

Nordea

Interim Report 3rd quarter 2020

Nordea Direct Boligkreditt



Nordea Direct Boligkreditt AS 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-Sep 2020	Jan-Sep 2019	Year 2019
Net interest income	99,133	87,329	116,615
Net commission income and other operating income	185	2,663	3,223
Total income	99,318	89,993	119,838
Staff costs	1,160	1,741	2,299
Other expenses	13,409	10,326	15,007
Total operating expenses	14,568	12,067	17,307
Loan losses (negative figures are reversals)	-66	143	380
Operating profit	84,816	77,783	102,152
Income tax expense	21,204	19,446	25,538
Net profit for the period	63,612	58,337	76,614

Summary of balance sheet

NOKt	30 Sep 2020	30 Sep 2019	31 Dec 2019
Loans to the public (gross)	17,879,107	21,836,547	21,864,705
Allowance for loan losses	-1,523	-1,353	-1,589
Total assets	18,639,358	22,749,183	22,623,472
Equity	1,993,602	1,911,713	1,929,990

Ratios and key figures

		Jan-Sep 2020	Jan-Sep 2019	Year 2019
Net interest margin, annualised	%	0.64	0.49	0.49
Loss rate	%	0.00	0.00	0.00
Non-performing loans in % of gross lending ¹	%	0.07	0.01	0.02
Return on equity, annualised	%	4.3	4.1	4.1
Capital adequacy ²	%	28.5	22.7	23.7
Tier 1 capital ratio ²	%	28.5	22.7	23.7
Common equity Tier 1 capital ratio ²	%	28.5	22.7	23.7
Cost/income ratio	%	14.7	13.4	14.4
Liquidity Coverage Ratio	%	505	380	372
Average total assets	NOKt	20,757,866	24,061,679	23,606,417
Cover pool	NOKt	18,320,846	22,437,821	22,291,219
Number of loans	Number	10,824	12,562	12,532
Weighted indexed loan-to-value ratio ³	%	43.8	48.2	48.6
Weighted average remaining life	Year	20.5	21.4	22.0

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.

³ Quarterly updated house prices

Nordea Direct Boligkreditt AS

Introduction

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

Nordea Direct Boligkreditt AS is licensed by the Financial Supervisory Authority of Norway to issue covered bonds. The objective is to provide residential mortgage loans, and to primarily finance the lending portfolio by issuing covered bonds. The Company only has residential mortgage loans purchased from Nordea Direct Bank ASA.

Nordea Direct Boligkreditt AS is wholly owned subsidiary of Nordea Direct Bank ASA. The Company's registered business address is in Oslo.

Income statement

Operating profit was NOK 84.8m (NOK 77.8m). The increase was driven by improved margins.

Total income amounted to NOK 99.3m (NOK 90.0m).

Net interest income amounted to NOK 99.1m (NOK 87.3m).

Net commission income and other income amounted to NOK 0.2m (NOK 2.7m).

The net interest margin¹ was 0.64% (0.49%).

Operating expenses were NOK 14.6m (NOK 12.1m) due to resolution fee for 2020 booked this period.

Total write-downs and losses amounted to positive NOK 0.1m (NOK 0.1m). The balance of group write-downs amounted to NOK 1.5m (NOK 1.4m). During the second quarter of 2020, the Company built a collective loan loss allowance related to the uncertain economic outlook created by Covid-19. The allowance was a combination of worsening macroeconomic outlook built in the collective loan loss model and a management judgement allowance. In the third quarter of 2020, the macroeconomic outlook has improved, which led to a release of the loan loss reserve. The management judgement allowance built in the second quarter covered a potential unfavourable impact from Covid-19 that was not captured by the Company's collective loan loss models. The Company decided to keep the management judgement unchanged in the third quar-

ter, due to the uncertainty regarding the long term impact of Covid-19. The Company will monitor the overall economic situation, which will guide their decision related to the level of the management judgement allowance. The Company has not seen a worsening of the underlying performance of the lending portfolio during the quarter.

The group write-downs are intended to cover losses on commitments that are not individually identified as doubtful.

The Company uses the Banking Group's guidelines for assessing and writing down loans. No individual write-downs related to individual commitments have been made. At the end of the period, the Company had nine loans in default over 90 days.

Lending

As of 30 September 2020, the Company had 10,824 loans with a total outstanding balance of NOK 17,879.1m (NOK 21,836.5m). The portfolio continues to be of high quality.

The entire lending portfolio has been acquired from Nordea Direct Bank ASA. It consists of loans with variable interest rates. The average loan commitment was NOK 1.7m per loan as of 30 September 2020. The largest single exposure was NOK 8.8m and 17.0% of the lending portfolio consisted of loans with credit lines (fleksilån). Including the unutilised credit facilities, 24.8% of the lending portfolio consisted of loans with credit lines (fleksilån).

Nordea Direct Boligkreditt AS has a weighted loan-to-value ratio, indexed, of 43.8% (48.2%).

Segments

The target group for Nordea Direct Boligkreditt AS is the retail market spread throughout Norway.

Capital position

As of 30 September 2020, the Company had a common equity Tier 1 capital ratio of 28.5% (22.7%). The total capital held by the Company was NOK 1,929.7m (NOK 1,853.1 m).

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

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'

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

Debt securities issued

The Company had issued covered bonds with a total face value of NOK 15,100.0m as of 30 September 2020. The portfolio includes four loans, the first of which matures on 12 May 2021 (extended due date to 12 May 2022).

Liquidity

As of 30 September 2020, the Company had net liquid assets of NOK 676.8m, of which NOK 486.6m in bank deposits, NOK 78,1m in covered bonds and NOK 112.0m in treasury bills.

The Company has a long-term credit facility with the parent company of NOK 1,000.0m and a short-term credit facility of up to NOK 6,000.0m. Unutilised credit facilities amounted to NOK 5,587.8m as of 30 September 2020. In addition, the Company has a cre-

dit facility agreement that allows Nordea Direct Boligkreditt AS to borrow money in order to repay its outstanding bond debt.

Covid-19 Measures

After the outbreak of Covid-19 during the first quarter of 2020, the Company has taken steps to ensure continuity of its operations. There were no major disruptions in the services towards customers. The staff was able to work remotely to a great extent and the vendors were able to provide services according to agreements in place. In order to meet the needs of the customers in these unusual times, Nordea Direct Bank ASA granted up to 6-month interest only payments to a limited number of customers and decreased lending rates on its portfolio. It also tightened criteria for granting loans to customer groups assumed to be particularly exposed in case of an economic downturn. These measures were in line with the Norwegian banking market.


In the coming period, Nordea Direct Bank ASA will monitor the overall economic situation created by the outbreak of Covid-19 and will take the necessary steps to continue its strong current operations.

Events after the balance sheet date

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

Nordea Direct Boligkreditt AS

Oslo, 12 November 2020


Birte Sten Gundersen
Chairman


Anders Frank-Læssøe
Board member


Elen Margrethe Stiksrud
Board member


Alex Madsen
Board member


Jan Kåre Raae
Chief Executive Officer

Income statement

NOKt	Note	Q3 2020	Q3 2019	Jan-Sep 2020	Jan-Sep 2019	Year 2019
Interest income etc, amortised cost		73,719	130,781	309,494	391,764	534,108
Interest income etc, fair value		583	546	-792	-118	454
Interest costs etc.		32,896	106,049	209,569	304,317	417,947
Net interest income		41,406	25,277	99,133	87,329	116,615
Fee and commission income		533	568	1,647	1,738	2,310
Net gains on financial instruments at fair value		-916	67	-2,173	238	-4
Other operating income		240	229	710	688	917
Net commission income and other operating income		-143	865	185	2,663	3,223
Total income		41,263	26,142	99,318	89,993	119,838
Staff costs		561	580	1,160	1,741	2,299
Other operating expenses		3,162	3,491	13,409	10,326	15,007
Total operating expenses		3,723	4,072	14,568	12,067	17,307
Profit / (loss) before loan losses		37,540	22,070	84,750	77,926	102,532
Loan losses	4	-927	509	-66	143	380
Operating profit		38,468	21,561	84,816	77,783	102,152
Income tax expense		9,617	5,390	21,204	19,446	25,538
Net profit for the period		28,851	16,171	63,612	58,337	76,614
Basic/diluted earnings per share, NOK		221.9	124.4	489.3	448.7	589.3

Statement of comprehensive income

NOKt	Q3 2020	Q3 2019	Jan-Sep 2020	Jan-Sep 2019	Year 2019
Net profit for the period	28,851	16,171	63,612	58,337	76,614
Components of other comprehensive income					
Items that are not reclassified subsequently to profit or loss					
Items that may be reclassified subsequently to profit or loss					
Total components of other comprehensive income					
Total comprehensive income for the period	28,851	16,171	63,612	58,337	76,614

Balance sheet

NOKt	Note	30 Sep 2020	30 Sep 2019	31 Dec 2019
Assets				
Loans to credit institutions	6	486,610	666,765	513,847
Loans to the public	2,4	17,877,584	21,835,194	21,863,116
Interest-bearing securities	9	190,148	164,788	164,376
Derivatives	9	67,526	54,350	40,629
Deferred tax assets		243	2,258	243
Advance payments and accrued income		17,247	25,827	41,261
Total assets		18,639,358	22,749,183	22,623,472
Liabilities and equity				
Liabilities to credit institutions	6	1,412,157	1,878,599	1,728,317
Debt securities in issue	3,6	15,184,658	18,875,565	18,860,857
Derivatives	9	3,282	4,358	4,086
Current tax liabilities		21,204	19,446	23,523
Other liabilities		24,454	59,502	76,699
Total liabilities		16,645,755	20,837,470	20,693,481
Equity				
Share capital		221,000	221,000	221,000
Share premium reserve		999,020	999,020	999,020
Retained earnings		709,970	633,356	709,970
Net profit for the period		63,612	58,337	
Total equity		1,993,602	1,911,713	1,929,990
Total liabilities and equity		18,639,358	22,749,183	22,623,472

Statement of changes in equity

NOKt	Share capital	Share premium reserve	Other equity	Total equity
Balance at 1 Jan 2020	221,000	999,020	709,970	1,929,990
Net profit for the period			63,612	63,612
Other comprehensive income, net of tax				
Total comprehensive income			63,612	63,612
Capital expansion				
Share-based payment transactions settled in equity				
Balance at 30 Sep 2020	221,000	999,020	773,582	1,993,602

NOKt	Share capital	Share premium reserve	Other equity	Total equity
Balance at 1 Jan 2019	221,000	999,020	633,294	1,853,314
Net profit for the period			76,614	76,614
Other comprehensive income, net of tax				
Total comprehensive income			76,614	76,614
Capital expansion				
Share-based payment transactions settled in equity			63	63
Balance at 31 Dec 2019	221,000	999,020	709,970	1,929,990

NOKt	Share capital	Share premium reserve	Other equity	Total equity
Balance at 1 Jan 2019	221,000	999,020	633,294	1,853,314
Net profit for the period			58,337	58,337
Other comprehensive income, net of tax				
Total comprehensive income			58,337	58,337
Capital expansion				
Share-based payment transactions settled in equity			63	63
Balance at 30 Sep 2019	221,000	999,020	691,693	1,911,713

Number of shares at end of period 130.000

Cash flow statement

NOKt	Jan-Sep 2020	Jan-Sep 2019	Year 2019
Operating activities			
Net payment of loans to customers	3,985,082	2,812,024	2,784,051
Payment of interest from customers	313,097	381,310	517,712
Net payment of interest from credit institutions etc.	18,188	23,362	13,839
Taxes paid	-23,523	-38,559	-38,559
Net other commission income	2,357	2,426	3,227
Payment to operations	-14,896	-12,995	-19,256
Net received/paid (-) upon purchase and sale of financial instruments and interest-bearing securities	6,563	-24,890	-24,478
Net cash flow from operating activities	4,286,868	3,142,677	3,236,538
Investment activities			
Net purchase of intangible assets and fixed assets			
Net cash flow from investment activities			
Financing activities			
Net receipts/payments on deposits from credit institutions	-316,160	-1,757,408	-1,907,690
Receipts of interest-bearing securities			
Payment of interest-bearing securities	-3,700,000	1,095,000	-2,873,000
Interest payments on interest-bearing securities	-297,946	-2,508,417	1,363,086
Capital increases			
Cash flow from financing activities	-4,314,105	-3,170,825	-3,417,604
Cash flow for the period	-27,237	-28,148	-181,066
Cash and cash equivalents			
Cash and cash equivalents at 1 January	513,847	694,913	694,913
Cash and cash equivalents at end of the period	486,610	666,765	513,847
Change	-27,237	-28,148	-181,066
The following items are included in cash and cash equivalents:			
Loans to credit institutions	486,610	666,765	513,847
Total cash and cash equivalents	486,610	666,765	513,847

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

Note 1 Accounting policies

The financial statements as of the third quarter of 2020, concluded on 30 September 2020, comprise 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 financial statements as of the third 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.

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 Boligkreditt AS 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 Boligkreditt ASs 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.

Covid 19 Macro scenarios

Nordea Direct Boligkreditt AS uses Macro scenarios covering unemployment, house prices and household lending rates in the collective provision models. The macro variables are assumed to correlate to loan losses and changes to the macro forecast will impact Probability of Default (PD) and Loss Given Default (LGD) in the model through correlation factors. These correlation factors are based on studies by published by Norges Bank: <http://www.norges-bank.no/Publisert/Signerte-publikasjoner/Penger-og-Kreditt/Penger-og-Kreditt-12007/Faktorerbakbankenes-problemlan/>.

Two of the three macro variables (unemployment and house prices) are also used by Nordea for their collective provision model and Nordea Direct Boligkreditt AS aligned the values in its model with Nordea's. The updated scenarios reflect the economic impact from Covid 19. Scenarios are developed by Nordea Enterprise Wide Risk Management, but leverages government and other sources including a reference point to the ECB scenarios.

The table below summarises the Macro scenarios used in Nordea Direct Boligkreditt AS collective provision model for Q3 2020. Macro scenarios used in Q1 2020 were the same as in the annual report for 2019.

The third macro variable (household lending rates) is based on Statistics Norway macro forecast from September 2020.

	2020	2021	2022
Unemployment rate ¹			
Alternative A (best case)	5.1%	5.1%	4.2%
Base case	5.4%	6.1%	5.1%
Alternative B (worst case)	5.8%	7.1%	6.7%
Household Lending Rates ²			
Alternative A (best case)	2.8%	2.1%	2.4%
Base case	2.5%	1.9%	2.2%
Alternative B (worst case)	1.1%	0.9%	1.0%
Housing prices ¹			
Alternative A (best case)	2.8%	-0.7%	-0.2%
Base case	2.5%	-2.9%	0.2%
Alternative B (worst case)	2.1%	-10.2%	-9.3%
¹ Source: Enterprise Wide Risk Management in Nordea			
² Source: Statistics Norway September 2020			
Scenario weighting Q3 2020			
Alternative A (best case)	20%		
Base case	60%		
Alternative B (worst case)	20%		

Note 2 Segment information

Nordea Direct Boligkreditt AS has only one business segment, which is lending to private customers. The segment consists of loans to private customers, and

the entire loan portfolio is purchased from Nordea Direct Bank ASA. The company's full accounts therefore fall entirely under the segment «Retail market».

Note 3 Liabilities on the issue of securities

NOKt	30 Sep 2020	30 Sep 2019	31 Dec 2019
Liabilities opened for the issue of securities			
Bond debt	14,500,000	17,350,000	17,350,000
Total liabilities at amortised cost	14,500,000	17,350,000	17,350,000
Liabilities opened for the issue of securities			
Bond debt	600,000	1,450,000	1,450,000
Total liabilities included in fair value hedge	600,000	1,450,000	1,450,000
Total liabilities	15,100,000	18,800,000	18,800,000

Maturity

Remaining maturity (nominal value)	30 Sep 2020	30 Sep 2019	31 Dec 2019
2020		3,700,000	3,700,000
2021	5,000,000	5,000,000	5,000,000
2022	5,000,000	5,000,000	5,000,000
2023	4,500,000	4,500,000	4,500,000
2025	600,000	600,000	600,000
Total	15,100,000	18,800,000	18,800,000

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

New issues in 2020

Repayments in 2020 3,700,000

NOKt

ISIN Number	Currency	Rate	Due	Ext.Due	Nominal value
NO0010727738	NOK	Floating	12.5.2021	12.5.2022	5,000,000
NO0010770852	NOK	Floating	20.5.2022	20.5.2023	5,000,000
NO0010789266	NOK	Floating	23.5.2023	23.5.2024	4,500,000
NO0010678766	NOK	Fixed	8.5.2025	8.5.2026	600,000
Total liabilities through the issuance of excluding own securities					15,100,000

Note 4 Write-downs and losses on loans

Write-downs and losses on loans

NOKt	30 Sep 2020	30 Sep 2019	31 Dec 2019
Write-downs and losses for the period			
+/- Change in group write-downs for the period (ECL)	-66	143	380
+ Write-off during the period			
- Payments on previously written-off accounts			
Write-downs and losses for the period	-66	143	380
Loss allowance			
Loss allowance at the start of the period	1,589	1,210	1,210
+/- Change in loss allowance for the period	-66	143	380
Loss allowance at the end of the period	1,523	1,353	1,589
Defaulted loans			
Gross default over 90 days	12,037	3,177	5,034

Credit quality by risk group

30 Sep 2020 NOKt	Stage 1 12-month ECL	Stage 2 lifetime ECL	Stage 3 lifetime ECL	Total
Loans to and claims on customers				
Low	18,463,563		7,635	18,471,198
Medium	3,760	63,154	528	67,443
High	4,170	75,884	11,129	91,184
Not classified	162			162
Impaired and written down			12,037	12,037
Adjustment	-762,916			-762,916
Total	17,708,739	139,039	31,329	17,879,107
Loss allowance	559	305	660	1,523
Total net	17,708,181	138,734	30,669	17,877,584

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

30 Sep 2019 NOKt	Stage 1 12-month ECL	Stage 2 lifetime ECL	Stage 3 lifetime ECL	Total
Loans to and claims on customers				
Low	21,615,390	1,078	3,700	21,620,168
Medium	3,182	80,059	1,681	84,922
High	5,534	116,161	6,298	127,993
Not classified			3,177	3,177
Impaired and written down	458			458
Adjustment	-171			-171
Total	21,624,392	197,298	14,856	21,836,547
Loss allowance	526	126	701	1,353
Total net	21,623,867	197,172	14,155	21,835,194

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	21,596,394		5,461	21,601,855
Medium	5,886	89,148		95,034
High	7,833	140,608	13,916	162,356
Not classified	449			449
Impaired and written down			5,034	5,034
Adjustment	-23			-23
Total	21,610,538	229,756	24,411	21,864,705
Loss allowance	480	114	995	1,589
Total net	21,610,058	229,642	23,415	21,863,116

Loans to and claims on customers by past due status

NOKt	30 Sep 2020		30 Sep 2019		31 Dec 2019	
	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
0-29 days	17,861,476	1,042	21,820,853	1,218	21,849,171	1,415
30-59 days	5,594	246	9,948	69	6,682	71
60-89 days			2,569	35	3,817	24
90+ days	12,037	235	3,177	32	5,034	79
Total	17,879,107	1,523	21,836,547	1,353	21,864,705	1,589

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	480	114	995	1,589
Transfer to stage 1	31	-26	-5	
Transfer to stage 2	-284	285	-1	
Transfer to stage 3	-386	-83	469	
New Financial assets originated during the period	31	1		32
Financial assets that have been derecognised	-113	-6	-44	-163
Changes in balance with no transfer between stages	798	20	-755	63
Loss allowance as at 30 Sep 2020	558	305	660	1,523

NOKt	Stage 1 12-month ECL	Stage 2 lifetime ECL	Stage 3 lifetime ECL	Total allowance
Loss allowance as at 1 Jan 2019	880	85	245	1,210
Transfer to stage 1	9	-9		
Transfer to stage 2	-109	115	-6	
Transfer to stage 3	-626	-17	643	
New Financial assets originated during the period	64	2	16	82
Financial assets that have been derecognised	-217	-51	-72	-340
Changes in balance with no transfer between stages	525		-124	401
Loss allowance as at 30 Sep 2019	526	126	701	1,353

NOKt	Stage 1 12-month ECL	Stage 2 lifetime ECL	Stage 3 lifetime ECL	Total allowance
Loss allowance as at 1 Jan 2019	880	85	245	1,210
Transfer to stage 1	10	-10		
Transfer to stage 2	-42	48	-6	
Transfer to stage 3	-897		897	
New Financial assets originated during the period	68	4		71
Financial assets that have been derecognised	-266	-54	-72	-391
Changes in balance with no transfer between stages	727	41	-69	699
Loss allowance as at 31 Dec 2019	480	114	995	1,589

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

NOKt	30 Sep 2020	30 Sep 2019	31 Dec 2019
Stage 1	558	526	480
Stage 2	305	126	114
Stage 3	660	701	995
Total	1,523	1,353	1,589
Stage 1	36.6%	38.9%	30.2%
Stage 2	20.0%	9.3%	7.2%
Stage 3	43.3%	51.8%	62.6%
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	21,610,538	229,756	24,411	21,864,705
Transfer to stage 1	140,115	-131,202	-8,912	
Transfer to stage 2	-82,645	85,031	-2,386	
Transfer to stage 3	-16,704	-6,280	22,984	
New financial assets originated	1,929,899	5,768		1,935,667
Financial assets that have been derecognised	-4,434,966	-40,645	-4,445	-4,480,055
Change in balances due to payments	-674,587	-3,389	-322	-678,298
Other Changes	-762,912			-762,912
Gross carrying amount as at 30 Sep 2020	17,708,739	139,039	31,329	17,879,107
Loss allowance as at 30 Sep 2020	558	305	660	1,523

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	24,458,691	172,872	17,047	24,648,610
Transfer to stage 1	70,192	-66,938	-3,254	
Transfer to stage 2	-131,295	134,663	-3,368	
Transfer to stage 3	-8,769	-1,681	10,450	
New financial assets originated	3,817,924	15,597	1,611	3,835,131
Financial assets that have been derecognised	-5,777,829	-54,790	-7,373	-5,839,991
Change in balances due to payments	-804,347	-2,424	-256	-807,028
Other Changes	-175			-175
Gross carrying amount as at 30 Sep 2019	21,624,392	197,298	14,856	21,836,547
Loss allowance as at 30 Sep 2019	526	126	701	1,353

NOKt	Stage 1 12-month ECL	Stage 2 lifetime ECL	Stage 3 lifetime ECL	Total
Gross carrying amount as at 1 Jan 2019	24,458,691	172,872	17,047	24,648,610
Transfer to stage 1	63,640	-59,966	-3,674	
Transfer to stage 2	-154,805	155,713	-908	
Transfer to stage 3	-20,675		20,675	
New financial assets originated	3,835,077	28,219		3,863,296
Financial assets that have been derecognised	-7,122,651	-74,292	-7,373	-7,204,317
Change in balances due to payments	-987,731	-2,647	-1,356	-991,734
Other Changes	1,538,993	9,857		1,548,850
Gross carrying amount as at 31 Dec 2019	21,610,538	229,756	24,411	21,864,705
Loss allowance as at 31 Dec 2019	480	114	995	1,589

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

NOKt	30 Sep 2020	30 Sep 2019	31 Dec 2019
Stage 1	17,708,739	21,624,392	21,610,538
Stage 2	139,039	197,298	229,756
Stage 3	31,329	14,856	24,411
Total	17,879,107	21,836,547	21,864,705
Stage 1	99.0%	99.0%	98.8%
Stage 2	0.8%	0.9%	1.1%
Stage 3	0.2%	0.1%	0.1%
Total	100.0%	100.0%	100.0%

Note 5 Capital adequacy

NOKt	30 Sep 2020	30 Sep 2019	31 Dec 2019
Primary capital			
Share capital and share premium	1,220,020	1,220,020	1,220,020
Other equity	773,582	691,693	709,970
Total equity	1,993,602	1,911,713	1,929,990
Deduction			
Profit not included in the calculation of net primary capital	-63,612	-58,337	
Value adjustments due to the requirement for prudent valuation	-261	-223	-209
Common equity Tier 1 capital	1,929,729	1,853,153	1,929,781
Net primary capital	1,929,729	1,853,153	1,929,781
Credit risk:			
Of which:			
Central government or central banks	49	452	49
Institutions	10,962	13,485	11,229
Mass market positions	1,501	2,388	2,074
Positions secured by mortgage	499,772	610,562	611,427
Overdue positions	991	450	800
Covered bonds	625	627	627
Other positions	39	26	5
Total minimum requirement credit risk	513,939	627,990	626,210
Operational risk	22,755	22,555	22,755
CVA-risk	5,825	3,315	2,632
Minimum requirement for net primary capital	542,519	653,860	651,596
Basis of calculation of balance sheet items not included in trading portfolio	6,386,030	7,816,419	7,794,530
Basis of calculation of off-balance sheet items not included in trading portfolio	38,207	33,461	33,089
Risk-weighted assets (calculation basis for capital adequacy ratio)	6,781,483	8,173,252	8,144,954
Buffer requirements			
Systemic risk buffer	203,444	245,198	244,349
Conservation buffer	169,537	204,331	203,624
Countercyclical buffer	67,815	163,465	203,624
Total buffer requirement for common equity Tier 1 capital	440,796	612,994	651,596
Pillar 2 requirement 1.7% for common equity Tier 1 capital set by the Financial Supervisory Authority of Norway	115,285	122,599	138,464
Available surplus common equity Tier 1 capital net min. requirement	1,068,481	749,764	773,198
Capital adequacy			
Capital adequacy ratio	28.5 %	22.7 %	23.7 %
Tier 1 capital ratio	28.5 %	22.7 %	23.7 %
Common equity Tier 1 capital ratio	28.5 %	22.7 %	23.7 %
Leverage ratio	10.3 %	8.1 %	8.4 %

For credit risk the standard method is used, while basis method is used for operational risk. The Financial Supervisory Authority of Norway has end of Q4 2019 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 was 12.7% end of Q3 2020.

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 ensure 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 1,000.0m. Expiry date 31 December 2021.
- b) short-term credit facility of up to NOK 6,000.0m. 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 30 September 2020, the credit limit of the agreement was NOK 5,000.0m.

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

NOKt	Jan-Sep 2020		Jan-Sep 2019		Jan-Dec 2019	
	Nordea Direct Bank ASA	Nordea Bank Abp	Nordea Direct Bank ASA	Nordea Bank Abp	Nordea Direct Bank ASA	Nordea Bank Abp
Net interest income	37,881	10,604	46,919	9,616	65,169	14,575
Other operating income	710		688		917	
Other operating expenses	-7,839		-8,724		-11,510	

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

NOKt	30 Sep 2020		30 Sep 2019		31 Dec 2019	
	Nordea Direct Bank ASA	Nordea Bank Abp	Nordea Direct Bank ASA	Nordea Bank Abp	Nordea Direct Bank ASA	Nordea Bank Abp
Deposit	485,574	1,038	665,788	980	513,246	601
Loans to credit institutions	1,414,852		1,885,854		1,736,594	
Interest-bearing securities	1,393,903	396,679	2,232,500	176,940	2,495,854	317,604

Note 7 Cover pool

NOKt	30 Sep 2020		30 Sep 2019		31 Dec 2019	
	Nominal value	Market value	Nominal value	Market value	Nominal value	Market value
Assets						
Loans to the public	17,879,107	17,879,107	21,836,547	21,836,547	21,864,705	21,864,705
- whereof pool of eligible loans	17,857,712	17,857,712	21,811,600	21,811,600	21,830,675	21,830,675
Supplementary assets and derivatives:	395,608	463,134	577,668	626,221	424,182	460,544
- whereof CIRS						
- whereof IRS		67,526		48,553		36,362
Total cover pool	18,253,320	18,320,846	22,389,268	22,437,821	22,254,857	22,291,219
Debt securities in issue (net outstanding amount)	15,100,000	15,280,245	18,800,000	19,014,766	18,800,000	18,980,351
Over-collateralization calculated on net outstanding covered bonds	20.9 %	19.9 %	19.1 %	18.0 %	18.4 %	17.4 %
Debt securities in issue (issued amount)	15,100,000	15,280,245	18,800,000	19,014,766	18,800,000	18,980,351
Over-collateralization calculated on issued covered bonds ¹	20.9 %	19.9 %	19.1 %	18.0 %	18.4 %	17.4 %

¹ without deduction for holdings of own bonds

Note 8 Contingent liabilities and security

NOKt	30 Sep 2020	30 Sep 2019	31 Dec 2019
Unutilised credit facility	1,856,874	1,944,671	1,972,755
Total contingent liabilities	1,856,874	1,944,671	1,972,755

Note 9 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 9 Fair value of financial instruments (cont.)

NOKt	30 Sep 2020		30 Sep 2019		31 Dec 2019	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Assets						
Loans to and receivables from credit institutions, amortised cost	486,610	486,610	666,765	666,765	513,847	513,847
Loans to and receivables from credit institutions	486,610	486,610	666,765	666,765	513,847	513,847
Loans to and receivables from customers, amortised cost	17,879,107	17,879,107	21,836,547	21,836,547	21,864,705	21,864,705
Total loans before individual and group write-downs	17,879,107	17,879,107	21,836,547	21,836,547	21,864,705	21,864,705
- Group write-downs	1,523	1,523	1,353	1,353	1,589	1,589
Total net loans to customers	17,877,584	17,877,584	21,835,194	21,835,194	21,863,116	21,863,116
Certificates and bonds, fair value	190,148	190,148	164,788	164,788	164,376	164,376
Total bonds and other fixed-income securities	190,148	190,148	164,788	164,788	164,376	164,376
Derivatives, fair value	67,526	67,526	54,350	54,350	40,629	40,629
Derivatives	67,526	67,526	54,350	54,350	40,629	40,629
Other financial assets, amortised cost	16,758	16,758	25,502	25,502	41,198	41,198
Total other financial assets	16,758	16,758	25,502	25,502	41,198	41,198
Total financial assets	18,638,626	18,638,626	22,746,599	22,746,599	22,623,166	22,623,166
Liabilities						
Loans and deposits from credit institutions, amortised cost	1,412,157	1,412,157	1,878,599	1,878,599	1,728,317	1,728,317
Total liabilities to credit institutions	1,412,157	1,412,157	1,878,599	1,878,599	1,728,317	1,728,317
Commercial paper and bonds, amortised cost	14,520,415	14,605,018	17,375,811	17,499,883	17,374,234	17,480,237
Liability incurred through the issue of securities, fair value hedge	664,243	675,227	1,499,754	1,514,883	1,486,623	1,500,114
Total debt securities	15,184,658	15,280,245	18,875,565	19,014,766	18,860,857	18,980,351
Derivatives, fair value	3,282	3,282	4,358	4,358	4,086	4,086
Derivatives	3,282	3,282	4,358	4,358	4,086	4,086
Other financial liabilities, amortised cost	21,900	21,900	53,595	53,595	71,663	71,663
Total other financial liabilities	21,900	21,900	53,595	53,595	71,663	71,663
Total financial liabilities	16,621,998	16,717,584	20,812,117	20,951,318	20,664,923	20,784,416

Note 9 Fair value of financial instruments (cont.)

NOKt	30 Sep 2020			
	Level 1	Level 2	Level 3	Total
Interest-bearing securities, designated at fair value	112.033	78.115		190.148
Derivatives, fair value		67.526		67.526
Total financial assets measured at fair value	112.033	145.641		257.674
Liabilities opened for the issue of securities, measured at fair value				
Derivatives, fair value		3.282		3.282
Total financial liabilities measured at fair value		3.282		3.282
Liability incurred through the issue of securities, amortised cost		14,605,018		14,605,018
Total financial liabilities measured at amortised cost		14,605,018		14,605,018
Liability incurred through the issue of securities, fair value hedge		675.227		675.227
Total financial liabilities included in fair value hedge		675.227		675.227

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

NOKt	30 Sep 2019			
	Level 1	Level 2	Level 3	Total
Interest-bearing securities, designated at fair value	86,548	78,241		164,788
Derivatives, fair value		54,350		54,350
Total financial assets measured at fair value	86,548	132,591		219,138
Liabilities opened for the issue of securities, measured at fair value				
Derivatives, fair value		4,358		4,358
Total financial liabilities measured at fair value		4,358		4,358
Liability incurred through the issue of securities, amortised cost		17,499,883		17,499,883
Total financial liabilities measured at amortised cost		17,499,883		17,499,883
Liability incurred through the issue of securities, fair value hedge		1,514,883		1,514,883
Total financial liabilities included in fair value hedge		1,514,883		1,514,883

NOKt	31 Dec 2019			
	Level 1	Level 2	Level 3	Total
Interest-bearing securities, designated at fair value	86,200	78,177		164,376
Derivatives, fair value		40,629		40,629
Total financial assets measured at fair value	86,200	118,805		205,005
Liabilities opened for the issue of securities, measured at fair value				
Derivatives, fair value		4,086		4,086
Total financial liabilities measured at fair value		4,086		4,086
Liability incurred through the issue of securities, amortised cost		17,480,237		17,480,237
Total financial liabilities measured at amortised cost		17,480,237		17,480,237
Liability incurred through the issue of securities, fair value hedge		1,500,114		1,500,114
Total financial liabilities included in fair value hedge		1,500,114		1,500,114

There were no major moves between levels 1 and 2 in 2019.

Quarterly earnings performance

NOKt	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Interest income etc, amortised cost	73,719	90,195	145,580	142,344	130,781	128,966	132,017	126,841
Interest income etc, fair value	583	544	-1,920	572	546	-1,039	375	311
Interest costs etc.	32,896	66,867	109,805	113,630	106,049	99,983	98,284	90,659
Net interest income	41,406	23,872	33,855	29,286	25,277	27,945	34,108	36,493
Fee and commission income	533	549	565	573	568	580	589	583
Net gains on financial instruments at fair value	-916	1,311	-2,567	-242	67	62	108	-131
Other operating income	240	240	229	229	229	229	229	229
Total income	41,263	25,972	32,083	29,845	26,142	28,816	35,034	37,174
Staff costs	561	2	597	558	580	489	672	1,110
Other operating costs	3,162	3,512	6,734	4,681	3,491	3,508	3,327	3,613
Total operating expenses	3,723	3,514	7,331	5,239	4,072	3,997	3,999	4,723
Profit / (loss) before loan losses	37,540	22,458	24,752	24,606	22,070	24,820	31,035	32,450
Loan losses	-927	1,314	-453	237	509	-47	-319	381
Operating profit	38,468	21,143	25,205	24,369	21,561	24,866	31,355	32,070

Nordea Direct Boligkreditt AS
Essendropsgt. 7
P.O. Box 1166 Sentrum
0107 Oslo , Norway
Phone +47 915 03100