1	43,374	49,875	31,998
Stage 2	45,506	49,895	47,456
Stage 3	326,560	284,866	306,354
Total	415,440	384,637	385,807
Stage 1	10.4%	13.0%	8.3%
Stage 2	11.0%	13.0%	12.3%
Stage 3	78.6%	74.1%	79.4%
Total	100.0%	100.0%	100.0%

The following tables reconcile the opening and closing balances on gross carrying amount.

Reconciling items includes the following:

- Transfers between stages due to changes in credit risk.
- Changes due to the origination of new financial instruments during the period.
- Changes due to the derecognition of loans during the period, including down-payment of loans, write-offs and sale of assets.

Balances shown are as of end of period except for "financial assets that have been derecognised" which are as of beginning of period and "down-payments" which are computed as the difference of the beginning of period and closing period balances.

Loans to and claims on customers

NOKt	Stage 1 12-month ECL	Stage 2 lifetime ECL	Stage 3 lifetime ECL	Total
Gross carrying amount as at 1 Jan 2020	41,121,650	1,407,959	674,202	43,203,811
Transfer to stage 1	491,523	-485,276	-6,246	
Transfer to stage 2	-460,694	463,156	-2,462	
Transfer to stage 3	-9,314	-73,984	83,297	
New financial assets originated	2,578,140	88,510	1,446	2,668,095
Financial assets that have been derecognised	-1,972,586	-74,705	-18,219	-2,065,511
Change in balances due to payments	-435,145	-27,006	-38,866	-501,016
Other Changes ¹	-170,320		33,148	-137,171
Gross carrying amount as at 31 Mar 2020	41,143,253	1,298,654	726,300	43,168,208
Loss allowance as at 31 Mar 2020	43,374	45,506	326,560	415,439

¹Market value adjustment for fixed interest loans and overaft facilities balance with credit balance.

Note 4 Write-downs and losses on loans (cont.)

Loans to and claims on customers

NOKt	Stage 1 12-month ECL	Stage 2 lifetime ECL	Stage 3 lifetime ECL	Total
Gross carrying amount as at 1 Jan 2019	49,829,961	1,069,305	683,200	51,582,467
Transfer to stage 1	310,959	-283,785	-27,174	
Transfer to stage 2	-602,509	614,386	-11,877	
Transfer to stage 3	-79,442	-111,675	191,118	
New financial assets originated	4,994,658	115,903	4,613	5,115,173
Financial assets that have been derecognised	-4,980,617	-100,926	-23,602	-5,105,145
Change in balances due to payments	-951,878	-26,542	-33,867	-1,012,288
Other Changes ¹	154	176	10,248	10,579
Gross carrying amount as at 31 Mar 2019	48,521,285	1,276,842	792,659	50,590,786
Loss allowance as at 31 Mar 2019	49,875	49,895	284,866	384,637

NOKt	Stage 1 12-month ECL	Stage 2 lifetime ECL	Stage 3 lifetime ECL	Total
Gross carrying amount as at 1 Jan 2019	49,829,961	1,069,305	683,200	51,582,467
Transfer to stage 1	283,980	-273,912	-10,068	
Transfer to stage 2	-617,146	618,299	-1,154	
Transfer to stage 3	-229,100	-73,490	302,590	
New financial assets originated	14,074,160	602,351	64,354	14,740,865
Financial assets that have been derecognised	-20,563,522	-510,449	-355,370	-21,429,341
Change in balances due to payments	-1,688,499	-24,145	-19,601	-1,732,245
Other Changes ¹	31,816		10,248	42,064
Gross carrying amount as at 31 Dec 2019	41,121,650	1,407,959	674,202	43,203,811
Loss allowance as at 31 Dec 2019	31,998	47,456	306,354	385,807

¹Market value adjustment for fixed interest loans and overaft facilities balance with credit balance.

NOKt	31 Mar 2020	31 Mar 2019	31 Dec 2019
Stage 1	41,143,253	48,521,285	41,121,650
Stage 2	1,298,654	1,276,842	1,407,959
Stage 3	726,300	792,659	674,202
Total	43,168,208	50,590,786	43,203,811
Stage 1	95.3%	95.9%	95.2%
Stage 2	3.0%	2.5%	3.3%
Stage 3	1.7%	1.6%	1.6%
Total	100.0%	100.0%	100.0%

Note 5 Capital adequacy

NOKt	31 Mar 2020	31 Mar 2019	31 Dec 2019
Primary capital			
Share capital and share premium	2,481,886	2,180,646	1,781,886
Other equity	1,339,215	1,814,145	1,344,800
Total equity (exclusive perpetual Tier 1 capital)	3,821,101	3,994,791	3,126,686
Deduction			
Profit not included in the calculation of net primary capital		-59,461	
Goodwill and other intangible assets	-21,947	-34,844	-25,714
Value adjustments due to the requirement for prudent valuation	-5,636	-5,715	-5,432
Increase			
IFRS 9 transitional arrangements for credit loss provisioning	7,273	8,831	7,273
Common equity Tier 1 capital	3,800,790	3,903,602	3,102,813
Perpetual Tier 1 capital	445,530	444,976	445,441
Tier 1 capital	4,246,320	4,348,578	3,548,253
Supplementary capital			
Subordinated loan capital	299,910	549,817	299,887
Net primary capital	4,546,230	4,898,395	3,848,140
Credit risk:			
Of which:			
Central governments or central banks	2,362	3,772	2,070
Institutions	19,787	48,954	12,997
Enterprises		187,794	
Mass market positions	210,428	684,425	213,419
Positions secured by mortgage	1,124,792	1,043,044	1,112,847
Overdue positions	53,491	50,255	48,109
Covered bonds	30,137	32,206	30,268
Shares in securities fund			
Equity positions	955	591	955
Other positions	8,346	35,278	7,317
Total minimum requirement credit risk	1,450,297	2,086,319	1,427,981
Operational risk	118,677	145,619	118,677
CVA-risk	11,108	8,568	3,280
Minimum requirement for net primary capital	1,580,081	2,240,506	1,549,938
Basis of calculation of balance sheet items not included in trading portfolio	17,500,787	24,817,469	17,491,310
Basis of calculation of off-balance sheet items not included in trading portfolio	627,921	1,261,521	358,457
Risk-weighted assets (calculation basis for capital adequacy ratio)	19,751,016	28,006,331	19,374,227

Note 5 Capital adequacy (cont.)

NOKt	31 Mar 2020	31 Mar 2019	31 Dec 2019
Buffer requirements			
Systemic risk buffer	592,530	840,190	581,227
Conservation buffer	493,775	700,158	484,356
Countercyclical buffer	197,510	560,127	484,356
Total buffer requirement for common equity Tier 1 capital	1,283,816	2,100,475	1,549,938
Pillar 2 requirement 1.7% for common equity Tier 1 capital set by the Financial Supervisory Authority of Norway	335,767	420,095	329,362
Available common equity Tier 1 capital net min.requirement	1,292,411	122,747	351,673
Capital adequacy			
Capital adequacy ratio	23.0%	17.5%	19.9%
Tier 1 capital ratio	21.5%	15.5%	18.3%
Common equity Tier 1 capital ratio	19.2%	13.9%	16.0%
Leverage ratio	8.3%	7.1%	7.1%

For credit risk the standard method is used, while basis method is used for operational risk. The Financial Supervisory Authority of Norway has set a Pillar 2 requirement on additional 1.7% of risk-weighted assets for Nordea Direct Bank Group, covered by Common equity Tier 1 capital. Total regulatory requirement for common equity Tier 1 capital is 12.7% end of Q1 2020.

New standard IFRS 9 guidelines for credit loss provisioning were implemented 1.1.2018. The bank uses transitional arrangements for IFRS 9. The new rules for loss provisions increased the bank's loss and provision with NOK 13.9m. Equity was reduced by NOK 10.4m adjusted for tax. In accordance with transitional arrangements, the effect of increased loss and provision will be phased in over five years.

NOKt	31 Mar 2020	31 Mar 2019	31 Dec 2019
Numbers without use of transitional arrangements:			
Common equity Tier 1 capital	3,793,517	3,894,771	3,095,540
Tier 1 capital	4,239,047	4,339,747	3,540,981
Net primary capital	4,538,958	4,889,563	3,840,867
Common equity Tier 1 capital ratio	19.2 %	13.9 %	16.0 %
Tier 1 capital ratio	21.5 %	15.5 %	18.3 %
Capital adequacy ratio	23.0 %	17.5 %	19.8 %

Note 6 Transactions with related parties

Nordea Direct Bank ASA is a directly owned subsidiary of Nordea Bank Abp. Nordea Direct Boligkreditt AS is a wholly owned subsidiary of Nordea Direct Bank ASA. All transactions and agreements with related parties are carried out in accordance with the arm's length principle.

Nordea Direct Boligkreditt AS purchases services such as customer support and loan management, as well as day-to-day management and administrative services, from Nordea Direct Bank ASA.

Nordea Direct Boligkreditt AS has access to strong credit facilities with Nordea Direct Bank ASA. This ensures that the Company can pay interest and principal to the covered bonds owners, and finance the transferring of loans and the cover pool.

Further information about the credit agreements:

- a) long-term credit facility of up to NOK 1,000.0 million. Expiry date 31 December 2021.
- b) short-term credit facility of up to NOK 6,000.0 million. Expiry date 30 November 2020.
- c) Credit facility agreement that enables Nordea Direct Boligkreditt AS to borrow money in order to repay its outstanding bond debt. The credit facility shall be sufficient to cover the total repayment of the outstanding bonds over the next 12 months. As of 31 March 2020, the credit limit of the agreement was NOK 4,195.6m.

All transactions between the parent company Nordea Direct Bank ASA and the subsidiary Nordea Direct Boligkreditt AS have been eliminated in the consolidated financial statements.

The list below shows the transactions with related parties that are recognised in the income statement

Jan-Mar 2020

NOKt	Nordea Direct Boligkreditt AS	Nordea Bank Abp	Other Nordea companies
Net interest income	21,499	12,886	
Other operating income	2,703		3,035
Other operating expenses	-229	-1,955	

Jan-Mar 2019

NOKt	Nordea Direct Boligkreditt AS	Nordea Bank Abp	Other Nordea companies
Net interest income	13,016	2,245	
Other operating income	2,979		
Other operating expenses	-229		

Jan-Dec 2019

NOKt	Nordea Direct Boligkreditt AS	Nordea Bank Abp	Other Nordea companies
Net interest income	65,169	77,161	
Other operating income	11,510		8,091
Other operating expenses	-917	-6,589	

Note 6 Transactions with related parties (cont.)

The list below shows assets / liabilities with / to related parties

31 Mar 2020

NOKt	Nordea Direct Boligkreditt AS	Nordea Bank Abp	Other Nordea companies
Deposit	657,386	377,908	
Loans to credit institutions	2,819,579	12,852	1,007
Interest-bearing securities	1,677,901	329,211	
Deposits by credit institutions		5,471,897	
Other liabilities			

31 Mar 2019

NOKt	Nordea Direct Boligkreditt AS	Nordea Bank Abp	Other Nordea companies
Deposit	993,620	2,541,975	
Loans to credit institutions	2,796,679		
Interest-bearing securities	898,135	528,468	
Deposits by credit institutions		2,500,344	
Other liabilities			

31 Dec 2019

NOKt	Nordea Direct Boligkreditt AS	Nordea Bank Abp	Other Nordea companies
Deposit	513,246	505,833	
Loans to credit institutions	1,736,594		7,109
Interest-bearing securities	2,495,854	660,107	
Deposits by credit institutions		2,964,484	
Other liabilities			

Note 7 Contingent liabilities and security

NOKt	31 Mar 2020	31 Mar 2019	31 Dec 2019
Guarantees		5,500	
Loan commitment	4,861,800	3,918,536	3,339,658
Unutilised credit facility	3,619,122	4,495,950	3,600,507
Total contingent liabilities	8,480,922	8,419,986	6,940,165
Securities provided as collateral for loans from/credit facility with Norges Bank	848,827	775,489	842,432
Total securities provided	848,827	775,489	842,432

Note 8 Fair value of financial instruments

Fair value

Financial assets and liabilities measured at fair value are carried at the amount each asset/liability can be settled for in an orderly transaction between market participants on the measurement date.

Different valuation techniques and methods are used to estimate fair value, depending on the type of financial instruments and the extent to which they are traded in active markets. Instruments are classified in their entirety in one of three valuation levels in a hierarchy on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

Prices quoted in active markets are considered to be the best estimate of an asset/liability's fair value. When quoted prices in active markets are not available, the fair value of financial assets/ liabilities will preferably be estimated on the basis of valuation techniques based on observable market data. When neither quoted prices in active markets nor observable market data are available, the fair value of financial assets/liabilities is estimated based on valuation techniques that are based on non-observable market data.

Quoted prices in active markets

Quoted prices in active markets are considered the best estimate of an asset/liability's fair value. A financial asset/liability is considered valued based on quoted prices in active markets if fair value is estimated based on easily and regularly available prices and these prices represent actual and regularly occurring transactions at arm's length principle. Financial assets/liabilities valued based on quoted prices in active markets are classified as level one in the valuation hierarchy.

Valuation based on observable market data

When quoted prices in active markets are not available, the fair value of financial assets/ liabilities is preferably estimated on the basis of valuation techniques based on observable market data. A financial asset/liability is considered valued based on observable market data if fair value is estimated with reference to prices that are not quoted, but are observable either directly (as prices) or indirectly (derived from prices). Financial assets/liabilities valued based on observable market data are classified as level two in the valuation hierarchy.

Valuation based on non-observable market data

When neither quoted prices in active markets nor observable market data is available, the fair value of financial assets/liabilities is estimated based on valuation techniques which are based on non-observable market data. A financial asset/liability is considered valued based on non-observable market data if fair value is estimated without being based on quoted prices in active markets or observable market data. Financial assets/liabilities valued based on non-observable market data are classified as level three in the valuation hierarchy.

Sensitivity financial assets level three

The sensitivity analysis for financial assets that are valued on the basis of non-observable market data shows the effect on profits of realistic and plausible market outcomes. General market downturns or a worsening of the outlook can affect expectations of future cash flows or the applied multiples, which in turn will lead to a reduction in value. A fall in value of 10% is deemed to be a realistic and plausible market outcome for shares and similar interests, as well as bonds and other securities with a fixed return that are included in level three of the valuation hierarchy.

Note 8 Fair value of financial instruments (cont.)

NOKt	31 Mar 2020		31 Mar 2019		31 Dec 2019	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Assets						
Cash to and receivables from central banks	68,156	68,156	55,134	55,134	60,668	60,668
Cash to and receivables from central banks	68,156	68,156	55,134	55,134	60,668	60,668
Loans to and receivables from credit institutions, amortised cost	468,043	468,043	2,564,759	2,564,759	549,864	549,864
Loans to and receivables from credit institutions	468,043	468,043	2,564,759	2,564,759	549,864	549,864
Loans to and receivables from customers, amortised cost	42,752,768	42,775,765	50,206,149	50,239,140	42,818,003	42,815,707
Loans to and receivables from customers	42,752,768	42,775,765	50,206,149	50,239,140	42,818,003	42,815,707
Interest-bearing securities, fair value	5,332,041	5,332,041	5,609,968	5,609,968	5,313,708	5,313,708
Interest-bearing securities	5,332,041	5,332,041	5,609,968	5,609,968	5,313,708	5,313,708
Derivatives, fair value	251,567	251,567	67,848	67,848	50,547	50,547
Derivatives	251,567	251,567	67,848	67,848	50,547	50,547
Shares available for sale	11,934	11,934	7,386	7,386	11,934	11,934
Shares	11,934	11,934	7,386	7,386	11,934	11,934
Other financial assets, amortised cost	144,708	144,708	125,249	125,249	105,457	105,457
Total other financial assets	144,708	144,708	125,249	125,249	105,457	105,457
Total financial assets	49,029,217	49,052,214	58,636,493	58,669,484	48,910,182	48,907,886
Liabilities						
Liability to credit institutions, amortised cost	5,456,000	5,456,000	2,500,000	2,500,000	2,956,000	2,956,000
Liability to credit institutions	5,456,000	5,456,000	2,500,000	2,500,000	2,956,000	2,956,000
Deposits and liabilities to customers, amortised cost	15,823,384	15,826,741	21,757,970	21,757,822	17,306,523	17,305,755
Deposits and liabilities to customers	15,823,384	15,826,741	21,757,970	21,757,822	17,306,523	17,305,755
Liability incurred through the issue of securities, amortised cost	15,703,829	16,007,505	21,940,222	22,097,243	17,769,689	17,894,405
Liability incurred through the issue of securities, fair value hedge	7,031,107	6,617,017	7,247,221	7,291,864	6,795,521	6,851,562
Liability incurred through the issue of securities	22,734,936	22,624,522	29,187,443	29,389,106	24,565,210	24,745,968
Derivatives, fair value	40,794	40,794	30,264	30,264	55,976	55,976
Derivatives	40,794	40,794	30,264	30,264	55,976	55,976
Subordinated loan capital, amortised cost	299,910	293,701	549,817	554,599	299,887	304,064
Subordinated loan capital	299,910	293,701	549,817	554,599	299,887	304,064
Other financial liabilities, amortised cost	224,187	224,187	232,212	232,212	143,361	143,361
Other financial liabilities	224,187	224,187	232,212	232,212	143,361	143,361
Total financial liabilities	44,579,211	44,465,945	54,257,706	54,464,004	45,326,956	45,511,123
Off-balance sheet obligations and guarantees						
Guarantees			5,500	5,500		
Mortgage assets ¹	848,827	848,827	783,348	783,348	842,432	842,432

¹ Securities provided as collateral for loans from/credit facility with Norges Bank.

Note 8 Fair value of financial instruments (cont.)

NOKt	31 Mar 2020			
	Level 1	Level 2	Level 3	Total
Interest-bearing securities, fair value	5,332,041			5,332,041
Shares			11,934	11,934
Derivatives, fair value		251,567		251,567
Total financial assets, fair value	5,332,041	251,567	11,934	5,595,542
Loans to and receivables from customers, amortised cost			42,775,765	42,775,765
Total financial assets, amortised cost			42,775,765	42,775,765
Derivatives, fair value		40,794		40,794
Total financial liabilities, fair value		40,794		40,794
Deposits and liabilities to customers, amortised cost			15,826,741	15,826,741
Liability incurred through the issue of securities, amortised cost		16,007,505		16,007,505
Subordinated loan capital, amortised cost		293,701		293,701
Total financial liabilities, amortised cost		16,301,206	15,826,741	32,127,947
Liability incurred through the issue of securities, fair value hedge		6,617,017		6,617,017
Total financial liabilities, fair value hedge		6,617,017		6,617,017

There were no major moves between levels 1 and 2 in 2020.

NOKt	31 Mar 2019			
	Level 1	Level 2	Level 3	Total
Interest-bearing securities, fair value	5,609,968			5,609,968
Shares			7,386	7,386
Derivatives, fair value		67,848		67,848
Total financial assets, fair value	5,609,968	67,848	7,386	5,685,202
Loans to and receivables from customers, amortised cost			50,239,140	50,239,140
Total financial assets, amortised cost			50,239,140	50,239,140
Derivatives, fair value		30,264		30,264
Total financial liabilities, fair value		30,264		30,264
Deposits and liabilities to customers, amortised cost			21,757,822	21,757,822
Liability incurred through the issue of securities, amortised cost		22,097,243		22,097,243
Subordinated loan capital, amortised cost		554,599		554,599
Total financial liabilities, amortised cost		22,651,842	21,757,822	44,409,664
Liability incurred through the issue of securities, fair value hedge		7,291,864		7,291,864
Total financial liabilities, fair value hedge		7,291,864		7,291,864

Interest-bearing securities in the bank portfolio are moved from level 2 to level 1 in 2019.

Note 8 Fair value of financial instruments (cont.)

NOKt	31 Dec 2019			Total
	Level 1	Level 2	Level 3	
Interest-bearing securities, fair value	5,313,708			5,313,708
Shares			11,934	11,934
Derivatives, fair value		50,547		50,547
Total financial assets, fair value	5,313,708	50,547	11,934	5,376,189
Loans to and receivables from customers, amortised cost			42,815,707	42,815,707
Total financial assets, amortised cost			42,815,707	42,815,707
Derivatives, fair value		55,976		55,976
Total financial liabilities, fair value		55,976		55,976
Deposits and liabilities to customers, amortised cost			17,305,755	17,305,755
Liability incurred through the issue of securities, amortised cost		17,894,405		17,894,405
Subordinated loan capital, amortised cost		304,064		304,064
Total financial liabilities, amortised cost		18,198,469	17,305,755	35,504,224
Liability incurred through the issue of securities, fair value hedge		6,851,562		6,851,562
Total financial liabilities, fair value hedge		6,851,562		6,851,562

Interest-bearing securities in the bank portfolio are moved from level 2 to level 1 in 2019.

Reconciliation of financial assets valued based on non-observable market data (level 3)	Net realised/ unrealised gains		Purchases	Sales	Transfer into/ out of level 3	As at 31 Mar 2020
	As at 1 Jan 2020	recognised in profit or loss				
NOKt						
Shares	11,934					11,934
Total financial assets measured at fair value	11,934					11,934

Level 3 shares represent a total of NOK 11.9m in unquoted shares in Visa Norge and Vipps AS. As these investments represent an immaterial value for the bank the purchase price is used as best estimate for fair value. A 10% change in valuations assumptions are assets to have limited effects on the banks' profits, and the sensitivity is presented as NOK 0.

Note 8 Fair value of financial instruments (cont.)

NOKt	Reconciliation of financial assets valued based on non-observable market data (level 3)					As at 31 Mar 2019
	As at 1 Jan 2019	Net realised/unrealised gains recognised in profit or loss	Purchases	Sales	Transfer into/out of level 3	
Shares	7,386					7,386
Total financial assets measured at fair value	7,386					7,386

Level 3 shares represent a total of NOK 7.4m in unquoted shares in Visa Norge and Vipps AS. As these investments represent an immaterial value for the bank the purchase price is used as best estimate for fair value. A 10% change in valuations assumptions are assets to have limited effects on the banks' profits, and the sensitivity is presented as NOK 0.

NOKt	Reconciliation of financial assets valued based on non-observable market data (level 3) 31 Dec 2018					As at 31 Dec 2019
	As at 1 Jan 2019	Net realised/unrealised gains recognised in profit or loss	Purchases	Sales	Transfer into/out of level 3	
Shares	7,386		4,548			11,934
Total financial assets measured at fair value	7,386		4,548			11,934

Level 3 shares represent a total of NOK 11.9m in unquoted shares in Visa Norge and Vipps AS. As these investments represent an immaterial value for the bank the purchase price is used as best estimate for fair value. A 10% change in valuations assumptions are assets to have limited effects on the banks' profits, and the sensitivity is presented as NOK 0.

Note 9 Perpetual Tier 1 capital

The bank has issued perpetual Tier 1 capital instruments with a total nominal value of NOK 445 million. The instruments are perpetual but the bank can repay the capital on specific dates, for the first time five years after it was issued. The interest rate to be paid is floating 3-month NIBOR plus a fixed credit spread.

The agreed terms for the instruments meet the requirements in the EU's CRR regulations and it is included in the bank's Tier 1 capital for capital ade-

quacy purposes. This means that the bank has a unilateral right not to pay interest or repay the principal to the investors. As a consequence of these terms, the instruments does not meet the requirement for a liability in IAS 32 and are therefore presented on the line perpetual Tier 1 capital under equity. Further, it implies that the interest is not presented under Total interest expenses but as a reduction in Other equity. The tax consequences are recognized in the income statement.

Quarterly earnings performance

Nordea Direct Bank Group

NOKt	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Interest income etc, amortised cost	382,484	428,967	501,409	469,797	451,198	438,808	422,288	416,965
Interest income etc, fair value	22,150	22,125	20,652	18,940	19,875	17,453	18,109	15,441
Interest costs etc.	221,271	231,060	238,215	215,551	205,355	195,125	186,249	176,899
Net interest income	183,364	220,032	283,845	273,186	265,718	261,137	254,148	255,507
Dividends from investments in shares and funds				1,053				
Fee and commission income	9,534	15,112	30,865	38,536	41,305	38,148	27,881	27,754
Fee and commission expense	11,683	27,372	50,623	52,577	49,000	49,382	35,242	34,170
Net gains on financial instruments at fair value	-55,210	-1,847	1,252	3,610	10,276	-8,267	5,613	-5,058
Other operating income	-11	74	528	88	693	1,383	590	3,028
Total income	125,993	206,000	265,868	263,898	268,992	243,020	252,990	247,062
Staff costs	33,141	38,616	40,808	35,675	44,944	55,328	48,375	39,310
Depreciation	4,205	5,170	6,917	7,187	6,872	5,068	5,045	4,696
Other operating costs	40,999	62,184	68,900	62,019	78,948	88,418	75,008	63,558
Total operating expenses	78,345	105,971	116,625	104,881	130,764	148,813	128,428	107,564
Profit / (loss) before loan losses	47,649	100,030	149,242	159,017	138,228	94,207	124,561	139,497
Loan losses	42,464	60,698	54,148	54,282	58,946	79,381	31,653	-78,215
Operating profit	5,185	39,332	95,095	104,734	79,282	14,826	92,909	217,712

Income statement

Nordea Direct Bank ASA

NOKt	Jan-Mar 2020	Jan-Mar 2019	Year 2019
Interest income etc, amortised cost	255,541	336,537	1,376,207
Interest income etc, fair value	34,496	22,998	113,336
Interest costs etc.	140,529	127,924	563,376
Net interest income	149,509	231,610	926,167
Dividends from investments in shares and funds			1,053
Fee and commission income	8,969	40,716	123,509
Fee and commission expense	11,683	49,000	179,572
Net gains on financial instruments at fair value	-52,643	10,168	13,296
Other operating income	2,691	3,672	12,893
Net commission income and other operating income	-52,666	5,556	-28,820
Total income	96,842	237,167	897,347
Staff costs	32,544	44,272	157,744
Depreciation	4,205	6,872	26,147
Other operating expenses	37,197	78,831	269,472
Total operating expenses	73,946	129,974	453,362
Profit / (loss) before loan losses	22,897	107,193	443,985
Loan losses	42,917	59,266	227,695
Operating profit	-20,021	47,927	216,290
Income tax expense		11,982	54,703
Net profit for the period	-20,021	35,945	161,588
Basic/diluted earnings per share, NOK	-22.9	41.0	184.5

Statement of comprehensive income

Nordea Direct Bank ASA

NOKt	Jan-Mar 2020	Jan-Mar 2019	Year 2019
Profit/ (loss) for the period	-20,021	35,945	161,588
Components of other comprehensive income			
Items that are not reclassified subsequently to profit or loss			
Actuarial gains/ (loss) on pensions			-5,492
Tax on items that are not reclassified to profit or loss			1,373
Unrealised gain/(loss) on loans to customers, fair value over other comprehensive income			2,415
Items that may be reclassified subsequently to profit or loss			
Tax on items that may be reclassified to profit or loss			-604
Total components of other comprehensive income			-2,308
Total comprehensive income for the period	-20,021	35,945	159,280

Balance sheet

Nordea Direct Bank ASA

NOKt	31 Mar 2020	31 Mar 2019	31 Dec 2019
Assets			
Cash and balances with central banks	68,156	55,134	60,668
Loans to credit institutions	3,272,069	5,345,224	2,277,580
Loans to the public	22,825,965	26,707,378	20,954,888
Interest-bearing securities	6,819,947	6,367,950	7,645,186
Derivatives	175,710	5,156	9,918
Shares (and other securities with variable yield)	11,934	7,386	11,934
Ownership interest in group companies	1,220,030	1,220,030	1,220,030
Intangible assets	21,947	34,844	25,714
Deferred tax assets	11,566	16,602	10,106
Fixed assets	2,042	3,662	2,289
Other assets	-2,738	-1,183	28,844
Advance payments and accrued income	206,998	351,792	157,513
Total assets	34,633,626	40,113,976	32,404,670
Liabilities and equity			
Liabilities to credit institutions	6,113,386	3,181,110	3,469,246
Deposits and borrowings from the public	15,823,384	22,070,480	17,306,523
Debt securities in issue	8,366,571	10,103,980	8,200,207
Derivatives	36,981	25,371	51,890
Current tax liabilities	11,282	31,236	46,212
Other liabilities	211,548	99,639	18,226
Accrued expenses and prepaid income	204,984	246,421	122,498
Retirement benefit obligations	27,815	22,958	27,815
Subordinated loan capital	299,910	549,817	299,887
Total liabilities	31,095,860	36,331,011	29,542,503
Equity			
Share capital	667,512	979,368	666,020
Share premium reserve	1,814,374	1,201,278	1,115,866
Perpetual Tier 1 capital	445,530	444,976	445,441
Other paid-in equity	2,657	3,789	2,657
Retained earnings	627,714	1,117,609	632,183
Net profit for the period	-20,021	35,945	
Total equity	3,537,766	3,782,965	2,862,167
Total liabilities and equity	34,633,626	40,113,976	32,404,670

Statement of changes in equity

Nordea Direct Bank ASA

NOKt	Share capital	Share premium reserve	Perpetual Tier 1 capital	Other paid-in equity	Other equity	Total equity
Balance at 1 Jan 2020	666,020	1,115,866	445,441	2,657	632,183	2,862,167
Net profit for the period			4,469		-24,489	-20,021
Other comprehensive income, net of tax						
Total comprehensive income			4,469		-24,489	-20,021
Capital expansion	1,492	698,508				700,000
Share-based payment transactions settled in equity						
AT1 capital						
Paid interest on AT 1 capital			-4,380			-4,380
Balance at 31 Mar 2020	667,512	1,814,374	445,530	2,657	607,694	3,537,766

NOKt	Share capital	Share premium reserve	Perpetual Tier 1 capital	Other paid-in equity	Other equity	Total equity
Balance at 1 Jan 2019	979,368	1,201,278	444,848	3,789	1,121,848	3,751,131
Net profit for the period			16,661		144,926	161,588
Other comprehensive income, net of tax					-4,119	-4,119
Total comprehensive income			16,661		140,807	157,469
Capital expansion	876	399,124				400,000
Demerger car finance business	-314,224	-484,536		-1,132	-624,925	-1,424,817
Share-based payment transactions settled in equity					-2,085	-2,085
Tax payable and deferred tax relating to items recognised directly in equity					-3,463	-3,463
AT1 capital						
Paid interest on AT 1 capital			-16,068			-16,068
Balance at 31 Dec 2019	666,020	1,115,866	445,441	2,657	632,183	2,862,167

NOKt	Share capital	Share premium reserve	Perpetual Tier 1 capital	Other paid-in equity	Other equity	Total equity
Balance at 1 Jan 2019	979,368	1,201,278	444,848	3,789	1,121,848	3,751,131
Net profit for the period			3,942		32,003	35,945
Other comprehensive income, net of tax						
Total comprehensive income			3,942		32,003	35,945
Share-based payment transactions settled in equity					-298	-298
AT1 capital						
Paid interest on AT 1 capital			-3,813			-3,813
Balance at 31 Mar 2019	979,368	1,201,278	444,976	3,789	1,153,554	3,782,965

Number of shares at end of period 876,000

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