



Annual Report 2014  
**Nordea Kredit Realkreditaktieselskab**

Business registration number 15134275

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*Nordea Kredit Realkreditaktieselskab is part of the Nordea Group. Nordea's vision is to be a Great European bank, acknowledged for its people, creating superior value for customers and shareholders. We are making it possible for our customers to reach their goals by providing a wide range of products, services and solutions within banking, asset management and insurance. Nordea has around 11 million customers, approximately 700 branch office locations and is among the ten largest universal banks in Europe in terms of total market capitalisation. The Nordea share is listed on the NASDAQ OMX Nordic Exchange in Stockholm, Helsinki and Copenhagen.*

## Key financial figures

### Income, profit and business volumes, key items (DKKm)

	2014	2013	Change %	2012	2011
<b>Income statement</b>					
Total operating income	2,340	1,986	18	1,660	1,542
Total operating expenses	-201	-214	-6	-232	-248
Net loan losses	-366	-390	-6	-491	-284
Profit before tax	1,775	1,383	28	938	1,009
Net profit for the year	1,340	1,037	29	703	756
<b>Balance sheet</b>					
Loans to credit institutions and central banks	70,462	52,873	33	46,773	40,152
Loans and receivables at fair value	381,056	363,749	5	358,371	340,874
Deposits by credit institutions and central banks	42,250	46,470	-9	48,905	63,547
Bonds in issue at fair value	387,106	349,074	11	336,402	302,951
Equity	18,838	17,498	8	16,461	15,758
Total assets	451,927	417,038	8	407,044	387,392

### Ratios and key figures (%)

Return on equity	7.4	6.1		4.4	4.9
Cost/income ratio	8.6	10.8		14.0	16.1
Total capital ratio, excl transition rules <sup>1,3</sup>	28.6	16.4		16.2	17.4
Tier 1 capital ratio, excl transition rules <sup>1,3</sup>	28.6	16.4		16.2	17.4
Tier 1 capital <sup>1</sup> , DKKm	18,600	14,752		14,239	14,348
Risk exposure amount, excl transition rules, DKKm <sup>3</sup>	64,927	89,994		87,851	82,248
Number of employees (full-time equivalents) <sup>2</sup>	114	125		131	133

<sup>1</sup> Including the profit for the year.

<sup>2</sup> End of year.

<sup>3</sup> The end-2013 ratios are reported under the Basel II regulatory framework and the end-2014 are reported using the Basel III (CRR/CRD IV) framework.

# Nordea Kredit Realkreditaktieselskab

## Board of Directors' report

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

Throughout this report the term "Nordea Kredit" refers to Nordea Kredit Realkreditaktieselskab, "Nordea Bank" to Nordea Bank Danmark A/S and "Nordea" to the Nordea Bank AB Group. The figures in brackets refer to 2013.

### Comments on the income statement

Nordea Kredit's profit for the year 2014 after tax was DKK 1,340m compared to DKK 1,037m the year before.

Total operating income increased by DKK 354m to DKK 2,340m (DKK 1,986m). The growth in operating income was due to increased lending, higher administration and reserve fees, higher commission income and an improved return on investment.

Income from administration and reserve fees was DKK 2,897m (DKK 2,614m), whereas the return on investment was DKK 45m net (negative at DKK 51m).

The margins on mortgage loans widened due to changes to administration and reserve fees, which were introduced in January 2014.

The return on investment comprises all interest income and the net result from items at fair value relating to cash investments, interest expenses relating to Nordea Kredit's funding facilities as well as income from the bond price spread when refinancing adjustable-rate mortgages.

The higher net return on investment in 2014 was primarily attributable to an increased bond price spread as well as reduced cost of required capital to maintain Nordea Kredit's rating.

Fee and commission income increased 40% to DKK 259m (DKK 185m), due to higher refinancing activity compared with the previous year.

Fee and commission expense was DKK 872m (DKK 780m). The increase was mainly related to increased guarantee commission on loan loss guarantees from Nordea Bank.

Total operating expenses, consisting of staff costs and administrative expenses as well as depreciation of tangible assets, were down by 6% to DKK 201m (DKK 214m). The decline was mainly a result of lower staff costs and IT expenses.

Net loan losses amounted to DKK 366m (DKK 390m) corresponding to 0.10% (0.11%) of the loan portfolio and total losses realised amounted to DKK 412m (DKK 430m). The provisioning requirement is still mainly attributable to loans to personal customers and reflects the weakness of the property market outside the major urban areas.

### Comments on the balance sheet

#### Assets

Total assets increased by DKK 35bn in 2014 to DKK 452bn (DKK 417bn).

Loans to credit institutions and central banks amounted to DKK 70bn (DKK 53bn). The increase was mainly due to cash deposits with the parent company.

Loans and receivables at fair value were up by DKK 17bn to DKK 381bn (DKK 364bn).

At the end of 2014 total lending at nominal value after loan losses increased by 4% to DKK 372bn (DKK 359bn).

#### Table 1. Lending at nominal value by property category

DKKbn	2014	2013	Change %
Owner-occupied dwellings and holiday homes	249	244	2%
Agricultural properties	47	46	3%
Other commercial properties	76	69	10%
<b>Total</b>	<b>372</b>	<b>359</b>	<b>4%</b>

At year-end lending for owner-occupied dwellings and holiday homes accounted for 67% (68%) of the total loan portfolio.

Of the total accumulated losses on loans and assets in temporary possession of DKK 525m at the end of 2014 (DKK 559m), provisions for collectively assessed loans accounted for DKK 139m (DKK 73m).

Accumulated loan losses amounted to DKK 460m

at the end of 2014 (DKK 479m), corresponding to 0.12% (0.13%) of the loan portfolio. The quality of the loan portfolio is considered satisfactory.

Loss guarantees from Nordea Bank were DKK 98bn (DKK 88bn), at end-2014 comprising loans totalling DKK 335bn (DKK 309bn).

At the beginning of 2015 the 3.5-month arrears rate for owner-occupied dwellings and holiday homes (the September 2014 payment date) was 0.24% (0.28%), a decline of 0.04% point since the beginning of 2014.

Assets in temporary possession consisted of a total of 41 (41) repossessed properties by the end of 2014 at a value of DKK 38m (DKK 37m). The repossessed properties are predominantly year-round residences.

### **Liabilities**

Deposits by credit institutions and central banks were DKK 42bn (DKK 46bn).

Bonds in issue at fair value totalled DKK 387bn (DKK 349bn) after offsetting the portfolio of own bonds.

### **Equity**

Including the net profit for the year, equity was DKK 19bn at the end of 2014 (DKK 17bn).

### **Capital adequacy**

At the end of 2014 the risk exposure amount of Nordea Kredit amounted to DKK 64.9bn (DKK 90.0bn). The tier 1 capital ratio and the total capital ratio both including the profit for the year and excluding transition rules were 28.6% at end-2014 (16.4%). The increase was mainly driven by the Danish Financial Supervisory Authority's (FSA) approval in early 2014 of Nordea's advanced rating-based approach (IRB) for corporate exposures. Furthermore, the capital ratios were positively affected by the profit for the year.

Nordea Kredit has a strong capital position, good profitability and thereby a solid foundation to meet future capital requirements.

It is proposed that the net profit for the year of DKK 1,340m is transferred to retained earnings and reserves in equity and that no dividend is paid.

### **New legislation**

On 1 April 2014 the new regulation of refinancing risk took effect for 1-year adjustable-rate mortgages. Other loan types with current refinancing will be covered from 1 January 2015. The purpose of the regulation is to reduce the risk when refinancing mortgage loans, by allowing bonds which have matured to be extended by 12 months if new bonds cannot be sold at a refinancing auction. Also, a cap is introduced to limit the interest rate increase short term for loans financed by 1- or 2-year bonds.

In December the Danish Ministry of Business and Growth submitted a legislative proposal to introduce a debt buffer in mortgage credit institutions. The debt buffer is intended to support the continuation of systemically important parts of a mortgage credit institution in case of failure or risk of failure.

The Danish FSA announced the supervisory diamond for mortgage credit institutions in December 2014. The supervisory diamond defines five benchmarks for lending growth, borrowers' interest rate exposure, interest-only loans, loans with short funding and large exposures. The supervisory diamond will be in full effect by 2020.

### **The property market**

#### **The economy**

The Danish economy has expanded since mid-2013 – this being the longest period of positive growth in eight years. Nevertheless the growth in 2014 was weaker than previously expected, and under the surface, the risk of new growth disappointments still lurks.

Danish exports have been heavily affected by the stagnation in Europe and a sharp drop in trade with Russia.

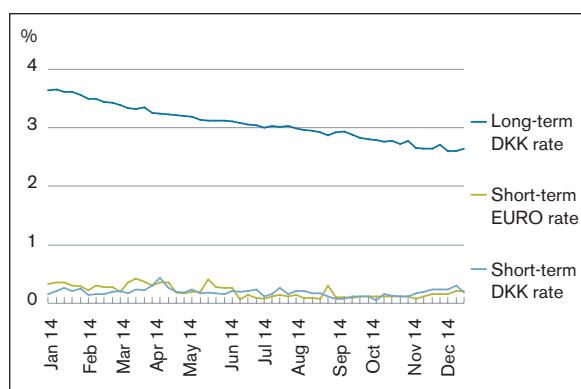
Increasing real wages, improving consumer confidence, falling fuel prices, historically low interest rates and the recovering housing market have not yet been sufficient to lift consumer spending out of stagnation.

Over the coming years growth is expected to accelerate moderately as domestic and foreign demand recovers.

Long-term interest rates have declined even further the last year, while short-term interest rates have stabilised at a historically low level. Low interest rates make mortgage financing less expensive, thereby supporting the housing market.

The low interest rates are strongly affected by inflation rates at the lowest level for decades – far below the ECB’s target for the Euro zone. The low inflation rates put great pressure on the ECB to further support the European economy.

**Figure 1. Mortgage interest rates – 2014**



### Property prices and market activity Residential

At the national level, house prices are increasing, but the housing market as a whole is still struggling with a relatively low turnover, a substantial housing supply and a long time on the market. However, there are considerable regional differences.

In and around the largest cities, especially Copenhagen and suburbs, house prices are rising while turnover is reasonable and supply limited.

In many other areas prices are unchanged or slightly increasing, implying that the market is still sluggish with low trading activity and many houses on the market.

In outskirt areas, sales activity is low and house prices are falling. These areas also have an overrepresentation of forced sales. Moreover, population numbers are declining, and there are no immediate indications that this will change.

Prices of single-family and terraced houses nationwide rose by 1.4% from the third quarter

of 2013 to the third quarter 2014 according to the housing market statistics of the Danish Mortgage Banks’ Federation. By comparison prices of owner-occupied flats rose by 4.6% over the same period, whereas prices of holiday homes were down by 2.0%.

The stabilisation is expected to continue into 2015, with home prices around 3% higher in nominal terms at year-end compared with the level at the beginning of the year. The sharpest price rises are expected around the large cities.

### Commercial

The market for rental and commercial properties improved around the largest cities in 2014. In the smaller cities and outskirt areas business is still slow.

In agriculture, property prices and turnover were stable compared to 2013. Decreasing output prices in the second half year had no apparent effect on the activity level.

### Nordea Kredit’s lending

At the end of 2014 total lending at nominal value after loan losses amounted to DKK 372bn (DKK 359bn).

**Table 2. Lending at nominal value by loan type**

	2014		2013	
	DKKbn	%	DKKbn	%
<b>Adjustable rates</b>				
Cita/Cibor/Euribor	67.7	18.2	48.3	13.5
Capped floaters, annuity	2.5	0.7	2.6	0.7
Capped floaters, interest-only	3.6	1.0	3.7	1.0
Adjustable-rate, annuity	56.1	15.1	60.0	16.7
Adjustable-rate, interest-only	100.4	27.0	108.7	30.2
<b>Fixed rates</b>				
Cash loans	9.6	2.6	7.8	2.2
Bond loans, annuity	78.6	21.1	73.4	20.5
Bond loans, interest-only	53.2	14.3	54.4	15.2
<b>Total</b>	<b>371.7</b>	<b>100.0</b>	<b>358.9</b>	<b>100.0</b>

A breakdown by loan type shows that the share of adjustable-rate mortgages, both loans with amortisation and interest-only loans, still decreased, whereas the share of “Kort Rente” (Cita) loans and fixed-rate annuity mortgages increased (Table 2).

### Refinancing of adjustable-rate mortgages

At the auction in November 2014 bonds equivalent to DKK 36bn were sold. Compared to

the auction in November 2013 this was a decline of 32%, as many borrowers chose to switch away from loans with annual refinancing (F1).

The November auction resulted in continued low interest rates. For 30-year annuity loans with reset every three years (F3) the interest rate was set at 0.43% (0.70% in 2013).

Through 2014 the proportion of loans with annual refinancing (F1) in Nordea Kredit was reduced from 28.2% to 18.6% at the beginning of 2015, thereby contributing to lowering the refinancing risk.

### LTV ratios

The loan to value (LTV) ratio expresses the loan amount as a percentage of the value of the property.

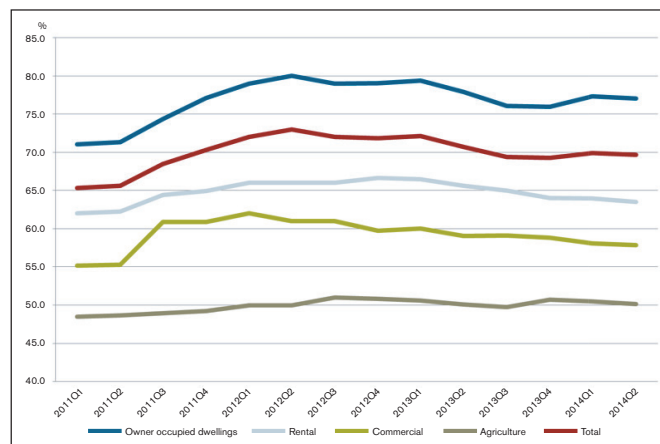
In 2011 falling property prices notably in the second half of 2011 and in early 2012 increased the LTV ratios for total lending (Figure 2).

In 2014 price trends for owner-occupied dwellings varied geographically with increasing prices in the Copenhagen region and mostly stable or decreasing prices in the rest of Denmark (a continuation of the trends in 2013). The LTV ratio for owner-occupied dwellings and holiday homes was 74.8% at the end of the fourth quarter of 2014, a decrease of 1.2% points compared with the same period in 2013.

A similar trend applies to the rest of the property market, also resulting in decreasing LTV ratios. The LTV ratio for total lending therefore decreased by 1.4% points in 2014 and was 67.9% at the end of the fourth of quarter 2014.

Nordea Kredit publishes quarterly LTV Reports and Investor Presentations. These reports are available at [www.nordeakredit.dk](http://www.nordeakredit.dk) under Investor information.

**Figure 2. LTV ratios**



### Supplementary collateral for loans financed through covered mortgage bonds

Where loans have been granted on the basis of covered mortgage bonds, mortgage institutions must regularly and currently monitor the value of the mortgaged property.

The value of owner-occupied dwellings, private rental properties, cooperative homes and non-profit rental housing must be assessed at least every three years under existing legislation, whereas other properties must be assessed annually. In the event of significant changes in market conditions, the value must be assessed more frequently. If it is determined in the monitoring process that the statutory LTV limit for the individual property has been exceeded, the mortgage institution must provide supplementary collateral out of its own funds. In this way the necessary collateral for outstanding bonds is ensured at all times.

Nordea Kredit focuses on monitoring the value of mortgaged properties on an ongoing basis.

The supplementary collateral required on the basis of the LTV ratios for the individual loans was DKK 22bn at end-2014 (DKK 22bn).

## Bond issuance

### Rating

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

Bonds are issued in capital centre 1 and capital

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

### **Funding**

Since the end of 2007 new lending by Nordea Kredit – including the refinancing of adjustable-rate mortgages – has been financed through the issuance of covered mortgage bonds.

Bond issuance before redemptions amounted to DKK 199bn nominal in 2014 (DKK 185bn), which was financed by means of covered mortgage bonds.

At end-2014 the total nominal value of bonds issued to finance mortgage loans, before offsetting the portfolio of own bonds, amounted to DKK 439bn (DKK 401bn). Of this amount, the issuance of mortgage bonds accounted for DKK 30bn (DKK 39bn) and covered mortgage bonds accounted for DKK 409bn (DKK 362bn).

At end-2014 the fair value of the total volume of bonds issued was DKK 387bn (DKK 349bn) after offsetting the portfolio of own bonds.

## **Risk, liquidity and capital management**

### **Market and liquidity risks**

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

Nordea Kredit's most significant financial market risk is the interest rate risk associated with the investment of capital. In addition, Nordea Kredit has a modest currency risk exposure relating to its lending denominated in euros. Nordea Kredit assumes neither equity risks nor option risks. As lending activities are match-funded in terms of both interest rates and liquidity, only insignificant interest rate and liquidity risks arise relating to mortgage lending and the associated bond issuance.

The matched funding is undertaken on the basis of the statutory balance principle. Nordea Kredit

applies the specific balance principle to both capital centres.

### **Interest rate risk**

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

For the lending portfolio the law stipulates that the interest rate risk resulting from differences between incoming payments on loans and outgoing payments on mortgage bonds issued must not exceed 1% of the capital base, or DKK 186m. For the securities portfolio the interest rate risk must not exceed 8% of the capital base, or DKK 1,488m.

At year-end 2014 the total interest rate risk with effect on profit before tax and equity was DKK 0.1m (DKK 0.1m) for the lending portfolio and DKK 16m (DKK 24m) for the securities portfolio.

### **Currency risk**

Currency risk is measured by means of a statistical method expressed by a Value at Risk (VaR) measure equivalent to the foreign exchange indicator 2 of the Danish Financial Supervisory Authority. The risk is measured based on the last two years' historical changes in exchange rates with a holding period of ten banking days and a probability of 99%.

The legislative framework allows for a maximum currency risk of DKK 19m, corresponding to 0.1% of the capital base.

At end-2014 the currency risk amounted to DKK 0.1m (DKK 0.1m) with effect on profit before tax and equity and relates solely to exposures in euros. Risks are calculated, monitored and reported to the management of Nordea Kredit on an ongoing basis. Financial market risks are described in Note 26.

### **Capital management**

Nordea Kredit aims to attain the most efficient use of capital. Nordea Kredit reports risk exposure amounts according to applicable external regulations (CRD IV/CRR), which stipulate the limits for the minimum capital (the capital requirement).



Nordea Kredit has received approval to report its capital requirement in accordance with the Advanced Internal Rating Based (AIRB) approach for commitments with retail customers and large enterprises.

The foundation (IRB) is approved for credit institutions, in line with Nordea Bank.

### Capital requirements

Rating and scoring are key components in credit risk management. Common to both the rating and scoring models is the ability to predict defaults and rank Nordea Kredit's customers.

While the rating models are used for corporate customers and bank counterparties, scoring models are used for personal customers and small corporate customers.

The most important parameters when quantifying the credit risk are the probability of default (PD), the loss given default (LGD), and the exposure at default (EAD). The parameters are used for calculation of risk exposure amounts.

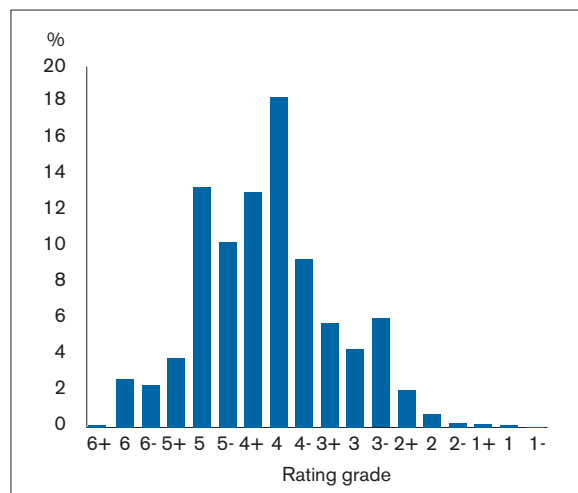
In general, historical losses and defaults are used to calibrate the PDs assigned to each rating grade. LGD is measured taking into account the collateral type and the counterparty's balance sheet components. Scoring models are pure statistical methods to predict the probability of customer default.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

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

### Credit quality

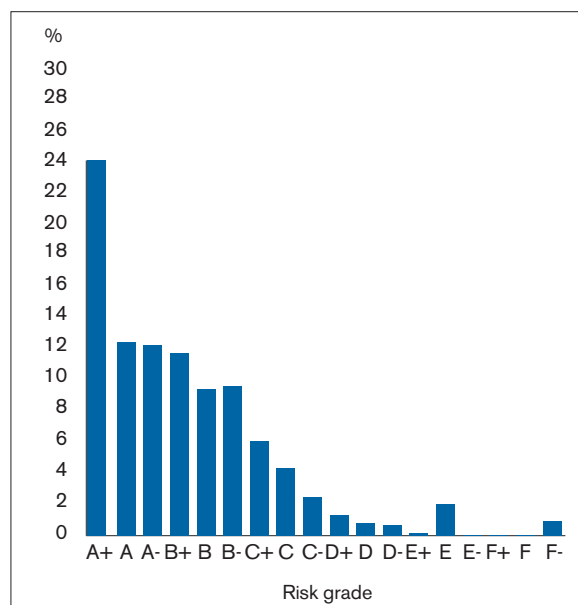
The rating distribution of loans to corporate customers (Figure 3) and the risk scoring of loans to personal and small and medium-sized corporate customers for end-2014 (Figure 4) are shown to the right.

**Figure 3. Rating distribution of loans to corporate customers**



Note: Nordea's best rating is 6+.

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



Note: Nordea's best score is A+.

Improving credit quality was seen in 2014, mainly in the corporate credit portfolio. 78% (74%) of the corporate exposure was rated 4- or higher. Defaulted loans are not included in the rating/scoring distributions.

### Total capital ratio

At the end of 2014 the risk exposure amount (REA) of Nordea Kredit was DKK 64.9bn (DKK 90.0bn). The change compared with 2013 is

mainly due to AIRB approval for the corporate portfolio as well as approval from FSA to apply a zero per cent risk weight towards counterparties within the Nordea Bank Danmark Group. With own funds amounting to DKK 18.6bn at the end of 2014 (DKK 14.8bn), the total capital ratio at end-2014 was 28.6% (16.4%).

### **Individual solvency needs**

Information about individual solvency needs is available on [www.nordeakredit.dk](http://www.nordeakredit.dk) or under Investor Relations on [www.nordea.com](http://www.nordea.com).

### **CRD IV and CRR regulations**

The CRD IV/CRR entered into force from 1 January 2014. The CRR became applicable in all EU countries on 1 January 2014 while the CRD IV was implemented through national law within all EU member states during 2014. In Denmark it was implemented in the Financial Business Act. The CRD IV/CRR includes several key initiatives which change the current requirements. The regulation requires higher and better quality capital, better risk coverage, the introduction of a leverage ratio as a backstop to the risk-based requirement, measures to promote the build-up of capital that can be drawn down in periods of stress and the introduction of liquidity standards.

The CRR includes a revised definition of own funds, increasing the quality of capital, hence creating better loss-absorbing capacity. The CRR also increases the requirements for the capital of better quality. The CRR requires banks to comply with the following minimum capital ratios:

- common equity tier 1 (CET1) capital ratio of 4.5%
- tier 1 capital ratio of 6%
- total capital ratio of 8%.

In Denmark a transition rule is used which sets the CET1 ratio at 4% and the tier 1 ratio at 5.5% in 2014.

The CRD IV introduced a number of capital buffer requirements. All buffers are to be expressed in relation to REA and to be covered by CET1 and represent additional capital to be held on top of minimum regulatory requirements. The buffers are the capital conservation buffer of 2.5% with a phasing period from 2016 to 2019 and countercyclical capital buffer in the range 0-2.5%, however the Danish authorities have set

the buffer at 0% until the second quarter of 2016. The parent company of Nordea Kredit – Nordea Bank Danmark – is identified as a systemically important institution in Denmark and therefore Nordea Kredit will have a systemic risk buffer of 2%. This buffer will be phased in between 2015 and 2019. Breaching these buffer requirements will restrict banks' capital distribution, such as dividend.

The REA has also been affected by a multiplication factor for exposures to SMEs. The CRR also introduces two new quantitative liquidity standards; liquidity coverage ratio (LCR) and net stable funding ratio (NSFR). The LCR requires that a bank holds liquidity buffers which are adequate to face any possible imbalance between liquidity inflows and outflows under gravely stressed conditions over a period of 30 days. The detailed LCR rules will enter into force on 1 October 2015 with a phase-in period from 2015 to 2018. The NSFR requires that a bank must ensure that long-term obligations are adequately met with a diversity of stable funding instruments under both normal and stressed conditions. Within the EU the EU Commission is expected to present a proposal by late 2016.

As part of the implementation of the recovery and resolution directive (BRRD), the Danish government has proposed an additional buffer for mortgage institutions of 2% of the amount of mortgage loans (unweighed amount). The buffer will be implemented in a period from 2016 to 2020. The buffer will be on top of the capital requirement, other buffers and pillar II requirements.

### **Control and risk management systems**

Nordea Kredit has established the internal controls which are deemed relevant for the preparation and presentation of the annual report. These controls and existing risk management systems provide a solid platform concerning the reliability of financial reporting and the preparation of the annual report.

The internal control and risk management activities of Nordea Kredit are included in Nordea Bank's overall internal control and risk management processes.

### **Control environment**

Internal control at Nordea Kredit is based on a control environment which includes the following elements: values and management culture, goal orientation and follow-up, a clear and transparent organisational structure, functional segregation, the four-eyes principle, quality and efficient internal communication and an independent evaluation process. The documentation of the internal control framework consists of internal business procedures and Standard Operating Procedures (SOPs) supported by the Nordea Group directives.

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

### **Risk assessment**

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

### **Control activities**

The control activities include general as well as more detailed controls, which aim at preventing, revealing and correcting errors and deviations. The control activities are documented by Nordea Kredit and reported to the parent company.

### **Information and communication**

Nordea Kredit is included in the consolidated financial statements of Nordea Bank AB and follows Nordea's accounting principles as defined in the Group Accounting Manual (GAM), which contains the principal guidelines for accounting and financial reporting. Reporting to the Group is based on a standard concept.

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

### **Monitoring**

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

The Executive Management of Nordea Kredit reports on an ongoing basis to the Board of Directors on significant matters affecting the internal control in relation to financial reports. Nordea Kredit's internal audit function reviews the company's processes, to test and report whether these are in accordance with the objectives set out by management. This review includes an assessment of the reliability of procedures, controls and financial reporting as well as compliance with legislation and regulations. The internal audit function annually issues an assurance statement to the Board of Directors on the governance, risk management and internal controls of Nordea Kredit.

The audit committee of Nordea Kredit assist the Board of Directors in fulfilling its oversight responsibilities, inter alia by monitoring the financial reporting process, the statutory audit of the annual financial statements, the effectiveness of the internal controls, audit and risk management and by reviewing and monitoring the independence of the external auditors. The audit committee reviews the planning and budget of the internal audit function prior to the presentation to the Board of Directors.

In accordance with the Danish Financial Business Act Nordea Kredit has appointed a Chief Risk Officer (CRO). The CRO reports to the Executive Management of Nordea Kredit and is responsible for the overall risk management of Nordea Kredit.

In addition, the CRO is responsible for the preparation of recommendations to the Executive Management and the Board of Directors of Nordea Kredit regarding the individual solvency need (ISN). The CRO furthermore ensures that the individual solvency need is included in the ICAAP report.

### **Financial reporting by Nordea Kredit and communication with auditors**

The manner in which the Board of Directors ensures the quality of the financial reports, is presented in the above section on monitoring. Furthermore, the external and the internal auditors present the results of their audits of Nordea Kredit's annual report to the Board of Directors and the audit committee.

## Corporate Social Responsibility

Nordea issues a Corporate Social Responsibility (CSR) report based on the United Nations Principles for Responsible Investments. The report serves as Nordea's annual progress report to the United Nations Global Compact and includes Nordea Kredit.

The CSR report is available at [www.nordea.com/csr](http://www.nordea.com/csr).

## Changes to the Board of Directors

Anders Jensen, the former Chairman of Nordea Kredit, resigned from the Board of Directors in June 2014. The Board of Directors subsequently appointed Peter Lybecker as Chairman.

Jette Petersen, deputy director, Nordea Bank Danmark, was appointed to the Board of Directors at an extraordinary general meeting held on 4 September 2014.

## Changes to the Executive Management

Charlotte Gullak Christensen was appointed new Chief Executive Officer to replace Lars Bank Jørgensen, who left Nordea Kredit by the end of February 2014. Charlotte Gullak Christensen joined as Chief Executive Officer on 1 August 2014 and resigned from the Board of Directors of Nordea Kredit in July 2014.

Deputy Chief Executive Officer Michael Jensen resigned from the Executive Management on 4 October 2014 and was replaced by Claus H. Greve, head of Corporate Strategy & Development at Nordea Bank, on 15 January 2015.

## Balanced gender composition

The Nordea Group Board has in 2014 approved a policy to promote gender balance.

The Board of Directors of Nordea Kredit has endorsed the policy. According to the policy Nordea strives to secure that the right person is employed for the right job at the right time, while ensuring the right mix of competencies needed,

including an appropriate gender composition in leading positions.

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

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

Nordea publishes on a regular basis a follow-up on the diversity measures by including selected information in its CSR report with regard to social data and diversity. For further information, see [www.nordea.com/csr](http://www.nordea.com/csr).

## Human resources

Nordea's values – Great customer experiences, It's all about people and One Nordea team – continue to underpin the People strategy and drive everything that is done. The values are incorporated in all the processes, trainings and leadership, as well as forming the basis for leadership capabilities.

Nordea can only achieve the goal of ensuring a great customer experience if the right people are employed and developed in the right way. Recruiting, developing, motivating and retaining the best people are therefore among the highest priorities.

More information is presented in the Corporate Social Responsibility report 2014 about how Nordea views Leadership, Performance and Talent Management.

## Nordea remuneration components – purpose and eligibility

**Fixed Salary** remunerates employees for full satisfactory performance. The individual salary is based on three cornerstones: job complexity and responsibility, performance and local market conditions.

**Profit Sharing** aims to stimulate value creation for the customers and shareholders and is offered to all employees. The performance criteria for the 2014 programme reflect Nordea's long-term targets: return on equity (ROE) and customer satisfaction.

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

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

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

**Executive Incentive Programme (EIP)** may be offered to recruit, motivate and retain selected managers and key employees, and aims to reward strong performance and efforts. The EIP contains predefined financial and non-financial performance criteria at Nordea Group and business unit/individual level.

## Subsequent events

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

Nordea Kredit will announce its half-year 2015 results on 16 July 2015.

## Outlook for 2015

In 2015 mortgage market activity is expected to remain modest in line with the level seen in 2014.

As a result of the fee structure and low interest rates, it is expected that customers will continue switching to loan types with a longer refinancing frequency or to fixed-rate loans. Customers are also expected to increasingly prefer loans with amortisation.

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## Income statement

DKKm	Note	2014	2013
<b>Operating income</b>			
Interest income		11,641	11,661
Interest expense		-8,962	-9,306
<b>Net interest income</b>	2	<b>2,679</b>	<b>2,355</b>
Dividend income		-	-
Fee and commission income	3	259	185
Fee and commission expense	3	-872	-780
<b>Net interest and fee income</b>		<b>2,066</b>	<b>1,760</b>
Net result from items at fair value	4	274	218
Other operating income		0	8
Staff costs and administrative expenses	5	-201	-210
Depreciation, amortisation and impairment charges of tangible and intangible assets	6	0	-4
Other operating expenses		-	-
Net loan losses	11	-366	-390
Profit from investment in associated undertaking	7	2	1
<b>Profit before tax</b>		<b>1,775</b>	<b>1,383</b>
Tax	8	-435	-346
<b>Net profit for the year</b>		<b>1,340</b>	<b>1,037</b>

## Statement of comprehensive income

DKKm	2014	2013
Net profit for the year	1,340	1,037
Other comprehensive income, net of tax	0	0
<b>Total comprehensive income</b>	<b>1,340</b>	<b>1,037</b>
<b>Attributable to</b>		
Shareholder of Nordea Kredit Realkreditaktieselskab	1,340	1,037
<b>Total</b>	<b>1,340</b>	<b>1,037</b>

## Balance sheet

DKKm	Note	31 Dec 2014	31 Dec 2013
<b>Assets</b>			
Cash balance and demand deposits with central banks		3	250
Loans to credit institutions and central banks	10	70,462	52,873
Loans and receivables at fair value	11	381,056	363,749
Loans and receivables at amortised cost		-	2
Bonds at fair value	12	25	-
Investment in associated undertaking	13	13	13
Intangible assets	14	-	0
Other tangible assets	15	0	0
Current tax assets		-	0
Deferred tax assets	8	0	1
Assets in temporary possession	16	38	37
Other assets	17	324	108
Prepaid expenses		6	5
<b>Total assets</b>		<b>451,927</b>	<b>417,038</b>
<b>Liabilities</b>			
Deposits by credit institutions and central banks	18	42,250	46,470
Bonds in issue at fair value	19	387,106	349,074
Current tax liabilities	8	26	13
Other liabilities	20	3,671	3,973
Deferred income		36	10
<b>Total liabilities</b>		<b>433,089</b>	<b>399,540</b>
<b>Provisions</b>			
Deferred tax liabilities	8	-	-
<b>Total provisions</b>		<b>-</b>	<b>-</b>
<b>Equity</b>			
Share capital		1,717	1,717
Other reserves		14	12
Retained earnings		17,107	15,769
<b>Total equity</b>		<b>18,838</b>	<b>17,498</b>
<b>Total liabilities and equity</b>		<b>451,927</b>	<b>417,038</b>
<b>Contingent liabilities</b>			
Guarantees etc		74	75
<b>Total contingent liabilities</b>		<b>74</b>	<b>75</b>



## Statement of changes in equity

DKKm	Share capital <sup>1</sup>	Other reserves <sup>2</sup>	Retained earnings	Total
Balance at 1 Jan 2014	1,717	12	15,769	17,498
Net profit for the year	-	-	1,340	1,340
Other comprehensive income, net of tax <sup>2</sup>	-	2	-2	0
Total comprehensive income	-	2	1,338	1,340
Proposed dividends	-	-	-	-
Balance at 31 Dec 2014	1,717	14	17,107	18,838

DKKm	Share capital <sup>1</sup>	Other reserves <sup>2</sup>	Retained earnings	Total
Balance at 1 Jan 2013	1,717	11	14,733	16,461
Net profit for the year	-	-	1,037	1,037
Other comprehensive income, net of tax <sup>2</sup>	-	1	-1	0
Total comprehensive income	-	1	1,036	1,037
Proposed dividends	-	-	-	-
Balance at 31 Dec 2013	1,717	12	15,769	17,498

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

<sup>1</sup> Total shares registered were 17,172,500 of DKK 100 each all fully owned by Nordea Bank Danmark A/S, Copenhagen, Denmark. All issued shares are fully paid. All shares are of the same class and hold equal rights. The annual report for Nordea Bank Danmark A/S is available at [www.nordea.com](http://www.nordea.com).

<sup>2</sup> Refers to reserve for net revaluation according to the equity method.

## 5-year overview

<b>Income statement</b> (DKKm)	2014	2013	2012	2011	2010
Net interest income	2,679	2,355	2,214	2,068	1,809
Net fee and commission income	2,066	1,760	1,759	1,583	1,388
Net result from items at fair value	274	218	-108	-40	-65
Other operating income	0	8	9	-1	-8
Staff costs and administrative expenses	-201	-210	-228	-236	-250
Depreciation, amortisation and impairment charges of tangible and intangible assets	0	-4	-4	-11	-12
Net loan losses	-366	-390	-491	-284	-118
Profit from investment in associated undertaking	2	1	1	-1	0
<b>Profit before tax</b>	<b>1,775</b>	<b>1,383</b>	<b>938</b>	<b>1,009</b>	<b>934</b>
Tax	-435	-346	-235	-253	-234
<b>Net profit for the year</b>	<b>1,340</b>	<b>1,037</b>	<b>703</b>	<b>756</b>	<b>700</b>

<b>Balance sheet</b> (DKKm)	2014	2013	2012	2011	2010
Loans to credit institutions and central banks	70,462	52,873	46,773	40,152	36,527
Loans and receivables at fair value	381,056	363,749	358,371	340,874	318,199
Loans and receivables at nominal value <sup>1</sup>	371,734	358,925	349,484	334,643	318,288
Other assets	409	416	1,900	6,366	1,455
<b>Total assets</b>	<b>451,927</b>	<b>417,038</b>	<b>407,044</b>	<b>387,392</b>	<b>356,181</b>
Deposits by credit institutions and central banks	42,250	46,470	48,905	63,547	70,141
Bonds in issue at fair value	387,106	349,074	336,402	302,951	265,964
Other liabilities	3,733	3,996	5,276	5,136	5,074
Equity	18,838	17,498	16,461	15,758	15,002
<b>Total liabilities and equity</b>	<b>451,927</b>	<b>417,038</b>	<b>407,044</b>	<b>387,392</b>	<b>356,181</b>

<b>Ratios and key figures</b> (%)	2014	2013	2012	2011	2010
Return on equity	7.4	6.1	4.4	4.9	4.8
Income/cost ratio	4.1	3.3	2.3	2.9	3.5
Cost/income ratio	8.6	10.8	14.0	16.1	19.9
Loans/equity	20.2	20.8	21.8	21.6	21.2
Lending growth for the year	3.6	2.7	4.5	5.2	7.6
Impairment ratio for the year	0.1	0.1	0.1	0.1	0.0
Total capital ratio <sup>2</sup>	28.6	16.4	16.2	17.4	16.5
Tier 1 capital ratio <sup>2</sup>	28.6	16.4	16.2	17.4	16.5
Tier 1 capital <sup>2</sup> , DKKbn	18.6	14.8	14.2	14.3	13.5
Risk exposure amount <sup>2</sup> , DKKbn	64.9	90.0	87.9	82.2	81.8
Number of employees (full-time equivalents) <sup>2</sup>	114	125	131	133	148
Average number of employees	125	129	135	144	143

<sup>1</sup> After adjustment for provisions for loan losses.

<sup>2</sup> End of year.

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

# Notes to the financial statements

## Note 1 Accounting policies

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### General

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

The accounting policies applied are unchanged from the annual report for 2013.

### Recognition and measurement in general

In the income statement income is recognised as earned, while expenses are recognised by the amounts that concern the financial year.

### Fair value adjustment of mortgage loans and bonds in issue

The fair value of mortgage loans is based on the fair value of the underlying issued bonds and is adjusted for the credit risk associated with the borrower.

The fair value of an asset or a liability is the quoted price on an active market for the relevant asset or liability. Where an active market does not exist, fair value is measured by the application of an appropriate valuation method which takes into account all the available data that market participants must be assumed to consider for a valuation.

The fair value adjustment is recognised in the income statement under Net result from items at fair value and as adjustment of the items Loans and receivables at fair value and Bonds in issue at fair value.

### Provisions for loan losses

Nordea Kredit monitors loans and receivables on an individual and on a collective basis.

If objective evidence is ascertained that a loan is impaired to the effect that the future expected payments are affected, an impairment charge is made of the loan on an individual basis.

Objective evidence of impairment is considered to have occurred if the borrower is in significant financial difficulties, if the borrower is in arrears by more than one payment period or if it is probable that the borrower will enter into bankruptcy proceedings or become subject to financial reorganisation.

The provision is made if the present value of the estimated future payments of the loan is lower than the carrying amount of the loan or receivable before provisions. The computation takes into account the realisable value of the security in the mortgaged properties and other security, if any.

Provisions for collectively assessed loans comprise loans and other receivables with the exception of individually assessed loans and receivables.

Provisions for collectively assessed loans are made on groups of loans and receivables with uniform characteristics as regards credit risk.

For each group it is assessed whether observable data exist that indicate a measurable decline in expected future

payments from the group. The provision is subsequently made by any difference between the carrying amount of the group and the present value of the future payments from the group.

Provisions for individually as well as collectively assessed loans are deducted from the asset item which the provision concerns and are charged to the item Net loan losses in the income statement.

### Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the balance sheet when Nordea Kredit becomes a party to the contractual provisions of the financial instruments.

A financial asset is derecognised from the balance sheet when the contractual right to the cash flow from the financial asset expires or the financial asset is sold.

A financial liability is derecognised from the balance sheet when the liability is extinguished, that is, when the liability is settled, cancelled or expires pursuant to the contract.

As a result of the recognition criteria listed securities, currency transactions and derivatives in the trading portfolio are recognised and derecognised on the trade date, while transactions outside the trading portfolio are recognised and derecognised in the balance sheet on the settlement date.

### Foreign currencies

The functional currency of Nordea Kredit is Danish kroner (DKK).

Transactions made in another currency than the functional currency are translated into the functional currency at the exchange rate prevailing on the date of the transaction.

Balance sheet items are translated at the official closing rate of the Danish central bank at the balance sheet date, and all adjustments resulting from changes in the exchange rate are recognised in the income statement.

### Taxation

#### Tax on operating profit

The tax for the year, consisting of the current tax for the year and change in deferred tax, is recognised in the income statement with the share attributable to the profit for the year and directly in equity with the share attributable to movements directly in equity.

#### Corporation tax and deferred tax

Current tax liabilities and current tax receivable are recognised in the balance sheet as calculated tax on the taxable income for the year adjusted for tax on previous years' taxable income and on account tax paid.

Deferred tax is measured under the balance-sheet liability method of all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In those cases, for instance, concerning shares where the determination of the tax base can be made according to alternative taxation rules deferred

tax is measured on the basis of the planned use of the asset or the settlement of the liability, respectively.

Deferred tax assets, including the tax base of tax loss carry-forwards, are measured at the value at which they are expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to be realised as current tax. Changes in deferred tax as a result of changes in tax rates are recognised in the income statement.

#### **Loans to credit institutions and central banks**

Loans to credit institutions and central banks mainly comprise reverse transactions, balances with credit institutions and deposits with central banks.

Reverse transactions are securities purchased under agreements to resell at a later date. The purchase price paid is included as balances due from counterparties and carries interest as agreed.

#### **Financial assets**

##### **Loans and receivables at fair value**

Mortgage loans are measured at fair value.

The fair value of mortgage loans is based on the fair value of the underlying mortgage bonds in issue adjusted for changes in the fair value of the credit risk associated with the borrower supplemented with a collective assessment of credit risk on the loan portfolio which is not individually assessed.

If impairment of loans and receivables or a group hereof can be objectively identified, provisions for loan losses are made, corresponding to the impairment. Changes in fair value are recognised directly in the income statement.

##### **Loans and receivables at amortised cost**

Other loans which are not included in the calculation of the statutory balance between mortgage loans and mortgage bonds in issue are measured at amortised cost.

##### **Shares and bonds**

Shares and bonds must initially be measured at fair value.

Where an active market exists, the valuation is based on the last observed market price at the balance sheet date. Where an active market does not exist, fair value is measured by the application of an appropriate valuation method which takes into account all the available data that market participants must be assumed to consider for a valuation.

Changes in fair value are recognised on a current basis and directly in the income statement.

The portfolio of own bonds is offset against the bonds in issue. Interest receivable on own bonds is similarly offset against interest payable under Other liabilities in the balance sheet.

The fair value of bonds drawn is measured as the present value of the bonds.

For shares and other financial instruments not listed on an exchange or for which market prices reflecting the value of the instrument are not available, the fair value is determined using recognised valuation methods.

##### **Derivatives**

Derivatives comprise spot transactions and forward contracts. Derivatives are measured at fair value.

##### **Investments in associated undertakings**

Investments in associated undertakings are stated at net asset value. Other significant holdings of shares are measured at fair value.

##### **Intangible assets**

Intangible assets comprise IT software and development expenses which are recognised as assets if they are major investments with an expected useful life exceeding three years and expected to generate future economic benefits.

Amortisation of intangible assets is provided on a straight-line basis over a period of five years. Intangible assets concerning projects in progress are not amortised until the individual projects have been concluded and the asset has been put into use.

##### **Tangible assets**

Tangible assets comprise furniture, IT equipment, leasehold improvements as well as machinery and equipment. Tangible assets are recognised at cost adjusted for any depreciation and write-downs made.

Depreciation is made on the basis of an estimate of the asset's useful life.

If the value of the assets is lower, such assets are entered at the lower value.

Machinery and equipment are depreciated systematically over a maximum period of five years.

##### **Assets in temporary possession**

Repossessed properties are included in the item Assets in temporary possession. The item comprises own loans and prior claims of other mortgagees as well as other cash outlays etc transferred from the item Loans and receivables at fair value. The item is reduced by provisions for losses on these properties and for impairment.

#### **Financial liabilities**

##### **Deposits by credit institutions and central banks**

The item mainly comprises repo transactions in securities sold under agreements to repurchase at a later date. The securities sold remain on the balance sheet and the purchase price received is entered as a liability owed to the transferee and carries interest as agreed. The securities are revalued as if the securities were still held.

##### **Bonds in issue at fair value**

Mortgage bonds in issue are measured at fair value.

Mortgage bonds in issue are measured at fair value, corresponding to the quoted price on an active market. Where an active market does not exist, fair value is measured by the application of an appropriate valuation method which takes

into account all the available data that market participants must be assumed to consider for a valuation.

Announced scheduled payments for the next payment date are measured at the discounted value. Changes in fair value are recognised directly in the income statement. The portfolio of own bonds is offset against the item Bonds in issue at fair value.

### **Pension obligations**

Pension obligations are covered either in an independent pension fund or through an insurance company. Nordea Kredit has no pension obligations towards the management and staff.

### **Equity**

The total net revaluation of shares in associated undertakings according to the equity method is recognised in the equity item Statutory reserves.

Equity includes adjustments relating to the Nordea Group's share-based payment programme which are measured at fair value on the day of grant. The share-based payment programme is included in the income statement as a cost item.

### **Comprehensive income**

Comprehensive income is the sum of the profit for the year and other comprehensive income.

### **Ratios and key figures**

Ratios and key figures are listed in the five-year financial summary in compliance with the Danish Financial Supervisory Authority's ratio definitions, see page 37.

## Note 2 Net interest income

DKKm	2014	2013
<b>Interest income</b>		
Loans to credit institutions and central banks <sup>1,3</sup>	-23	-58
Loans and receivables at fair value	8,754	9,093
Administration and reserve fees receivable	2,897	2,614
Interest rate derivatives	0	0
Other interest income	13	12
<b>Total interest income</b>	<b>11,641</b>	<b>11,661</b>
<b>Interest expense</b>		
Deposits by credit institutions and central banks <sup>2,4</sup>	-274	-287
Bonds in issue at fair value	-8,687	-9,018
Other interest expenses	-1	-1
<b>Total interest expense</b>	<b>-8,962</b>	<b>-9,306</b>
<b>Net interest income</b>	<b>2,679</b>	<b>2,355</b>
<sup>1</sup> Of which interest income on purchase and resale transactions	-24	-58
<sup>2</sup> Of which interest expense on sale and repurchase transactions	0	-10
<sup>3</sup> Of which negative interest income	-23	-58
<sup>4</sup> Of which positive interest expense	-	-

## Note 3 Net fee and commission income

DKKm	2014	2013
Loan processing fees	132	88
Brokerage	87	60
Other fee and commission income	40	37
<b>Fee and commission income</b>	<b>259</b>	<b>185</b>
Guarantee commissions etc payable to Nordea Bank Danmark A/S	-733	-669
Brokerage payable to Nordea Bank Danmark A/S	-82	-63
Other fee and commission expenses	-57	-48
<b>Fee and commission expenses</b>	<b>-872</b>	<b>-780</b>
<b>Net fee and commission income</b>	<b>-613</b>	<b>-595</b>

## Note 4 Net result from items at fair value

DKKm	2014	2013
Mortgage loans	3,280	-5,928
Bonds at fair value	0	-
Foreign exchange gains/losses	-13	1
Interest rate derivatives	15	-1
Bonds in issue	-3,008	6,146
<b>Total</b>	<b>274</b>	<b>218</b>

## Note 5 Staff costs

DKKm	2014	2013
Salaries and remuneration (specification below)	-77	-82
Pension costs (specification below)	-9	-9
Social insurance contributions	-10	-13
Other staff costs	0	0
<b>Total</b>	<b>-96</b>	<b>-104</b>
Average number of employees	125	129
<b>Salaries and remuneration</b>		
To the Board of Directors:		
- Fixed salary and benefits	-	-
- Performance-related compensation	-	-
To the Executive Management:		
- Fixed salary and benefits	-2	-3
- Performance-related compensation	1	-1
To employees that have significant influence on Nordea Kredit's risk profile:		
- Fixed salary and benefits	-1	-1
- Performance-related compensation	0	0
<b>Total</b>	<b>-2</b>	<b>-5</b>
To other employees	-75	-77
<b>Total</b>	<b>-77</b>	<b>-82</b>
<b>Pension costs</b>		
Defined benefit plans	-	-
Defined contribution plans:		
- Executive Management	0	-1
- Employees that have significant influence on Nordea Kredit's risk profile	0	0
- Other employees	-9	-8
<b>Total</b>	<b>-9</b>	<b>-9</b>
<b>Compensation including pension</b>		
Board of Directors <sup>1</sup>	-	-
Executive Management <sup>2</sup>	-2	-5
Employees that have significant influence on Nordea Kredit's risk profile <sup>3</sup>	-1	-1
<b>Total</b>	<b>-3</b>	<b>-6</b>

<sup>1</sup> The Board of Directors included four individuals in 2014.

<sup>2</sup> The Executive Management included unchanged two individuals in 2014. The Executive Management participates in the incentive programmes VSP (Variable Salary Part) and EIP (Executive Incentive Programme). These programmes are described in the Board of Directors' report.

<sup>3</sup> Employees that have significant influence on Nordea Kredit's risk profile included one individual in 2014.

Further information about Nordea Kredit's salary policy and practice is available at [www.nordea.com/remuneration](http://www.nordea.com/remuneration).

## Note 5 Staff costs (continued)

### Disclosure according to section 77d (3) of the Danish Financial Business Act<sup>1</sup>

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

DKKm	2014	2013	DKKm	2014	2013
<b>Board of Directors<sup>2</sup></b>			<b>Executive Management</b>		
Anders Jensen <sup>3</sup>	2.2	5.4	Lars Bank Jørgensen <sup>6</sup>	0.3	2.6
Peter Lybecker	8.9	7.5	Michael Jensen <sup>7</sup>	1.2	1.7
Kim Skov Jensen	5.6	5.1	Charlotte Gullak Christensen <sup>4</sup>	0.9	-
Jørgen Holm Jensen	3.2	3.2			
Charlotte Gullak Christensen <sup>4</sup>	1.1	1.1			
Jette Petersen <sup>5</sup>	0.4	-			

According to section 77d (3) of the Danish Financial Business Act, Nordea Kredit Realkreditaktieselskab is required to disclose the total remuneration of the members of the Board of Directors and the Executive Management, including the remuneration the person has earned as a member of the Board of Directors and/or the Executive Management in companies within the Nordea Bank AB Group. The information for 2013 has been restated due to change in the disclosure requirements from paid to earned remuneration.

<sup>1</sup> Total remuneration includes fixed salary, benefits, pension premiums paid in defined contribution plans for the year and earned variable remuneration. The remuneration relates to the period in duty.

<sup>2</sup> No Board of Directors members earn remuneration as members of the Board of Directors in Nordea Kredit Realkreditaktieselskab. All remuneration is earned from Nordea Bank Danmark A/S, Nordea Bank AB or its branches.

<sup>3</sup> Anders Jensen left as member of the Board of Directors on 14 June 2014.

<sup>4</sup> Charlotte Gullak Christensen left as member of the Board of Directors and entered Executive Management on 31 July 2014.

<sup>5</sup> Jette Petersen entered as member of the Board of Directors on 4 September 2014.

<sup>6</sup> Lars Bank Jørgensen left the Executive Management on 28 February 2014.

<sup>7</sup> Michael Jensen left the Executive Management on 3 October 2014.



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

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### **Depreciation/amortisation**

DKKm	2014	2013
<b>Intangible assets</b> (Note 14)		
Internally developed software	-	-4
<b>Other tangible assets</b> (Note 15)		
Machinery and equipment	0	0
<b>Total</b>	<b>0</b>	<b>-4</b>

### **Impairment charges/reversed impairment charges**

DKKm	2014	2013
<b>Intangible assets</b> (Note 14)		
Internally developed software	-	-
<b>Other tangible assets</b> (Note 15)		
Machinery and equipment	-	-
<b>Total</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>0</b>	<b>-4</b>

## **Note 7** **Profit from investment in associated undertaking**

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DKKm	2014	2013
Profit from investment in associated undertaking	2	1
<b>Total</b>	<b>2</b>	<b>1</b>

## Note 8 Taxes

### Income tax expense

DKKm	2014	2013
Current tax	-435	-346
Deferred tax	0	0
Adjustment relating to prior years	-	0
<b>Total</b>	<b>-435</b>	<b>-346</b>
Profit before tax	1,775	1383
Tax calculated at a tax rate of 25%	-434	-346
Non-deductible expenses	-1	0
Adjustment relating to prior years	-	0
<b>Tax charge</b>	<b>-435</b>	<b>-346</b>
Average effective tax rate	25%	25%

### Deferred tax

DKKm	Deferred tax assets		Deferred tax liabilities	
	2014	2013	2014	2013
<b>Deferred tax related to:</b>				
Property and equipment	0	1	-	-
<b>Total</b>	<b>0</b>	<b>1</b>	<b>-</b>	<b>-</b>

DKKm	2014	2013
<b>Movements in deferred tax assets/liabilities, net are as follows:</b>		
Deferred tax in the income statement	0	0
<b>Total change</b>	<b>0</b>	<b>0</b>
<b>Current tax assets</b>	<b>0</b>	<b>1</b>
<b>Current tax liabilities</b>	<b>26</b>	<b>13</b>

Nordea Kredit is jointly taxed with the Danish companies, branches etc of Nordea. The companies etc included in the joint taxation have joint several unlimited liability for Danish corporation taxes and withholding taxes on dividends and interest. At 31 December 2014, and net taxes receivable from the Danish Central Tax Administration by the companies included in the joint taxation amounted to DKK 70m. Any subsequent corrections of the taxable income subject to joint taxation or withholding taxes on dividends etc may entail that the companies' assets/liabilities will increase. The Danish group as a whole is not liable to others. In terms of payroll tax and VAT, Nordea Bank Danmark A/S is registered jointly with Nordea, Branch of Nordea Bank AB, Sweden, the Danish PE agency of Nordea Bank Finland and with the majority of the Danish subsidiary undertakings in the Nordea Bank AB Group and these companies are jointly and severally liable for such taxes.

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

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Loans to and charges or guarantees issued for the members of Nordea Kredit's Executive Management and Board of Directors and related parties:

DKKm	31 Dec 2014	31 Dec 2013
<b>Loans etc</b>		
Executive Management	3	6
Board of Directors	6	10

Interest income on these loans to members of Nordea Kredit's Executive Management and Board of Directors amounts to DKK 0.1m (DKK 0.3m).

Loans to members of Nordea Kredit's Executive Management and Board of Directors consist of mortgage loans on terms based on market conditions. At the end of 2014 interest on the loans was payable at the rate of 0.3-1.6% pa. Loans to related parties of the Executive Management and the Board of Directors are granted on the same terms.

Loans etc to members of the Executive Management and the Board of Directors of the parent companies Nordea Bank Danmark A/S and Nordea Bank AB (publ) consist of mortgage loans on market-based terms. At the end of 2014 the loans amounted to DKK 12m (DKK 7m) with interest rates of 0.3-0.5%.

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

## Note 10 Loans to credit institutions and central banks

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DKKm	31 Dec 2014	31 Dec 2013
Loans to credit institutions	70,462	52,873
Loans with notice to central banks	-	-
<b>Total</b>	<b>70,462</b>	<b>52,873</b>
Of which purchase and resale transactions	68,631	51,383

## Note 11 Loans and receivables at fair value

DKKkM	31 Dec 2014	31 Dec 2013
<b>Mortgage loans, nominal value</b>		
Value at beginning of year	359,404	349,921
New loans (gross new lending)	82,298	62,887
Foreign exchange revaluations	-49	-1
Redemptions and prepayments	-64,437	-49,048
Net new lending for the year	17,812	13,838
Scheduled principal payments	-5,022	-4,355
Mortgage loan portfolio at end of year	372,194	359,404
<b>Mortgage loans, fair value</b>		
Nominal value	372,194	359,404
Adjustment for interest rate risk etc	9,060	4,547
Adjustment for credit risk	-460	-479
Mortgage loan portfolio	380,794	363,472
Mortgage arrears and execution levied against debtors' properties	262	277
<b>Loans and receivables</b>	<b>381,056</b>	<b>363,749</b>

DKKkM	31 Dec 2014	31 Dec 2013
<b>Mortgage arrears</b>		
Mortgage arrears before provisions	140	138
Execution levied against debtors' properties before provisions	122	139
<b>Total mortgage arrears and execution levied against debtors' properties</b>	<b>262</b>	<b>277</b>
Mortgage arrears mid-January following year	108	112

DKKkM, 31 Dec 2014	Individually assessed	Collectively assessed
<b>Provisions for loans</b>		
At beginning of year	405	73
Movements during the year:		
- New provisions and value adjustments	506	78
- Reversals of provisions made in previous financial years	-241	-12
- Previous provisions now written off	-326	
- Other disposals <sup>1</sup>	-24	
<b>At end of year</b>	<b>320</b>	<b>139</b>

DKKkM, 31 Dec 2013	Individually assessed	Collectively assessed
<b>Provisions for loans</b>		
At beginning of year	403	34
Movements during the year:		
- New provisions and value adjustments	569	55
- Reversals of provisions made in previous financial years	-234	-16
- Previous provisions now written off	-294	-
- Other disposals <sup>1</sup>	-39	-
<b>At end of year</b>	<b>405</b>	<b>73</b>

<sup>1</sup> Other disposals relate to transfer of provisions for loans to Assets in temporary possession or to Other assets.

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

### Loans and receivables, with objective evidence of impairment

Loans and receivables subject to individual impairment and provisioning amount to DKK 9.2bn (DKK 9.7bn) before allowance and DKK 8.9bn (DKK 9.2bn) after allowance.

Loans and receivables subject to collective impairment and provisioning amount to DKK 244.8bn (DKK 224.4bn) before allowance and DKK 244.7bn (DKK 224.3bn) after allowance.

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

DKKm	31 Dec 2014	31 Dec 2013
<b>Provisions for other receivables from credit institutions and other items with credit risk</b>		
At beginning of year	80	152
Movements during the year:		
- New provisions and value adjustments	26	23
- Reversals of provisions made in previous financial years	-11	-19
- Previous provisions now written off	-53	-115
- Other additions <sup>1</sup>	24	39
<b>Total</b>	<b>66</b>	<b>80</b>
Impaired other receivables before provisions and value adjustments	124	143
Impaired other receivables after provisions and value adjustments	58	63

<sup>1</sup> Other additions relate to transfer of provisions for loans to Assets in temporary possession or to Other assets.

DKKm	31 Dec 2014	31 Dec 2013
<b>Age distribution of mortgage loans in arrears before provisions</b>		
More than 3 months and up to 6 months	1,447	1,623
More than 6 months and up to 1 year	521	556
More than 1 year	711	724
<b>Total</b>	<b>2,679</b>	<b>2,903</b>

(%)	31 Dec 2014	31 Dec 2013
<b>Mortgage loan portfolio by property category</b>		
Owner-occupied dwellings	64	65
Holiday homes	3	3
Subsidised housing	0	0
Private rental property	6	6
Commercial property	1	2
Office and retail property	10	9
Agricultural property etc	13	13
Property for social, cultural and educational purposes	1	1
Other property	2	1
<b>Total</b>	<b>100</b>	<b>100</b>

## Note 12 Bonds at fair value

DKKm	31 Dec 2014	31 Dec 2013
Bonds at fair value	61,445	57,275
Own bonds offset against bonds in issue	-61,420	-57,275
<b>Total</b>	<b>25</b>	<b>-</b>
Assets sold as part of sale and repurchase transactions:		
Bonds at fair value	29,561	23,884
Bonds offset against bonds in issue	29,561	23,884

## Note 13 Investment in associated undertaking

DKKm	31 Dec 2014	31 Dec 2013
Acquisition value at beginning of year	2	2
Acquisitions during the year	-	-
Sales during the year	-1	-
<b>Acquisition value at end of year</b>	<b>1</b>	<b>2</b>
Revaluation at beginning of year	11	10
Revaluation during the year	1	1
<b>Total revaluation at end of year</b>	<b>12</b>	<b>11</b>
<b>Total</b>	<b>13</b>	<b>13</b>

The associated undertaking aggregated balance sheet and income statement can for the latest available annual report for 2013 be summarised as follows:

DKKm	31 Dec 2014	31 Dec 2013
Total assets	181	172
Total liabilities	114	111
Operating income	23	22
Operating profit/loss	6	8

DKKm, 31 Dec 2014	Registration number	Domicile	Carrying amount	Voting power of holding %
e-nettet A/S	21270776	Copenhagen	13	19

## Note 14 Intangible assets

DKKm	31 Dec 2014	31 Dec 2013
Internally developed software	-	-
<b>Total</b>	<b>-</b>	<b>-</b>

DKKm	31 Dec 2014	31 Dec 2013
<b>Internally developed software</b>		
Acquisition value at beginning of year	54	54
Acquisitions during the year	-	-
Sales/disposals during the year	-54	-
<b>Acquisition value at end of year</b>	<b>-</b>	<b>54</b>
Accumulated amortisation at beginning of year	-54	-51
Amortisation according to plan for the year	-	-3
Accumulated amortisation on sales/disposals during the year	54	-
Reclassifications	-	-
Translation differences	-	-
<b>Accumulated amortisation at end of year</b>	<b>-</b>	<b>-54</b>
Accumulated impairment charges at beginning of year	-	-
Impairment charges during the year	-	-
<b>Accumulated impairment charges at end of year</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>-</b>	<b>-</b>

## Note 15 Other tangible assets

DKKm	31 Dec 2014	31 Dec 2013
<b>Machinery and equipment</b>		
Acquisition value at beginning of year	5	6
Acquisitions during the year	-	-
Sales/disposals during the year	0	-1
<b>Acquisition value at end of year</b>	<b>5</b>	<b>5</b>
Accumulated depreciation at beginning of year	-5	-5
Accumulated depreciation on sales/disposals during the year	-	-
Depreciation according to plan for the year	0	0
<b>Accumulated depreciation at end of year</b>	<b>-5</b>	<b>-5</b>
Accumulated impairment charges at beginning of year	-	-
Accumulated impairment charges on sales/disposals during the year	-	-
Reversed impairment charges during the year	-	-
Impairment charges during the year	-	-
<b>Accumulated impairment charges at end of year</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>0</b>	<b>0</b>

**Note 16**  
**Assets in temporary possession**

DKKm	31 Dec 2014	31 Dec 2013
Reposessed properties	38	37
<b>Total</b>	<b>38</b>	<b>37</b>

**Note 17**  
**Other assets**

DKKm	31 Dec 2014	31 Dec 2013
Interest receivable on mortgage loans etc <sup>1</sup>	246	77
Interest receivable on bonds etc	1	0
Other	77	31
<b>Total</b>	<b>324</b>	<b>108</b>

<sup>1</sup> Included in the calculation of the statutory balance between mortgage loans and mortgage bonds in issue.

**Note 18**  
**Deposits by credit institutions and central banks**

DKKm	31 Dec 2014	31 Dec 2013
Central banks	-	-
Other banks	42,250	46,470
Other credit institutions	-	-
<b>Total</b>	<b>42,250</b>	<b>46,470</b>
Of which sale and repurchase transactions	30,056	24,259



## Note 19 Bonds in issue at fair value

DKKm	31 Dec 2014	31 Dec 2013
Bonds in issue at beginning of year (nominal value)	401,407	406,862
Bonds issued during the year	199,486	185,042
Translation differences	-49	-1
Scheduled payments and notified prepayments	-21,662	-50,137
Redemptions and other prepayments	-140,408	-140,359
<b>Bonds in issue at end of year (nominal value)</b>	<b>438,774</b>	<b>401,407</b>
Adjustment at fair value	9,752	4,942
Own bonds at fair value offset	-61,420	-57,275
<b>Bonds in issue at end of year at fair value</b>	<b>387,106</b>	<b>349,074</b>
Of which pre-issued (nominal value)	28,927	23,482
Drawn for redemption at next payment date (nominal value)	16,767	3,759

### Changes in fair value of financial liabilities attributable to changes in credit risk

The financial liabilities designated at fair value through profit or loss are issued bonds, DKK 387bn (DKK 349bn). For the issued bonds a change in the liability's credit risk and price will have a corresponding effect on the value of the loan. The reason is that a change in the price of the bonds will be offset by the opposite change in the value of the prepayment option of the loan.

The fair value of issued bonds increased in 2014 by approximately DKK 0.0bn (increase of approximately DKK 0.2bn) due to changes in own credit risk. The cumulative change since designation was a decrease of approximately DKK 4bn (decrease of approximately DKK 5bn). The calculation method of the estimated fair value changes attributable to changes in market conditions is based on relevant benchmark interest rates, which are the average yield on Danish and German government bonds and for adjustable rates, the swap rate. The calculation method is subject to uncertainty related to a number of assumptions and estimates.

## Note 20 Other liabilities

DKKm	31 Dec 2014	31 Dec 2013
Interest payable on bonds in issue	3,548	3,856
Other interest and commissions payable	66	59
Other	57	58
<b>Total</b>	<b>3,671</b>	<b>3,973</b>

## Note 21 Capital adequacy

DKKkm	31 Dec 2014	31 Dec 2013
<b>Own funds</b>		
Equity	18,838	17,498
Intangible assets	-	0
IRB provisions excess (+)/shortfall (-)	-238	-2,746
<b>Tier 1 capital (net after deduction)</b>	<b>18,600</b>	<b>14,752</b>
<b>Own funds</b>	<b>18,600</b>	<b>14,752</b>

### Minimum capital requirements and risk exposure amount (REA)

DKKkm	31 Dec 2014 Minimum capital requirement	31 Dec 2014 REA	31 Dec 2013 Minimum capital requirement	31 Dec 2013 REA
<b>Credit risk</b>	<b>4,969</b>	<b>62,118</b>	<b>7,001</b>	<b>87,512</b>
IRB	4,963	62,038	5,688	71,095
- of which corporate	2,532	31,653	2,872	35,898
- of which advanced	2,532	31,653	-	-
- of which foundation	-	-	2,872	35,898
- of which institutions	2	21	0	0
- of which retail	2,418	30,230	2,809	35,109
- of which other	11	134	7	88
Standardised	6	80	1,313	16,417
- of which retail	-	-	-	-
- of which other	6	80	1,313	16,417
<b>Market risk</b>	<b>-</b>	<b>-</b>	<b>0</b>	<b>0</b>
<b>Operational risk</b>	<b>225</b>	<b>2,809</b>	<b>199</b>	<b>2,482</b>
- of which standardised	225	2,809	199	2,482
<b>Sub-total</b>	<b>5,194</b>	<b>64,927</b>	<b>7,200</b>	<b>89,994</b>
<b>Adjustment for transition rules</b>				
Additional capital requirement according to transition rules	8,500	106,246	5,854	73,173
<b>Total</b>	<b>13,694</b>	<b>171,173</b>	<b>13,053</b>	<b>163,167</b>

Capital ratios, excl transition rules (%)	31 Dec 2014	31 Dec 2013
Tier 1 capital ratio	28.6	16.4
Total capital ratio	28.6	16.4

## Note 22 Maturity analysis for assets and liabilities

### Remaining maturity

31 Dec 2014, DKKm	Note	On demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Without maturity	Total
Cash balance and demand deposits with central banks		3	-	-	-	-	-	3
Loans to credit institutions and central banks	10	1,830	68,632	-	-	-	-	70,462
Loans and receivables at fair value and amortised cost	11	139	1,755	6,062	48,523	324,577	-	381,056
Bonds at fair value	12	-	25	-	-	-	-	25
<b>Total assets with fixed maturities</b>		<b>1,972</b>	<b>70,412</b>	<b>6,062</b>	<b>48,523</b>	<b>324,577</b>	<b>-</b>	<b>451,546</b>
Non-financial assets	13, 14, 15, 16	-	-	-	-	-	51	51
Current tax assets		-	0	-	-	-	-	0
Other assets	17	-	324	-	-	-	-	324
Prepaid expenses		-	6	-	-	-	-	6
<b>Total assets</b>		<b>1,972</b>	<b>70,742</b>	<b>6,062</b>	<b>48,523</b>	<b>324,577</b>	<b>51</b>	<b>451,927</b>
Deposits by credit institutions	18	194	30,056	-	12,000	-	-	42,250
Bonds in issue at fair value	19	-	36,209	77,854	124,318	148,725	-	387,106
<b>Total liabilities with fixed maturities</b>		<b>194</b>	<b>66,265</b>	<b>77,854</b>	<b>136,318</b>	<b>148,725</b>	<b>-</b>	<b>429,356</b>
Non-financial liabilities	8	-	26	-	-	-	-	26
Other liabilities	20	-	3,671	-	-	-	-	3,671
Deferred income		-	36	-	-	-	-	36
Equity		-	-	-	-	-	18,838	18,838
<b>Total liabilities and equity</b>		<b>12,194</b>	<b>57,998</b>	<b>77,854</b>	<b>136,318</b>	<b>148,725</b>	<b>18,838</b>	<b>451,927</b>

31 Dec 2013, DKKm	Note	On demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Without maturity	Total
Cash balance and demand deposits with central banks		250	-	-	-	-	-	250
Loans to credit institutions and central banks	10	1,490	51,383	-	-	-	-	52,873
Loans and receivables at fair value and amortised cost	11	137	1,610	5,344	43,964	312,696	-	363,751
Bonds at fair value	12	-	-	-	-	-	-	-
<b>Total assets with fixed maturities</b>		<b>1,877</b>	<b>52,993</b>	<b>5,344</b>	<b>43,964</b>	<b>312,696</b>	<b>0</b>	<b>416,874</b>
Non-financial assets	13, 14, 15, 16	-	-	-	-	-	50	50
Current tax assets		-	1	-	-	-	-	1
Other assets	17	-	108	-	-	-	-	108
Prepaid expenses		-	5	-	-	-	-	5
<b>Total assets</b>		<b>1,877</b>	<b>53,107</b>	<b>5,344</b>	<b>43,964</b>	<b>312,696</b>	<b>50</b>	<b>417,038</b>
Deposits by credit institutions	18	10,211	24,259	-	12,000	-	-	46,470
Bonds in issue at fair value	19	-	40,697	54,323	120,205	133,849	-	349,074
<b>Total liabilities with fixed maturities</b>		<b>10,211</b>	<b>64,956</b>	<b>54,323</b>	<b>132,205</b>	<b>133,849</b>	<b>0</b>	<b>395,544</b>
Non-financial liabilities	8	-	13	-	-	-	-	13
Other liabilities	20	-	3,973	-	-	-	-	3,973
Deferred income		-	10	-	-	-	-	10
Equity		-	-	-	-	-	17,498	17,498
<b>Total liabilities and equity</b>		<b>10,211</b>	<b>68,952</b>	<b>54,323</b>	<b>132,205</b>	<b>133,849</b>	<b>17,498</b>	<b>417,038</b>

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

## Note 23 Related-party transactions

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

DKKm	31 Dec 2014	31 Dec 2013
<b>Operating items</b>		
Interest income:		
Interest on loans to credit institutions	-23	-58
Forward premium on derivatives	0	0
Interest expense:		
Interest on loans to credit institutions	-275	-287
Fee and commission expense:		
Guarantee commissions etc	-720	-658
Brokerage	-82	-63
Staff costs and administrative expenses:		
IT expenses	-26	-23
Other administrative expenses	-20	-24
Systems development costs	-9	-11
Rent	-16	-15
Internal audit	-1	-2
Profit from investment in associated undertaking	2	1
<b>Assets</b>		
Loans to credit institutions	70,461	52,873
Interest receivables from credit institutions	0	0
Investment in associated undertaking	13	13
<b>Liabilities</b>		
Deposits by credit institutions	42,250	46,470
Interest payable	7	16
IT expenses payable	11	15
Guarantee commissions payable	66	59
<b>Guarantees</b>		
Nordea Kredit's parent company, Nordea Bank Danmark A/S, provides on an ongoing basis guarantees to cover the top 25% of the principal of mortgage loans disbursed.	97,523	87,750

Nordea Bank Danmark A/S has provided guarantees relating to registration with the Land Registry, loans disbursed ahead of building start as well as other statutory guarantees towards Nordea Kredit.

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

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

In 2014 there were no exceptional related-party transactions.

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

### Compensation and loans to Board of Directors and Executive Management (key management personnel)

Compensation to the Board of Directors and the Executive Management is specified in Note 5.

Loans to the Board of Directors and the Executive Management and related parties are specified in Note 9.

### Related parties

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

**Note 24**  
**The Danish Financial Supervisory Authority's ratio system**

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DKKm	2014	2013	2012	2011	2010
<b>Key figures (%)</b>					
Total capital ratio	28.6	16.4	16.2	17.4	16.5
Tier 1 capital ratio	28.6	16.4	16.2	17.4	16.5
Pre-tax return on equity	9.8	8.1	5.8	6.6	6.4
Post-tax return on equity	7.4	6.1	4.4	4.9	4.8
Income/cost ratio	4.13	3.30	2.30	2.90	3.46
Foreign exchange exposure as % of tier 1 capital	0.0	1.0	0.6	0.4	0.8
Loans/equity	20.2	20.8	21.8	21.6	21.2
Lending growth for the year	3.6	2.7	4.5	5.2	7.6
Impairment ratio for the year	0.1	0.1	0.1	0.1	0.0
Return on assets	0.3	0.3	0.2	0.2	0.2

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

## Note 25 Series financial statements for 2014

DKKkm	Note	Capital centre 2	Capital centre 1 (General Capital Centre)	Total
<b>Income statement</b>				
Income from lending		2,681	229	2,910
Interest, net		45	4	49
Administrative expenses, net		-757	-61	-818
Provisions for loan losses		-181	-185	-366
Tax		-449	14	-435
<b>Total</b>		<b>1,339</b>	<b>1</b>	<b>1,340</b>
<b>Balance sheet</b>				
<b>Assets</b>				
Mortgage loans		360,575	20,488	381,063
Other assets		118,206	14,824	133,030
<b>Total assets</b>	<b>1</b>	<b>478,781</b>	<b>35,312</b>	<b>514,093</b>
<b>Liabilities and equity</b>				
Bonds in issue	2	420,886	31,928	452,814
Other liabilities		40,351	2,090	42,441
Equity	3	17,544	1,294	18,838
<b>Total liabilities and equity</b>		<b>478,781</b>	<b>35,312</b>	<b>514,093</b>

### Note 1 Balance sheet, series financial statements

Balance sheet total, Nordea Kredit's annual financial statements	451,926
Own bonds, not offset in series financial statements	61,420
Interest receivable on own bonds	747
<b>Balance sheet total, series financial statements</b>	<b>514,093</b>

### Note 2 Bonds in issue, series financial statements

Bonds in issue, Nordea Kredit's annual financial statements	387,106
Own bonds, not offset in series financial statements	61,419
Deferred income	4,289
<b>Bonds in issue, series financial statements</b>	<b>452,814</b>

### Note 3 Equity

Movements in capital, net	-	-
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### Background to series financial statements

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

The series financial statements have been prepared on the basis of Nordea Kredit Realkreditaktieselskab's annual report for 2014.

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

## Note 26 Risk disclosures

### Market risk<sup>1</sup>

DKKkm	31 Dec 2014	31 Dec 2013
<b>Derivatives</b>		
Currency forwards		
Market value, positive	8	0
Market value, negative	-	0
Nominal value	7,065	3,730

At the end of 2013 and 2014 there were no spot transactions.

DKKkm, 31 Dec 2014	Total risk	Max	Min
Interest rate risk	16	28	16
Currency risk	0	0	0
<b>Total</b>	<b>16</b>	<b>28</b>	<b>16</b>

DKKkm, 31 Dec 2013	Total risk	Max	Min
Interest rate risk	24	35	13
Currency risk	0	0	0
<b>Total</b>	<b>24</b>	<b>35</b>	<b>13</b>

<sup>1</sup> Market risk is described in the Board of Directors' report under Risk, liquidity and capital management, pages 8-10.

### Credit risk<sup>2</sup>

DKKkm	31 Dec 2014	31 Dec 2013
<b>Maximum credit risk of on-balance-sheet items</b>		
Cash balance and demand deposits with central banks		250
Loans to credit institutions and central banks	70,462	52,873
Loans and receivables at fair value	381,056	363,749
- of which owner-occupied dwellings and holiday homes	258,132	248,220
- of which commercial properties	122,924	115,529
Loans and receivables at amortised cost	-	2
Bonds at fair value	25	-
Investment in associated undertaking	13	13
Other asset items	371	152

#### Security received

The maximum credit risk on loans to credit institutions is secured by own bonds in connection with purchase and resale transactions	68,631	51,383
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The security underlying loans at fair value is the physical collateral represented by the mortgaged properties in accordance with Danish mortgage legislation. The security position (LTV) of the loan portfolio is described in detail in the Board of Directors' report, page 7.

In addition, the parent company Nordea Bank Danmark A/S provides on an ongoing basis loss guarantees covering the top 25% of the principal of mortgage loans disbursed	97,523	87,750
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In connection with the disbursement of loans, Nordea Bank Danmark A/S additionally provides statutory guarantees relating to registration with the Land Registry	14,429	11,567
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There are also statutory limits on the size of commitments with a single customer or a group of mutually related customers, implying that a commitment, after deduction of particularly secure claims, cannot exceed 25% of the capital base.

<sup>2</sup> Credit risk is described and illustrated in the section on Risk, liquidity and capital management in the Board of Directors' report, pages 8-10. See also Note 11, under Age distribution of mortgage loans in arrears before provisions.

## Proposed distribution of earnings

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

<u>DKKm</u>	
Retained earnings	15,769
Net profit for the year	1,340
Transferred to Other reserves	-2
<b>Total</b>	<b>17,107</b>

The Board of Directors proposes that the profit for 2013 is distributed as follows:

<u>DKKm</u>	
Dividends paid to the shareholder	-
To be carried forward	17,107
<b>Total</b>	<b>17,107</b>

The company's distributable earnings amount to DKK 17,107m. After the proposed distribution of earnings, the company's unrestricted equity amounts to DKK 18,838m.



## Statement by the Board of Directors and the Executive Management

The Board of Directors and the Executive Management have today discussed and approved the annual report of Nordea Kredit Realkreditaktieselskab for the financial year 2014.

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

It is our opinion that the financial statements give a true and fair view of the company's financial position at 31 December 2014 and of the results of the company's operations for the financial year 1 January-31 December 2014.

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

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

Copenhagen, 4 February 2015

### Executive Management

Charlotte Gullak Christensen  
(Chief Executive Officer)

Claus H. Greve  
(Deputy Chief Executive Officer)

### Board of Directors

Peter Lybecker  
(Chairman)

Jørgen Holm Jensen

Kim Skov Jensen

Jette Petersen

## Independent auditors' report

### To the shareholders of Nordea Kredit Realkreditaktieselskab

We have audited the financial statements of Nordea Kredit Realkreditaktieselskab for the financial year 1 January-31 December 2014. The financial statements comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements have been prepared in accordance with the Danish Financial Business Act.

### Management's responsibility

Management is responsible for the preparation and fair presentation of financial statements in accordance with the Danish Financial Business Act. Further, Management is responsible for the internal control deemed relevant by the Management for the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit legislation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

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

Our audit did not result in any qualification.

### Opinion

In our opinion, the financial statements give a true and fair view of the Company's financial position at 31 December 2014 and of the results of the Company's operations for the financial year 1 January-31 December 2014 in accordance with the Danish Financial Business Act.

### Statement on the Board of Directors' report

Pursuant to the Danish Financial Business Act, we have read the Board of Directors' report. We have not performed any other procedures in addition to the audit of the financial statements. On this basis, it is our opinion that the information given in the Board of Directors' report is consistent with the financial statements.

Copenhagen, 4 February 2015

Ernst & Young  
Godkendt Revisionspartnerselskab

Finn L. Meyer  
State-Authorised Public Accountant

Henrik Barner Christiansen  
State-Authorised Public Accountant

# Management

## Board of Directors of Nordea Kredit

**Peter Lybecker** (Chairman)

### Internal assignments

Chief Executive Officer of Nordea Bank Danmark A/S.  
Head of Strategy Partnerships.  
Chairman of the Board of Directors of Fionia Asset Company A/S.  
Member of the Boards of Directors of Nordea Finans Danmark A/S, Nordea Finans Sverige AB and Nordea Finance Finland Ltd.

### External assignments

Chairman of the Boards of Directors of Bluegarden Holding A/S and Bluegarden A/S.  
Chairman of the Board of Directors of Bankernes Kontantservice A/S.  
Chairman of the Board of Directors of VP SECURITIES A/S.  
Chairman of the Board of Directors of Danmarks Skibskredit A/S.  
Member of the Board of Directors of LR Realkredit A/S.

**Kim Skov Jensen**

### Internal assignments

Managing Director, Group Asset & Liability Management, Group Treasury, Nordea Bank Danmark A/S.  
Chairman of the Board of Directors of NJK1 ApS.  
Member of the Board of Directors of Fionia Asset Company A/S.  
Member of the Board of Directors of Pensionskassen for direktører i Sparekassen SDS and Nordea Bank Sveriges Pensionsstiftelse.

### External assignments

None.

**Jørgen Holm Jensen**

### Internal assignments

Executive Vice President in Group Credit Denmark.

### External assignments

Member of the credit council of the Danish Bankers Association.

**Jette Petersen**

### Internal assignments

Deputy Director at Nordea Bank Denmark A/S.

### External assignments

None.

## Executive Management of Nordea Kredit

**Charlotte Gullak Christensen** (Chief Executive Officer)

### Internal assignments

None.

### External assignments

Deputy Chairman of the Board of Directors of the Danish Mortgage Banks' Federation.  
Member of the Boards of Directors of e-nettet A/S and danbolig A/S.

**Claus H. Greve**

### Internal assignments

None.

### External assignments

None.

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