Nordea

Interim Report January-June 2019

# Nordea Kredit Realkreditaktieselskab

Business registration number 15134275

*We build strong and close relationships through our engagement with customers and society. Whenever people strive to reach their goals and realise their dreams, we are there to provide relevant financial solutions.*

*Nordea Kredit is part of the Nordea Group. Nordea is one of the largest banks in the Nordic region and among the ten largest financial groups in Europe in terms of total market capitalisation with around 10 million customers. The Nordea share is listed on the Nasdaq Helsinki, Nasdaq Copenhagen and Nasdaq Stockholm exchanges. Read more about us on nordea.com.*

## Contents

# Key financial figures

| **Income statement** (DKKm) | Jan-Jun 2019 | Jan-Jun 2018 | Change % |
|---|---|---|---|
| **Operating income** | | | |
| Net interest income | 1,576 | 1,604 | -2 |
| Net fees and commissions paid | -349 | -333 | 5 |
| Value adjustments | 5 | -8 | - |
| Other income | -3 | 2 | - |
| **Total operating income** | **1,229** | **1,265** | **-3** |
| Staff and administrative expenses | -145 | -149 | -3 |
| **Total operating expenses** | **-145** | **-149** | **-3** |
| **Profit before impairment losses** | **1,084** | **1,116** | **-3** |
| Impairment losses on loans and receivables | -4 | -243 | - |
| **Profit before tax** | **1,080** | **873** | **24** |
| Tax | -238 | -192 | 24 |
| **Net profit for the period** | **842** | **681** | **24** |

| **Business volumes, key items** (DKKm) | 30 Jun 2019 | 31 Dec 2018 | Change % | 30 Jun 2018 | Change % |
|---|---|---|---|---|---|
| Loans and receivables at fair value | 401,598 | 394,916 | 2 | 394,643 | 2 |
| Loans and receivables at nominal value[1] | 390,422 | 387,159 | 1 | 385,712 | 1 |
| Bonds in issue at fair value | 408,567 | 400,817 | 2 | 385,674 | 6 |
| Equity | 21,582 | 22,333 | -3 | 21,421 | 1 |
| Total assets | 455,230 | 438,825 | 4 | 439,160 | 4 |

| **Ratios and key figures** | Jan-Jun 2019 | Jan-Jun 2018 |
|---|---|---|
| Return on equity[2], % | 7.6 | 6.3 |
| Cost/income ratio | 11.8 | 11.8 |
| Common equity tier 1 capital ratio[3] | 23.2 | 28.9 |
| Tier 1 capital ratio[3] | 23.2 | 28.9 |
| Total capital ratio[3] | 25.7 | 32.0 |
| Own funds[3], DKKm | 22,365 | 22,566 |
| Tier 1 capital[3], DKKm | 20,165 | 20,366 |
| Risk exposure amount, DKKm | 87,014 | 70,449 |
| Write-down ratio, basis points[2] | 0.2 | 12.3 |
| Average number of employees (full-time equivalents) | 114 | 109 |

1 After adjustment for provisions for loan losses.
2 Calculated on a yearly basis.
3 Excluding profit for the period.

# Nordea Kredit Realkreditaktieselskab
# Board of Directors' report

## Enhancing the customer experience

In the first half of 2019 Nordea Kredit continued the work to enhance the digital value proposition further to improve the customer experience.

The digital feature – "What can I afford?" – has been updated to a new design, making it possible for customers to add more details before sending requests for loan certificates. Furthermore, the development of an automated loan certificate is ongoing, and the solution will be implemented in the second half of 2019.

At eBolig there have been ongoing improvements to increase usage and ensure a great customer experience. To support more remortgage cases, the mortgage monitoring service has been expanded to cover all loan types, and all new mortgages will automatically be updated with relevant criteria. Customers will be informed about the possibility of remortgaging when this is beneficial.

A major improvement for household customers is that most documents in a mortgage case can now be signed in one application at Nordea.

Nordea improved its overall value proposition to its customers by introducing a new bank mortgage product with fixed interest for both owner-occupied dwellings and cooperative dwellings, supplementing Nordea Kredit's portfolio of mortgage products. Furthermore, to improve the availability for customers, the opening hours for financial advice have been extended. Nordea Kredit is continuing to strengthen its collaboration with the danbolig chain of real estate agents, to improve the customer experience in connection with the valuation of customers' properties.

## Result summary January-June 2019

Profit before tax was up by 24% to DKK 1,080m (DKK 873m) (the comparative figures in brackets refer to the first half of 2018). Profit before tax improved by 3% excluding the transition effect of DKK 180m in the first half of 2018 related to the new impairment rules.

Net interest income was down by 2%. Lending volumes increased by 1% compared to the end of 2018 driven by both owner-occupied dwellings and commercial properties. Customers followed Nordea's recommendation to remortgage and refinance F1 loans by either fixed-rate loans or adjustable-rate loans with a longer fixing period, making customers less financially dependent on interest rates and reducing refinancing risk. This resulted as expected in somewhat lower administration and reserve fees.

Commission income was up by 9% following higher remortgaging activity compared to the first half of 2018. The higher remortgaging activity is expected to continue in the second half of 2019.

Impairment losses continued at a low level in 2019 and amounted to DKK 4m compared to DKK 63m in the first half of 2018 (excluding the transition effect of DKK 180m related to the new impairment rules).

### Operating income

Net interest income decreased by 2% to DKK 1,576m (DKK 1,604m) mainly due to lower administration and reserve fee income. The customers' reorientation from F1 loans towards either fixed-rate loans or F5 loans resulted in lower average margins. The decrease in margins was to a large extent offset by increased loan volumes.

Fee and commission income was up by 9% to DKK 271m (DKK 249m). Fee and commission income was positively affected by higher remortgaging activity following the lower interest rate level in the second quarter of 2019. Refinancing fees decreased as expected following lower refinancing volumes in 2019 compared to 2018.

Fees and commissions paid increased by 7% to DKK 620m (DKK 582m) mainly due to higher guarantee commissions, reflecting an increase in lending volumes and increased valuation fees following higher remortgaging activity.

### Staff and administrative expenses

Total staff and administrative expenses decreased by 3% to DKK 145m (DKK 149m) due to non-recurring staff costs in the first half of 2018. Furthermore, IT costs driven by the strong focus on digitalisation were down from a high level. The decrease was somewhat offset by an increase in resolution fees.

### Impairment losses on loans and receivables

Impairment losses on loans and receivables decreased to DKK 4m (DKK 243m). Excluding the effect from the new impairment rules amounting to DKK 180m, impairment losses on loans and receivables were DKK 63m in the first half of 2018. Impairment losses on loans and receivables continued at a low level, reflecting the strong credit quality in general and the high guarantee coverage from Nordea Bank. Although the agricultural sector was under pressure due to the extreme drought in the summer of 2018, low sales prices etc it has not resulted in significant impairment losses for Nordea Kredit. The first loss guarantees covered 97% (97% at end-2018) of all loans at Nordea Kredit.

The write-down ratio decreased to 0.2 bps (12.3 bps including the transition effect from the new impairment rules and 3.2 bps excluding the transition effect) of the loan portfolio.

### Tax

Income tax expense was DKK 238m (DKK 192m) and the effective tax rate was 22% (22%).

### Net profit for the period

Net profit for the period increased to DKK 842m (DKK 681m), corresponding to a return on equity in the first half of 2019 of 7.6% annually (6.3% annually). Net profit for the first half of 2018 excluding the effect of the new impairment rules was DKK 821m, corresponding to a return of equity of 7.5% annually.

## Comments on the balance sheet

### Assets

Total assets increased to DKK 455,230m (DKK 438,825m at end-2018).

Receivables from credit institutions and central banks increased to DKK 53,084m (DKK 43,440m at end-2018) following the investment of excess liquidity.

Loans and receivables at fair value increased to DKK 401,598m (DKK 394,916m at end-2018), while total mortgage lending at nominal value after loan losses increased by 1% to DKK 390,422m (DKK 387,159m at end-2018). The increase was related to both owner-occupied dwellings and commercial properties while agriculture decreased somewhat. Gross new lending increased by 29% compared to the first half of 2018.

The arrears rate for owner-occupied dwellings and holiday homes (the 3.5-month arrears rate) for the December 2018 payment date decreased to 0.16% (0.18% at the September 2018 payment date) compared to the arrears rate for the sector of 0.20%. The arrears rate for the March 2019 payment date was 0.17%.

Accumulated loan loss provisions decreased by DKK 34m to DKK 289m (DKK 323m at end-2018) mainly related to lower model-calculated impairments. Accumulated loan loss provisions regarding stages 2 and 3 amounted to DKK 66m (DKK 83m at end-2018) and DKK 223m (DKK 240m at end-2018), respectively.

Assets held temporarily remained at a low level and consisted of a total of 22 repossessed properties at the end of June 2019 (26 at end-2018) with a carrying amount of DKK 49m (DKK 59m at end-2018).

### Debt

Debt to credit institutions and central banks was up by DKK 9,848m to DKK 20,689m (DKK 10,841m at end-2018), affected by an increased volume of repurchase transactions following higher remortgaging and refinancing activity.

Bonds in issue at fair value were up DKK 7,750m to DKK 408,567m (DKK 400,817m at end-2018) after offsetting the portfolio of own bonds.

### Equity

Including the net profit for the period, total equity accounted for DKK 21,582m at the end of June 2019 compared to DKK 22,333m at end-2018 and DKK 21,421m at end of June 2018.

## Development in the property market

### Owner-occupied dwellings and holiday homes

The housing market is in good shape. Prices are rising in most municipalities, sales activity is generally high and financing costs are historically low. Local developments vary between rural areas and provincial towns.

Prices of owner-occupied flats have been almost unchanged in the large cities since the spring of 2018, which is seen as a sign of a soft landing. High prices and tighter lending rules have gradually made the market for flats too expensive for many buyers, and therefore the number of flats for sale has been growing fast over the past year, putting a brake on previous years' strong price rises.

Despite the historically low mortgage costs that make it more affordable to enter the housing market, flats are expected to see a growth rate close to zero in the coming years. Substantial new construction and the last years' increase in the housing stock contributed to the slowdown together with the coming housing tax reform, which will particularly affect expensive flats.

In the single-family house market, prices are expected to continue to increase in the coming years but at a more subdued pace than in the past. Interest rates are expected to increase slightly, and the weaker market for flats will cause smaller gains on sales and consequently less capital for house purchases. Prices of single-family houses are expected to rise by 2-3% annually in 2019 and 2020. The biggest price increases will likely be seen in major cities outside the Copenhagen area as they will benefit from lower price levels and a less pronounced effect of the tighter regulation.

### Commercial properties

In 2018 the market for commercial properties continued the positive trend around the largest cities. In the smaller cities and outskirt areas, the transaction level remained lower, and the location and usability determine the demand. The positive trend has slowed somewhat in 2019, but the effect differs depending on the type of property.

Following very high demand for residential rental properties in 2018, primarily around Copenhagen, Aarhus and the larger cities, the transaction volume has fallen sharply in 2019. The primary reason behind the lower activity is the high price level, making buyers reluctant to enter the market. In addition, there is uncertainty about rent regulation rules. On the other hand, there is a liquid market for office properties in the larger cities and vacancy rates are very low.

Falling sales prices for milk, pig and mink production – and the extreme drought in the summer of 2018 – resulted in overall poor results for agriculture in 2018. The results for 2019 are expected to be better than in 2018, but still at an unsatisfactory level due to relatively low sales prices. Sales prices for pork have, however, increased considerably in recent months following the swine fever in China. The 2019 results for pig production may therefore reach a good level.

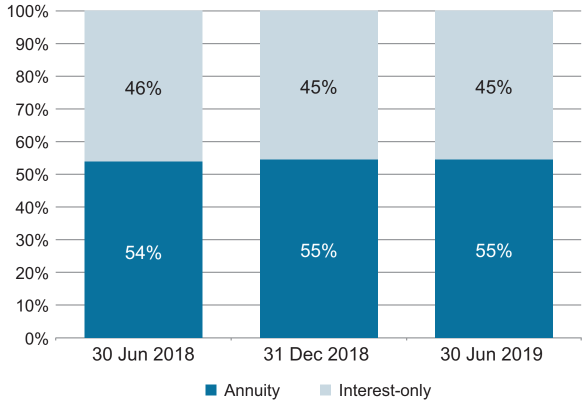
Land and crop properties are still seeing good trading activity. Overall, prices of agricultural properties are stable, which is expected to continue for the rest of 2019. However, the trading activity of livestock properties is dependent on pork prices remaining high as well as higher milk prices in the long term.

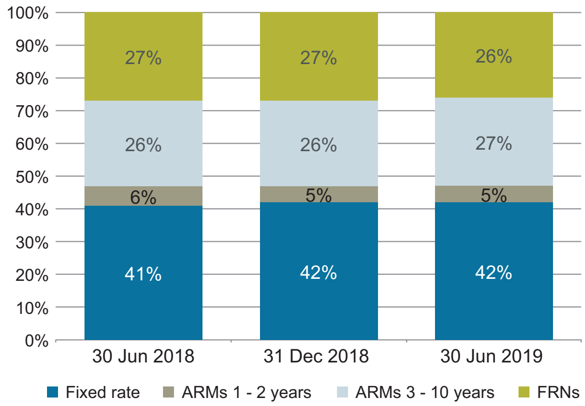
## Nordea Kredit's lending

### The loan portfolio

At the end of June 2019 total lending at nominal value after loan losses amounted to DKK 391bn (DKK 387bn at end-2018).

**Total loan portfolio by loan type**



Fixed-rate loans constitute a large and stable share of the portfolio amounting to 42%. The most popular adjustable-rate loans (ARMs) are F5 loans. Floating-rate notes (FRNs) include Kort Rente and Cibor loans.

At end-June 2019 interest-only loans accounted for 45% of the portfolio – 1% point below the level 12 months earlier.

### Loan to value (LTV) ratios and supplementary collateral for loans financed through covered mortgage bonds

The LTV ratio for total lending at Nordea Kredit was 59.3% at the end of the first half of 2019 (58.6% at end-2018).

The supplementary collateral required on the basis of the LTV ratios for the individual loans was DKK 12bn at the end of June 2019 (DKK 11bn at end-2018).

## Bond issuance

### Rating

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

The bonds are issued through capital centre 1 and capital centre 2 and have all been assigned the highest ratings of Aaa and AAA by the two rating agencies.

### Funding

Nordea Kredit adheres to the specific balance principle and exclusively match-funds its lending by the issuance of bonds. In general, the bonds issued are highly marketable and the refinancing auctions demonstrated satisfactory demand.

Bond issuance before redemptions amounted to DKK 91bn nominal in the first half of 2019 (DKK 102bn in the first half of 2018) following fewer series being remortgaged and refinanced in 2019.

At the end of June 2019 the total nominal value of bonds issued to finance mortgage loans, before offsetting the portfolio of own bonds, increased to DKK 449bn (DKK 417bn at end-2018) affected by high remortgaging and refinancing activity.

## Capital adequacy

The tier 1 capital ratio excluding the net profit for the period was 23.2% (23.9% at end-2018) and the total capital ratio excluding the net profit for the period was 25.7% (26.5% at end-2018). The ratios decreased slightly over the period mainly due to an increase in REA to DKK 87,014m (DKK 84,807m end of 2018).

End of June 2018 REA amounted to DKK 70,4bn and the common equity tier 1 ratio and total capital ratio were 28.9% and 32.0%, respectively. In the second half of 2018 Nordea was required by the European Central Bank to migrate pillar 2 add-ons into pillar 1 REA, therefore REA increased with a corresponding decrease in both ratios. There was no material change in own funds or the underlying risk of Nordea Kredit's exposures.

### News in regulation

Risk exposure amount (REA), own funds and capital ratios are calculated according to the Capital Requirement Directive (CRD) IV / Capital Requirement Regulation (CRR). Several buffers apply to Nordea Kredit. The capital conservation buffer (CCoB) applies with 2.5%. As announced by the Minister for Industry, Business and Financial Affairs in 2018 the countercyclical capital buffer (CCyB) increased from 0% to 0.5% with effect from 31 March 2019. A further increase to 1.0% will take effect at 30 September 2019. The systemic risk buffer (SRB) applies to systemically important institutions according to their systemicality. The buffer for Nordea Kredit is 1.5% in 2019. On 20 June 2019 Nordea Kredit was reappointed as a systemically important financial institution (SIFI) with an unchanged level of systemicality. In addition to this, there is a pillar 2 requirement that is set on an individual basis.

On 7 June 2019 the CRR II, the CRD V and the Bank Recovery and Resolution Directive (BRRD) II were published in the EU Official Journal. The new regulations entered into force on 27 June 2019. As regards the CRR II, the majority of the rules will apply from the second quarter of 2021 and the CRD V and the BRRD II will be implemented in national legislation by the fourth quarter of 2020.

The amended regulations implement, among other things, minimum requirements for the leverage ratio (3%) and the net stable funding ratio (NSFR) (100%), a new calibration of the preferential SME factor for small and medium-sized companies, new rules for large exposures as well as changes to systemic risk buffers and pillar 2.

**Debt buffer requirement**
As part of the implementation of the BRRD in Denmark, mortgage institutions such as Nordea Kredit must fulfil a debt buffer requirement of 2% of its nominal lending. Due to transition rules the requirement is 1.8% from June 2019 and 2.0% when fully implemented in June 2020. The debt buffer requirement is fulfilled using tier 1 and tier 2 capital instruments not used for capital requirements.

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

## Liquidity coverage ratio (LCR)

The common European LCR requirement for Nordea Kredit is 100% of net liquidity outflows over a 30-calendar day stress period, as specified by the Delegated Act. In addition, Nordea Kredit has a pillar 2 LCR floor requirement of 100%, as specified by the Danish FSA, which is measured relative to 2.5% of Nordea Kredit's total lending. At 30 June 2019 the LCR requirement that was the binding constraint on the liquidity buffer was the pillar 2 LCR floor requirement, and the LCR relative to the floor was 356%.

## Supervisory diamond

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

At the end of June 2019 Nordea Kredit complied with all the benchmarks in the supervisory diamond for mortgage institutions.

**The supervisory diamond**

| | 30 June 2019 | Limit |
|---|---|---|
| 1. Lending growth | | |
| • Owner-occupied dwellings and holiday homes | 1% | 15% |
| • Cooperative dwellings and residential rental properties | 6% | 15% |
| • Agriculture | -3% | 15% |
| • Other | 1% | 15% |
| 2. Borrower's interest rate risk[1] | 16% | 25% |
| 3. Interest-only lending[2] | 8% | 10%[5] |
| 4. Short-term funding[3] | | |
| • Annually | 16% | 25%[5] |
| • Quarterly | 7% | 12.5%[5] |
| 5. Large exposures[4] | 39% | 100% |

1 Loans for owner-occupied dwellings and holiday homes and residential rental properties where the LTV ratio exceeds 75% of the lending limit and the interest rate is fixed for less than two years are limited to 25%.
2 Interest-only lending for owner-occupied dwellings and holiday homes where the LTV ratio exceeds 75% of the lending limit is limited to 10%.
3 Yearly/quarterly refinancing is limited to 25%/12½% of the total portfolio.
4 The 20 largest exposures less CRR deductions are limited to 100% of CET1.
5 In effect from 2020.

## Changes to the Board of Directors

Marte Kopperstad was appointed a member of the Board of Directors at an extraordinary general meeting on 7 May 2019.

After the recent appointment, the Board of Directors consists of Nicklas Ilebrand (Chairman), Mads Skovlund Pedersen (Vice Chairman), Jørgen Holm, Torben Laustsen, Kim Skov Jensen, Anita Nedergaard Nielsen, Marte Kopperstad and Anne Rømer (independent member).

## Risks and uncertainties

See Note 7 for information about risks and uncertainties.

# Income statement

| DKKm | Note | Jan-Jun 2019 | Jan-Jun 2018 | Full year 2018 |
|---|---|---|---|---|
| Interest income | | 4,121 | 4,380 | 8,636 |
| Interest expense | | -2,545 | -2,776 | -5,446 |
| **Net interest income** | 2 | **1,576** | **1,604** | **3,190** |
| Fee and commission income | | 271 | 249 | 542 |
| Fees and commissions paid | | -620 | -582 | -1,177 |
| **Net interest and fee income** | | **1,227** | **1,271** | **2,555** |
| Value adjustments | 3 | 5 | -8 | -18 |
| Other operating income | | 0 | 3 | 3 |
| Staff and administrative expenses | | -145 | -149 | -286 |
| Depreciation of tangible assets | | 0 | 0 | 0 |
| Impairment losses on loans and receivables | 4 | -4 | -243 | -215 |
| Profit from equity investment in associated undertaking | | -3 | -1 | 3 |
| **Profit before tax** | | **1,080** | **873** | **2,042** |
| Tax | | -238 | -192 | -449 |
| **Net profit for the period** | | **842** | **681** | **1,593** |

# Statement of comprehensive income

| DKKm | Jan-Jun 2019 | Jan-Jun 2018 | Full year 2018 |
|---|---|---|---|
| **Net profit for the period** | **842** | **681** | **1,593** |
| Other comprehensive income, net of tax | - | - | - |
| **Total comprehensive income** | **842** | **681** | **1,593** |

# Balance sheet

| DKKm | Note | 30 Jun 2019 | 31 Dec 2018 | 30 Jun 2018 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash in hand and demand deposits with central banks | | 50 | 225 | 300 |
| Receivables from credit institutions and central banks | | 53,084 | 43,440 | 43,368 |
| Loans and receivables at fair value | 5 | 401,598 | 394,916 | 394,643 |
| Loans and receivables at amortised cost | | 1 | 1 | - |
| Investment in associated undertaking | | 19 | 22 | 18 |
| Tangible assets | | 1 | - | 0 |
| Deferred tax assets | | 1 | 1 | 1 |
| Assets held temporarily | | 49 | 59 | 28 |
| Other assets | | 395 | 150 | 773 |
| Prepaid expenses | | 32 | 11 | 29 |
| **Total assets** | | **455,230** | **438,825** | **439,160** |
| **Debt** | | | | |
| Debt to credit institutions and central banks | | 20,689 | 10,841 | 27,477 |
| Bonds in issue at fair value | | 408,567 | 400,817 | 385,674 |
| Current tax liabilities | | 134 | 15 | 75 |
| Other liabilities | | 2,024 | 2,600 | 2,288 |
| Prepaid income | | 34 | 19 | 25 |
| **Total debts** | | **431,448** | **414,292** | **415,539** |
| **Subordinated debt** | | | | |
| Subordinated debt | | 2,200 | 2,200 | 2,200 |
| **Equity** | | | | |
| Share capital | | 1,717 | 1,717 | 1,717 |
| Other reserves | | 20 | 23 | 19 |
| Retained earnings | | 19,845 | 19,000 | 19,685 |
| Proposed dividend | | - | 1,593 | - |
| **Total equity** | | **21,582** | **22,333** | **21,421** |
| **Total liabilities and equity** | | **455,230** | **438,825** | **439,160** |
| **Contingent liabilities** | | | | |
| Guarantees etc | | 75 | 75 | 75 |
| Credit commitments | | 1,460 | 1,232 | 1,278 |
| **Total contingent liabilities** | | **1,535** | **1,307** | **1,353** |

# Statement of changes in equity

| DKKm | Share capital | Other reserves[1] | Retained earnings | Proposed dividend | Total |
|---|---|---|---|---|---|
| **Balance at 1 Jan 2019** | 1,717 | 23 | 19,000 | 1,593 | 22,333 |
| Net profit for the period | - | -3 | 845 | - | 842 |
| Other comprehensive income | - | - | - | - | - |
| Dividends paid | - | - | - | -1,593 | -1,593 |
| **Balance at 30 Jun 2019** | **1,717** | **20** | **19,845** | **-** | **21,582** |
| **Balance at 1 Jan 2018** | 1,717 | 20 | 19,003 | 1,312 | 22,052 |
| Net profit for the period | - | 3 | 1,590 | - | 1,593 |
| Other comprehensive income | - | - | - | - | - |
| Dividends paid | - | - | - | -1,312 | -1,312 |
| Proposed dividend | - | - | -1,593 | 1,593 | - |
| **Balance at 31 Dec 2018** | **1,717** | **23** | **19,000** | **1,593** | **22,333** |
| **Balance at 1 Jan 2018** | 1,717 | 20 | 19,003 | 1,312 | 22,052 |
| Net profit for the period | - | -1 | 682 | - | 681 |
| Other comprehensive income | - | - | - | - | - |
| Dividends paid | - | - | - | -1,312 | -1,312 |
| **Balance at 30 Jun 2018** | **1,717** | **19** | **19,685** | **-** | **21,421** |

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

# Notes to the financial statements

## Note 1
## Accounting policies

**Basis of presentation**
The interim report of Nordea Kredit is prepared in accordance with the Danish Financial Business Act, including the Danish Financial Supervisory Authority's Executive Order on Financial Reports for Credit Institutions and Investment Firms etc (the Executive Order), as well as the Nasdaq OMX Nordic rules for issuers of bonds.

The accounting policies and methods of computation are the same as for the annual report for 2018 except for changes to the Executive Order following the implementation of IFRS 16 Leases mentioned below under "Changed accounting policies". For more information see Note 1 in the annual report for 2018.

The financial statements have not been reviewed or audited.

**Changed accounting policies**
The Executive Order adopted changes in IFRS 16 Leases regarding recognition, measurement, presentation and disclosure with effect from 1 January 2019.

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

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

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

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

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

## Note 2
## Net interest income

| DKKm | Jan-Jun 2019 | Jan-Jun 2018 | Full year 2018 |
|---|---|---|---|
| **Interest income** | | | |
| Receivables from credit institutions and central banks[1] | -149 | -124 | -258 |
| Loans and receivables at fair value | 2,595 | 2,810 | 5,518 |
| Administration and reserve fees receivable | 1,670 | 1,687 | 3,363 |
| Other interest income | 5 | 7 | 13 |
| **Total interest income** | **4,121** | **4,380** | **8,636** |
| **Interest expense** | | | |
| Debt to credit institutions and central banks[2] | 45 | 17 | 36 |
| Bonds in issue at fair value | -2,577 | -2,780 | -5,457 |
| Subordinated debt | -13 | -13 | -25 |
| **Total interest expense** | **-2,545** | **-2,776** | **-5,446** |
| **Net interest income** | **1,576** | **1,604** | **3,190** |
| [1] Of which negative interest income | -149 | -124 | -258 |
| [2] Of which positive interest expense | 46 | 17 | 38 |

# Notes to the financial statements

## Note 3
## Value adjustments

| DKKm | Jan-Jun 2019 | Jan-Jun 2018 | Full year 2018 |
|---|---|---|---|
| Mortgage loans | 3,036 | -964 | -2,437 |
| Foreign exchange gains/losses | 0 | 0 | 0 |
| Interest rate derivatives | 24 | -42 | -53 |
| Bonds in issue[1] | -3,055 | 998 | 2,472 |
| **Total** | **5** | **-8** | **-18** |

1 Including value adjustments on own positions.

## Note 4
## Impairment losses on loans and receivables

| DKKm | Jan-Jun 2019 | Jan-Jun 2018 | Full year 2018 |
|---|---|---|---|
| **Transition effect from new impairment rules** | **-** | **-180** | **-180** |
| **Stage 2** | | | |
| New and increased impairment charges | -4 | -27 | -29 |
| Reversals of impairment charges | 21 | 18 | 37 |
| **Impairment losses on loans and receivables, non-credit impaired** | **17** | **-9** | **8** |
| **Stage 3, credit impaired** | | | |
| Realised loan losses | -41 | -66 | -157 |
| Decrease in impairment charges to cover realised loan losses | 38 | 64 | 145 |
| Recoveries on previous realised loan losses | 7 | 6 | 11 |
| New and increased impairment charges | -134 | -358 | -393 |
| Reversals of impairment charges | 109 | 300 | 351 |
| **Impairment losses on loans and receivables, credit impaired** | **-21** | **-54** | **-43** |
| **Impairment losses on loans and receivables** | **-4** | **-243** | **-215** |

## Note 5
## Loans and receivables at fair value

| DKKm | 30 Jun 2019 | 31 Dec 2018 | 30 Jun 2018 |
|---|---|---|---|
| **Mortgage loans, nominal value** | | | |
| Value at beginning of period | 387,482 | 383,830 | 383,830 |
| New loans (gross new lending) | 41,978 | 69,539 | 32,448 |
| Foreign exchange revaluations | -1 | 29 | 11 |
| Redemptions and prepayments | -34,474 | -57,277 | -26,163 |
| Net new lending for the period | 7,503 | 12,291 | 6,296 |
| Scheduled principal payments | -4,274 | -8,639 | -3,980 |
| **Mortgage loan portfolio at end of period** | **390,711** | **387,482** | **386,146** |
| | | | |
| **Mortgage loans, fair value** | | | |
| Nominal value | 390,711 | 387,482 | 386,146 |
| Adjustment for interest rate risk etc | 11,017 | 7,595 | 8,741 |
| Adjustment for credit risk | -289 | -323 | -434 |
| Mortgage loan portfolio | 401,439 | 394,754 | 394,453 |
| Mortgage arrears and execution levied against debtors' properties | 159 | 162 | 190 |
| **Loans and receivables at fair value** | **401,598** | **394,916** | **394,643** |

**Movements of allowance accounts for loans and receivables measured at fair value**

| DKKm | Stage 1[2] | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Balance at 1 Jan 2019 | - | 83 | 240 | 323 |
| New impairment charges | - | 1 | 72 | 73 |
| Increased impairment charges | - | 3 | 58 | 61 |
| Reversals of impairment charges | - | -21 | -108 | -129 |
| Write-off through decrease in allowance account | - | - | -37 | -37 |
| Other changes[1] | - | - | -2 | -2 |
| **Closing balance at 30 June 2019** | **-** | **66** | **223** | **289** |

| DKKm | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Balance at 1 Jan 2018 | - | 92 | 336 | 428 |
| New impairment charges | - | 10 | 69 | 79 |
| Increased impairment charges | - | 18 | 317 | 335 |
| Reversals of impairment charges | - | -37 | -348 | -385 |
| Write-off through decrease in allowance account | - | - | -130 | -130 |
| Other changes[1] | - | - | -4 | -4 |
| **Closing balance at 31 Dec 2018** | **-** | **83** | **240** | **323** |

| DKKm | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Balance at 1 Jan 2018 | - | 92 | 336 | 428 |
| New impairment charges | - | 10 | 53 | 63 |
| Increased impairment charges | - | 17 | 302 | 319 |
| Reversals of impairment charges | - | -18 | -299 | -317 |
| Write-off through decrease in allowance account | - | - | -57 | -57 |
| Other changes[1] | - | - | -2 | -2 |
| **Closing balance at 30 June 2018** | **-** | **101** | **333** | **434** |

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

# Notes to the financial statements

## Note 6
## Capital adequacy

| DKKm | 30 Jun 2019 | 31 Dec[1] 2018 | 30 Jun 2018 |
|---|---|---|---|
| **Calculation of own funds** | | | |
| Equity | 20,740 | 20,740 | 20,740 |
| **Common equity tier 1 capital before regulatory adjustments** | **20,740** | **20,740** | **20,740** |
| | | | |
| IRB provisions shortfall (-) | -400 | -407 | -374 |
| Other items, net | -175 | -70 | - |
| Total regulatory adjustments to common equity tier 1 capital | -575 | -477 | -374 |
| **Common equity tier 1 capital (net after deduction)** | **20,165** | **20,263** | **20,366** |
| **Tier 1 capital (net after deduction)** | **20,165** | **20,263** | **20,366** |
| | | | |
| Tier 2 capital before regulatory adjustments | 2,200 | 2,200 | 2,200 |
| Other items, net | - | - | - |
| **Total regulatory adjustments to tier 2 capital** | **-** | **-** | **-** |
| **Tier 2 capital** | **2,200** | **2,200** | **2,200** |
| **Own funds (net after deduction)** | **22,365** | **22,463** | **22,566** |

1 Including profit for the year.

## Note 6
## Capital adequacy *(continued)*

**Minimum capital requirement and risk exposure amount (REA)**

| DKKm | 30 Jun 2019 Minimum capital requirement | 30 Jun 2019 REA | 31 Dec 2018 Minimum capital requirement | 31 Dec 2018 REA | 30 Jun 2018 Minimum capital requirement | 30 Jun 2018 REA |
|---|---|---|---|---|---|---|
| **Credit risk** | **6,631** | **82,893** | **6,402** | **80,023** | **5,255** | **65,687** |
| - of which counterparty credit risk | 331 | 4,134 | 16 | 196 | 44 | 555 |
| | | | | | | |
| IRB | 5,697 | 71,208 | 5,771 | 72,131 | 4,653 | 58,156 |
| - sovereign | - | - | - | - | 3 | 38 |
| - corporate | 2,544 | 31,805 | 2,677 | 33,461 | 2,255 | 28,176 |
| - advanced | 2,544 | 31,805 | 2,677 | 33,461 | 2,255 | 28,176 |
| - institutions | 1 | 4 | 0 | 4 | 1 | 7 |
| - retail | 3,134 | 39,170 | 3,086 | 38,577 | 2,339 | 29,241 |
| - secured by immovable property collateral | 3,054 | 38,179 | 3,013 | 37,667 | 2,249 | 28,112 |
| - other retail | 80 | 991 | 73 | 910 | 90 | 1,129 |
| - other | 18 | 229 | 8 | 89 | 55 | 694 |
| - corporate | - | - | 0 | 1 | - | - |
| | | | | | | |
| Standardised | 934 | 11,685 | 631 | 7,892 | 602 | 7,531 |
| - central governments or central banks | 0 | 3 | 0 | 3 | 0 | 3 |
| - institutions | 919 | 11,481 | 615 | 7,690 | 600 | 7,501 |
| - corporate | 0 | 1 | 0 | 0 | - | - |
| - Secured by mortgages on immovable property | 14 | 181 | 14 | 175 | - | - |
| - in default | - | - | 0 | 1 | - | - |
| - equity | 1 | 19 | 2 | 22 | 2 | 27 |
| | | | | | | |
| **Market risk** | **-** | **-** | **-** | **-** | **-** | **-** |
| | | | | | | |
| **Operational risk** | **328** | **4,100** | **327** | **4,091** | **327** | **4,091** |
| - standardised | 328 | 4,100 | 327 | 4,091 | 327 | 4,091 |
| | | | | | | |
| Additional risk exposure amount related to Swedish RW floor due to Article 3 CRR | 2 | 21 | 2 | 22 | - | - |
| Additional risk exposure amount due to Article 3 of the CRR | - | - | 54 | 671 | 54 | 671 |
| **Total** | **6,961** | **87,014** | **6,785** | **84,807** | **5,636** | **70,449** |

## Note 6
## Capital adequacy *(continued)*

**Minimum capital requirement and capital buffers**

| **Per cent, 30 Jun 2019** | Minimum capital requirements | Capital buffers | | | | | Total |
|---|---|---|---|---|---|---|---|
| | | CCoB | CCyB | O-SII | SRB | Capital buffers total | |
| Common equity tier 1 capital | 4.5 | 2.5 | 0.5 | - | 1.5 | 4.5 | 9.0 |
| Tier 1 capital | 6.0 | 2.5 | 0.5 | - | 1.5 | 4.5 | 10.5 |
| Own funds | 8.0 | 2.5 | 0.5 | - | 1.5 | 4.5 | 12.5 |

| **DKKm, 30 Jun 2019** | | | | | | | |
|---|---|---|---|---|---|---|---|
| Common equity tier 1 capital | 3,916 | 2,175 | 437 | - | 1,305 | 3,918 | 7,833 |
| Tier 1 capital | 5,221 | 2,175 | 437 | - | 1,305 | 3,918 | 9,139 |
| Own funds | 6,961 | 2,175 | 437 | - | 1,305 | 3,918 | 10,879 |

**Common equity tier 1 available to meet capital buffers**

| **Percentage points of REA** | 30 Jun 2019 | 31 Dec[1] 2018 | 30 Jun 2018 |
|---|---|---|---|
| Common equity tier 1 capital | 17.2 | 17.9 | 22.9 |

[1] Including profit for the year.

**Capital ratios**

| **Capital ratios** (%) | 30 Jun 2019 | 31 Dec[1] 2018 | 30 Jun 2018 |
|---|---|---|---|
| Common equity tier 1 capital ratio | 23.2 | 23.9 | 28.9 |
| Tier 1 capital ratio | 23.2 | 23.9 | 28.9 |
| Total capital ratio | 25.7 | 26.5 | 32.0 |

[1] Including profit for the year.

| **Leverage ratio** | 30 Jun 2019 | 31 Dec[1] 2018 | 30 Jun 2018 |
|---|---|---|---|
| Tier 1 capital, transitional definition, DKKm | 20,165 | 20,263 | 20,366 |
| Leverage ratio exposure, DKKm | 455,473 | 438,960 | 439,302 |
| Leverage ratio | 4,4 | 4.6 | 4.6 |

[1] Including profit for the year.

# Notes to the financial statements

## Note 7
## Risks and uncertainties

Nordea Kredit's main risk exposure is credit risk. Nordea Kredit only assumes limited market risks, liquidity risks and operational risks. See the annual report for further information on risk composition.

None of the above exposures and risks is expected to have any significant adverse effect on Nordea Kredit or its financial position in the medium term.

Nordea Kredit is not involved in legal proceedings or disputes which are considered likely to have any significant adverse effect on Nordea Kredit or its financial position.

## Note 8
## The Danish Financial Supervisory Authority's ratio system

| | Jan-Jun 2019 | Jan-Jun 2018 | Full year 2018 |
|---|---|---|---|
| Total capital ratio, % | 25.7 | 32.0 | 26.5 |
| Tier 1 capital ratio, % | 23.2 | 28.9 | 23.9 |
| Pre-tax return on equity, % | 4.9 | 4.0 | 9.2 |
| Post-tax return on equity, % | 3.8 | 3.1 | 7.2 |
| Income/cost ratio | 8.2 | 3.2 | 5.1 |
| Foreign exchange exposure as % of tier 1 capital | 1.5 | 0.9 | 1.1 |
| Impairment ratio for the period, % | 0.0 | 0.1 | 0.1 |
| Lending growth for the period, % | 0.8 | 0.6 | 1.0 |
| Loans/equity | 18.6 | 18.0 | 17.7 |
| Return on assets, % | 0.2 | 0.2 | 0.4 |

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

# Glossary

The following definitions apply for ratios and key figures on page 3 etc.

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

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

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

**Leverage ratio**
The leverage ratio is the institution's capital as tier 1 capital divided by that institution's total exposure measure and expressed as a percentage.

**Loans/equity ratio**
Loans and receivables at fair value divided by equity end of the period.

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

**Own funds**
Own funds include the sum of the tier 1 capital and the supplementary capital consisting of subordinated loans, after deduction of the potential deduction for expected shortfall.

**Return on equity**
Net profit for the period as a percentage of average equity for the period. Average equity is including net profit for the period and dividend until paid.

**Risk exposure amount**
Total assets and off-balance sheet items valued on the basis of the credit and market risks, as well as operational risks in accordance with regulations governing capital adequacy, excluding carrying amount of shares which have been deducted from the capital base and intangible assets.

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

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

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

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

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

The Board of Directors and the Executive Management have discussed and approved the interim report of Nordea Kredit Realkreditaktieselskab for the half-year ending 30 June 2019.

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

It is our opinion that the financial statements give a true and fair view of the company's financial position at 30 June 2019 and of the results of the company's operations for the half-year ending 30 June 2019.

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

Copenhagen, 18 July 2019

**Board of Directors**

| | | |
|---|---|---|
| Nicklas Ilebrand<br>(Chairman) | Mads Skovlund Pedersen<br>(Vice Chairman) | Kim Skov Jensen |
| Jørgen Holm | Torben Laustsen | Anita Nedergaard Nielsen |
| Marte Kopperstad | Anne Rømer | |

**Executive Management**

| | |
|---|---|
| Claus H. Greve<br>(Chief Executive Officer) | Kamilla Hammerich Skytte<br>(Deputy Chief Executive Officer) |

Nordea Kredit Realkreditaktieselskab
Bus reg no 15134275
Helgeshøj Allé 33
PO Box 850
DK-0900 Copenhagen C
Tel +45 33 33 36 36
www.nordeakredit.dk