



Annual Report 2015  
**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 650 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)

	2015	2014	Change %	2013	2012
<b>Income statement</b>					
Total operating income	2,267	2,340	-3	1,986	1,660
Total operating expenses	-241	-201	20	-214	-232
Net loan losses	-114	-366	-69	-390	-491
Profit before tax	1,913	1,775	8	1,383	938
Net profit for the year	1,464	1,340	9	1,037	703
<b>Balance sheet</b>					
Loans to credit institutions and central banks	50,916	70,462	-28	52,873	46,773
Loans and receivables at fair value	385,583	381,056	1	363,749	358,371
Deposits by credit institutions and central banks	24,608	42,250	-42	46,470	48,905
Bonds in issue at fair value	389,568	387,106	1	349,074	336,402
Equity	20,301	18,838	8	17,498	16,461
Total assets	437,867	451,927	-3	417,038	407,044

### Ratios and key figures (%)

Return on equity	7.5	7.4		6.1	4.4
Cost/income ratio	10.6	8.6		10.8	14.0
Total capital ratio, excl transition rules <sup>1,3</sup>	29.7	28.6		16.4	16.2
Tier 1 capital ratio, excl transition rules <sup>1,3</sup>	29.7	28.6		16.4	16.2
Tier 1 capital <sup>1</sup> , DKKm	19,971	18,600		14,752	14,239
Risk exposure amount, excl transition rules, DKKm <sup>3</sup>	67,191	64,927		89,994	87,851
Number of employees (full-time equivalents) <sup>2</sup>	101	114		125	131

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

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

<sup>3</sup> The end-2015 and end-2014 ratios are reported under the Basel III (CRR/CRD IV) framework and the end-2013 ratios are reported using the Basel II regulatory 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 Taastrup 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 2014.

### Comments on the income statement

Nordea Kredit's profit for the year 2015 after tax increased by DKK 124m to DKK 1,464m (DKK 1,340m). The profit was positively affected by increasing lending and business volumes leading to higher administration and reserve fees and higher commission income. Some of the effect was offset by a lower return from net result from items at fair value. The profit for the year was as expected.

Income from administration and reserve fees increased by 3% to DKK 2,979m (DKK 2,897m) due to growth in lending.

Fee and commission income was up by 30% and was affected by large lending volumes being remortgaged especially in the first half-year due to fluctuations in interest rate levels.

Fee and commission expense increased by 14% to DKK 992m (DKK 872m) following the high remortgaging activity.

Net result from items at fair value decreased mainly due to the implementation of an interest rate floor on certain bond series, resulting in a negative non-recurring effect of DKK 234m.

Total operating expenses, consisting of staff costs and administrative expenses as well as depreciation of tangible assets, increased to DKK 241m (DKK 201m). The increase was driven by Nordea Kredit's payment to the new Danish resolution fund and higher IT expenses. Staff costs continued to decrease.

Net loan losses decreased to DKK 114m (DKK 366m), corresponding to 0.03% (0.10%) of the loan portfolio. Realised losses amounted to DKK 247m (DKK 412m). The decrease in loan

losses was partly due to the positive development in house prices especially in the major urban areas and historically low interest rate levels.

### Comments on the balance sheet

#### Assets

Total assets decreased by DKK 14bn in 2015 to DKK 438bn (DKK 452bn).

Loans to credit institutions and central banks amounted to DKK 51bn (DKK 70bn). The decrease was mainly due to lower cash deposits with Nordea Bank.

Loans and receivables at fair value were up by DKK 5bn to DKK 386bn (DKK 381bn).

At the end of 2015 total lending at nominal value after loan losses increased by 3% to DKK 384bn (DKK 372bn).

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

DKKbn	2015	2014	Change %
Owner-occupied dwellings and holiday homes	256	249	3%
Agricultural properties	48	47	2%
Other commercial properties	80	76	5%
<b>Total</b>	<b>384</b>	<b>372</b>	<b>3%</b>

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

The quality of the loan portfolio is considered satisfactory. Accumulated loan losses amounted to DKK 328m at the end of 2015 (DKK 459m), corresponding to 0.08% (0.12%) of the loan portfolio. Provisions for collectively assessed loans accounted for DKK 46m (DKK 139m).

Loss guarantees from Nordea Bank were DKK 100bn (DKK 98bn), at end-2015 comprising loans totalling DKK 358bn (DKK 335bn).

At the beginning of 2016 the 3.5-month arrears rate for owner-occupied dwellings and holiday homes (the September 2015 payment date) was 0.17% (0.24%), a decline of 0.07% point since the beginning of 2015.

Assets in temporary possession consisted of a total of 35 (41) repossessed properties by the end

of 2015 held at a value of DKK 34m (DKK 38m). The repossessed properties are predominantly owner-occupied dwellings.

### **Liabilities**

Deposits by credit institutions and central banks were DKK 25bn (DKK 42bn).

Bonds in issue at fair value totalled DKK 390bn (DKK 387bn) after offsetting the portfolio of own bonds.

### **Equity**

Including the net profit for the year, equity was DKK 20bn at the end of 2015 (DKK 19bn).

## **Capital adequacy**

At the end of 2015 the risk exposure amount of Nordea Kredit was DKK 67.2bn (DKK 64.9bn). The common equity tier 1 ratio and the total capital ratio were both 29.7% at end-2015 (28.6%). The Board of Directors confirms the assumption that Nordea Kredit is a going concern, and the annual financial statements have been prepared based on this assumption.

## **New regulations**

As a mortgage institution and part of the implementation of the Banking Recovery and Resolution Directive, Nordea Kredit have to fulfil a buffer of 2% of their total mortgage loans. The capital requirement can be fulfilled using tier 1 or tier 2 capital instruments as well as senior debt instruments which fulfil certain requirements. The buffer will be phased in starting with 0.6% in June 2016 and fully implemented in June 2020.

The liquidity coverage ratio (LCR) requirements came into force on 1 October 2015. The LCR quantifies the amount of high quality liquid assets (HQLAs) to be held by a credit institution in order to be able to cover net cash outflows over a short-term liquidity stress period of 30 days. Nordea Kredit complies with the requirements.

Nordea Bank has in 2015 been confirmed as a SIFI. As a subsidiary of Nordea Bank, Nordea Kredit also has to apply a systemic risk buffer (SRB).

The buffer is 2% for the Nordea Bank Danmark

Group, Nordea Bank and Nordea Kredit. The SIFI capital requirement will be phased in gradually during the period 2015 to 2019. In 2015 the buffer was 0.4%. From 2019, a combined capital requirement of at least 11.5-13.5% of risk-weighted assets will be required of Danish SIFIs, depending on the individual institution's systemic importance. A possible capital requirement related to the countercyclical capital buffer is not included.

The capital requirement for Danish SIFIs will comprise both the minimum capital requirement of 8% (pillar I requirement) and a combined buffer requirement, which will consist of a capital conservation capital buffer of 2.5% as well as the unique systemic risk capital buffer ranging from 1% to 3%.

For Nordea Bank the capital requirement will, with a systemic risk buffer of 2% and thereby a combined capital requirement, be at least 12.5%. In addition, there will be a possible pillar II requirement (individual solvency need) to reflect the institution's risk profile, and finally it will be possible to set a countercyclical capital buffer, which could amount to up to 2.5% in 2019. At end-2015 the countercyclical capital buffer is announced to be 0%. The capital conservation buffer is 0% in 2015 and will be phased in from 2016.

## **Supervisory diamond**

The supervisory diamond which the Danish FSA introduced in 2014 for mortgage institutions comprises a number of specific risk areas and limits which the institution in general should not exceed.

On an ongoing basis Nordea Kredit reviews the risk areas including the limits and expects to be compliant before they take effect in 2018-2020.

## **The property market**

### **The economy**

The Danish economy has picked up gradually; creating the foundation for a self-sustaining recovery that is expected to gain further momentum in the coming years. The biggest threat to the expected recovery is the global economy. Especially the current slowdown in

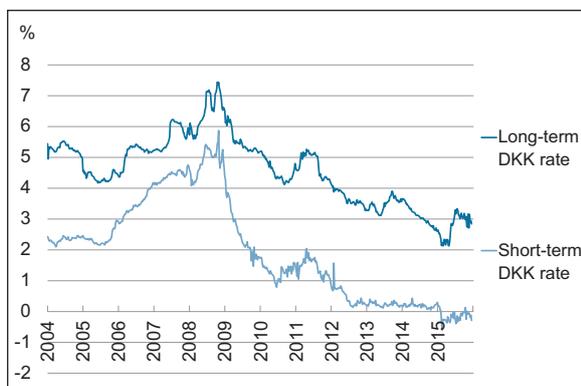
Emerging Markets may hit the Danish export sector harder than expected and thereby the labour market and consumer confidence.

Since mid-2013 the number of people in work has been on the rise. As a result, unemployment has gradually edged lower, although the effect has been partly offset by an increase in the labour force. Employment is expected to expand further in the coming years.

Over the past years Danish inflation has been exceptionally low, held down by a combination of declining commodity prices, a lower rate of increase in rents and the rollback of the security of supply tax on fuels ("forsyningsikkerhedsafgiften") from the beginning of 2015. However, going forward inflation will start to pick up as the effect of the decline in oil prices fades. As nominal wages are still expected to rise faster than consumer prices, the purchasing power will continue to increase.

Denmark and its fixed exchange rate policy attracted considerable attention in January 2015 due to strong appreciation pressures. The downward pressure on the Danish krone prompted four rate cuts and intervention in the FX market by the Danish central bank. The deposit rate fell to -0.75% and Denmark's currency reserves increased significantly. As a consequence, the 30-year mortgage rate fell to 2%, and the 1-year mortgage rate went negative. Pressure began to ease up in late February and as a consequence mortgage rates went higher. In the second half of 2015 interest rates have been quite stable.

**Figure 1. Mortgage interest rates**



### Property prices and market activity

The housing market accelerated in 2015. Especially in the first quarter, when interest rates were at their lowest, but house prices also increased in both the second and the third quarter (seasonally adjusted), although at a slower pace.

The explanation for the rising house prices is historically low financing costs that have made it cheaper to buy a home. Also, the labour market is improving, consumer confidence is high and the number of newly constructed homes is low.

In 2015 it was also notable that the improved housing market was no longer only concentrated in and around the major cities. According to the latest housing market statistics, house prices are now higher than last year in 82 of the 96 municipalities for which figures are available. The prices of owner-occupied flats have been rising fast the last years and this has initiated a debate on whether a local price bubble in Copenhagen is building. The primary explanation for the rapidly rising prices is the low financing costs. As a consequence, there is a risk of falling property prices if interest rates should rise faster than expected. It is, however, expected, that interest rates will stay low in the coming years and that the large cities will continue to attract a substantial inflow of new residents. It is therefore expected that prices of flats will continue to increase.

House prices are also expected to grow in the coming years supported by a general recovery in the economy, the continued improvement of the labour market and the very low interest rates. The improvement is expected to be countrywide, though still with the greater Copenhagen area as the driving force.

Besides the positive drivers, low interest rates and higher employment, other factors are pulling in the opposite direction. From November 2015, homebuyers were asked to provide at least 5% of the purchase price themselves before they can enter the housing market. A forthcoming guideline from the Danish FSA on lending for residential purposes in areas with significant price increases and high price levels will define a more restrictive cap on lending possibilities, especially for first-time buyers, which can limit the price increases especially in and around the major cities.

## Commercial

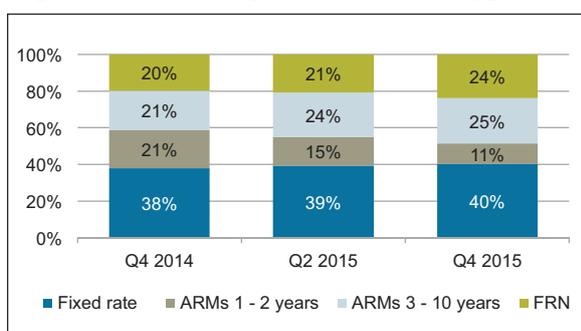
The market for rental properties rose rapidly in 2015. In commercial properties the positive market development continued around the largest cities. In the smaller cities and outskirts areas, business remained slow throughout the year. For 2016 the high demand for residential properties is expected to continue in Copenhagen, Aarhus and the larger cities. For commercial properties, high demand is expected for well-situated premises, in the Copenhagen and Aarhus areas and in the Triangle Region in Jutland. For other commercial properties, the location and usability will determine demand.

In agriculture, property prices in general were stable compared to 2014. Crop properties and land were overall stable – though slightly increasing in the eastern parts of the country. Decreasing output prices led to an increasing number of especially livestock properties offered for sale in the north and western parts and the prices of livestock properties were therefore under pressure in 2015. The very low output prices for pigs and dairy farmers are expected to recover partly in 2016. Crop farmers are expected to achieve positive results in 2016. The prices of crop properties including land are expected to be stable in 2016. Livestock properties and especially smaller properties without possibility of development are expected to have slightly decreasing prices in 2016.

## Nordea Kredit's lending

At the end of 2015 total lending at nominal value after loan losses amounted to DKK 384bn (DKK 372bn).

**Figure 2. Total loan portfolio by loan type**



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 (Figure 2).

## Negative interest rates

On 1 July 2015 certain issued series of adjustable-rate bonds based on Cibur and Cita reference rates were fixed with negative interest rates. This followed an announcement in February 2015 from Nordea Kredit which stated that any negative interest rates would be passed on to the benefit of borrowers with existing loans funded by adjustable-rate bonds.

In May Nordea Kredit announced a floor on the existing portfolio of bond series issued. Nordea Kredit has hedged this interest rate risk. Furthermore, it was announced that all newly issued loans and bonds with adjustable rates from 19 May 2015 would be without a floor, meaning that negative interest rates would be passed on to the benefit of borrowers at the expense of investors.

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

The LTV ratio for total lending in Nordea Kredit was reduced by 4.7% points in the fourth quarter of 2015 compared to one year earlier.

Following a period of rising house prices in the Copenhagen region and around the largest cities, prices of owner-occupied dwellings rose across the country in 2015.

As a result, the LTV ratio for owner-occupied dwellings fell to 68.6% at the end of the fourth quarter 2015 – a decrease of 6.2% points compared to one year earlier. A similar trend has applied to rental (-3.5% points) and commercial (-2.5% points) properties.

The supplementary collateral required on the basis of the LTV ratios for the individual loans was DKK 16bn at end-2015 (DKK 22bn).

LTV figures can be found in the quarterly Investor Presentations and the ECBC covered bond labelling report. Both reports are available at [www.nordeakredit.dk](http://www.nordeakredit.dk), investor information.

## **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**

Bond issuance before redemptions amounted to DKK 201bn nominal in 2015 (DKK 199bn), which was financed by means of covered mortgage bonds.

At end-2015 the total nominal value of bonds issued to finance mortgage loans, before offsetting the portfolio of own bonds, amounted to DKK 427bn (DKK 439bn). Of this amount, the issuance of mortgage bonds accounted for DKK 18bn (DKK 30bn) and covered mortgage bonds accounted for DKK 409bn (DKK 409bn).

At end-2015 the fair value of the total volume of bonds issued was DKK 390bn (DKK 387bn) after offsetting the portfolio of own bonds.

### **Refinancing of adjustable-rate mortgages**

Adjustable-rate mortgage loans in Nordea Kredit are refinanced in April, October and January.

The November auctions ahead of the January refinancing accounted for about 40% of the refinancing of adjustable-rate mortgages in 2015, equivalent to DKK 23bn. Compared to November 2014 the volume of the November auction in 2015 decreased by 36%.

The share of ARMs refinanced in January has been reduced in recent years, as all new loans granted since 2010 are refinanced in April and October. Furthermore, the proportion of loans with annual refinancing (F1) in Nordea Kredit has continued its reduction from 18.6% to 10.1%, which has reduced refinancing volumes at all three auctions.

Interest rates at the ARM auctions in 2015 continued to be low. For 30-year annuity loans with reset every three years (F3), the interest rate was fixed at a historic 0.17% at the April auctions.

New legislation could in the future have an impact on the bond market and Nordea Kredit therefore closely monitors developments in the market for mortgage bonds. The monitoring includes both trends and actual changes in volatility.

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

Management of risk, liquidity and capital is a key success factor in the financial services industry. Maintaining risk awareness in the organisation is ingrained in the business strategies. Nordea has defined clear risk, liquidity and capital management frameworks, including policies and instructions for different risk types, capital adequacy and capital structure.

### **Management principles and control**

#### **Board of Directors and Board Risk Committee of Nordea**

The Group Board of Nordea has the ultimate responsibility for limiting and monitoring Nordea's risk exposure as well as for setting the targets for the capital ratios. Risk is measured and reported according to common principles and policies approved by the Group Board of Nordea, which also decides on policies for credit risk, counterparty risk, market risk, liquidity risk, business risk, life insurance risk, operational risk and compliance risk as well as the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP). All policies are reviewed at least annually.

In the credit instructions, the Group Board of Nordea decides on powers to act for major credit committees at different levels within the business areas. These authorisations vary for different decision-making levels, mainly in terms of size of limits, and are also dependent on the internal risk categorisation of customers. The Group Board of Nordea also decides on the limits for market and liquidity risk at Nordea.

The Nordea Board Risk Committee assists the Board of Directors in fulfilling its responsibilities in terms of overseeing management and control of risk, risk frameworks as well as controls and processes associated with Nordea's operations.

### **Responsibility of CEO and GEM of Nordea**

The Chief Executive Officer (CEO) has the overall responsibility for developing and maintaining effective risk, liquidity and capital management principles and control of Nordea Bank and the Group.

The CEO in Group Executive Management (GEM) decides on the Group's earnings volatility measurement framework(s) and targets for these, such as the Structural Interest Income Risk (SIIR).

The CEO and GEM regularly review reports on risk exposure and have established a number of committees for risk, liquidity and capital management.

- The Asset and Liability Committee (ALCO), chaired by the Chief Financial Officer (CFO), prepares issues of major importance concerning the Group's financial operations and balance sheet risks either for decision by the CEO in GEM or for recommendation by the CEO in GEM and for decision by the Group Board.
- The Risk Committee, chaired by the Chief Risk Officer (CRO), oversees the management and control of the Group's risks on aggregate level and evaluates the sufficiency of the risk frameworks, controls and processes associated with these risks. Furthermore, the Risk Committee decides, within the scope of resolutions adopted by the Board of Directors, on the allocation of the market risk limits as well as the liquidity risk limits to the risk-taking units. The limits are set in accordance with the business strategies and are reviewed at least annually. The heads of the units allocate the respective limits within the unit and may introduce more detailed limits and other risk-mitigating techniques such as stop-loss rules. The Risk Committee has established sub-committees for its work and decision-making within specific risk areas.
- The Group Executive Management Credit Committee (GEM CC) and Executive Credit Committee (ECC) are chaired by the CRO, while the Group Credit Committee Retail Banking (GCCR) and the Group Credit Committee Wholesale Banking (GCCW) are chaired by the Chief Credit Officer (CCO). These credit committees decide on major credit risk customer limits. Credit risk limits are

granted as individual limits for customers or consolidated customer groups and as industry limits for certain defined industries.

### **Management principles and control within Nordea Kredit**

As in all other subsidiaries within Nordea, the Board of Directors of Nordea Kredit is responsible for monitoring the mortgage company's risk exposure as well as for approving the setting of targets for capital ratios and the individual solvency need.

In accordance with the Executive Order on Management and Control of Banks etc, 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 coordination at Nordea Kredit.

The Nordea Kredit Risk Management Charter defines the role, responsibilities, tasks and mandate of the CRO and forms part of Nordea's risk management framework.

All risk management functions report to Nordea's pan-Nordic risk management organisation. The risk management functions of Nordea Kredit are represented by independent units which are responsible for risk management in the individual areas.

To ensure prudent risk management at Nordea Kredit, the role of the CRO is to provide an overview of Nordea Kredit's risks. The interaction between the individual risk management units and the CRO includes credit risk, counterparty credit risk, market risk, liquidity risk and operational risk. The risk function comprises Group Credit Risk, Group Credit Control, Group Market and Counterparty Credit Risk and Group Operational Risk and Compliance.

The interaction is to ensure clear communication channels to the CRO so that critical events are reported efficiently and rapidly to the Executive Management. Moreover, the CRO is to ensure that the individual risk management functions prepare reports that sum up the risk picture of Nordea Kredit. The overall risk picture/assessment is part of the yearly ICAAP report.

The CRO is furthermore responsible for preparing quarterly proposals to the Executive

Management and the Board of Directors concerning individual solvency needs (ISN) and for ensuring that documentation to this effect is incorporated into the ICAAP report.

### **Risk appetite**

Risk appetite within Nordea is defined as the level and nature of risk that the bank is willing to take in order to pursue the articulated strategy on behalf of shareholders, and is defined by constraints reflecting the views of shareholders, debt holders, regulators and other stakeholders.

The Board of Directors is ultimately responsible for Nordea's overall risk appetite and for setting principles regarding how risk appetite is managed. The Board Risk Committee assists the Board of Directors in fulfilling these responsibilities by reviewing the development of the risk profile in relation to risk appetite and making recommendations regarding changes to Nordea's risk appetite.

Nordea's risk appetite framework is based on explicit top-down risk appetite statements ensuring the comprehensive coverage of key risks faced by Nordea. These statements collectively define the boundaries for Nordea's risk-taking activities and will also help identify areas with scope for potential additional risk-taking. The statements are approved by the Board of Directors of Nordea and set the basis for a new risk reporting structure. Moreover, the framework supports management decision processes such as planning and target setting.

The risk appetite framework considers key risks relevant to Nordea's business activities and on an aggregate level is represented in terms of credit risk, market risk, operational risk, solvency, compliance/non-negotiable risks and liquidity risk.

The risk appetite framework is further presented in the Capital and Risk Management Report (pillar III report).

### **Monitoring and reporting**

The control environment at Nordea is based on the principles of segregation of duties and independence. Monitoring and reporting of risk is conducted on a daily basis for market and liquidity risk and on a monthly and quarterly basis for credit and operational risk.

Risk reporting including reporting on the development of (risk exposure amount) REA is regularly made to GEM and the Boards of Directors of both Nordea and Nordea Kredit.

### **Disclosure requirements of the CRR – Capital and Risk Management Report 2015**

Additional information on risk and capital management is presented in the Capital and Risk Management Report 2015, in accordance with the Capital Requirements Regulation (CRR), which is based on the Basel III framework issued by the Basel Committee on Banking Supervision. The report is available at [www.nordea.com](http://www.nordea.com).

### **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 does not assume equity 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

200m. For the securities portfolio the interest rate risk must not exceed 8% of the capital base, or DKK 1,598m.

At year-end 2015 the total interest rate risk with effect on profit before tax and equity was DKK 2m (DKK 23m) for the lending portfolio and DKK 10m (DKK 16m) 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 FSA. 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 20m, corresponding to 0.1% of the capital base.

At end-2015 the currency risk amounted to DKK 0.2m (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 approval to report its capital requirement in accordance with the Advanced Internal Rating Based (AIRB) approach for large enterprises.

The Internal Rating Based (IRB) approach is approved for credit institutions and commitments with retail customers, in line with Nordea Bank.

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

While the rating models are used for corporate customers 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 risk management**

Group Risk Management is responsible for the credit process and the credit risk management framework, consisting of policies, instructions and guidelines for Nordea. Group Risk Management is also responsible for controlling and monitoring the quality of the credit portfolio and the credit process. Each customer area and product area are primarily responsible for managing the credit risks in its operations within the applicable framework and limits, including identification, control and reporting. Within the powers to act, granted by the Board of Directors of Nordea, credit risk limits are approved by decision-making authorities on different levels in the organisation. The risk categorisation of the customer and the amount decides at which level the decision will be made. Responsibility for a credit exposure lies with the customer responsible unit. Customers are risk categorised by a rating or score in accordance with Nordea's rating and scoring guidelines.

### Credit risk definition, identification and mitigation

Credit risk is defined as the risk of loss if counterparties fail to fulfil their agreed obligations and the pledged collateral does not cover the claims. Credit risk stems mainly from various forms of lending, but also from guarantees and documentary credits, counterparty credit risk in derivatives contracts, transfer risk attributable to the transfer of money from another country and settlement risk. For monitoring the distribution of a portfolio, improving the risk management and defining a common strategy towards specific industries, there are industry credit principles and policies in place establishing requirements and caps.

Credit risk mitigation is an inherent part of the credit decision process. In every credit decision and review, the valuation of collateral is considered as well as other risk mitigations.

### Individual and collective assessment of impairment

Throughout the process of identifying and mitigating credit impairments, Nordea Kredit continuously reviews the quality of credit exposures. Weak and impaired exposures are closely and continuously monitored and reviewed at least on a quarterly basis in terms of current performance, business outlook, future debt service capacity and the possible need for provisions.

A provision is recognised if there is objective evidence based on loss events and observable data that the customer's future cash flow has weakened to the extent that full repayment is unlikely, collateral included. Exposures with provisions are considered as impaired. The size of the provision is equal to the estimated loss being the difference between the carrying amount of the outstanding exposure and the discounted value of the future cash flow, including the value of pledged collateral. Impaired exposures can be either performing or non-performing. Exposures that have been past due more than 90 days are automatically regarded as defaulted and non-performing, and reported as non-performing and impaired or not impaired depending on the assessed loss potential.

In addition to individual impairment testing of all individually significant customers, collective impairment testing is performed for groups

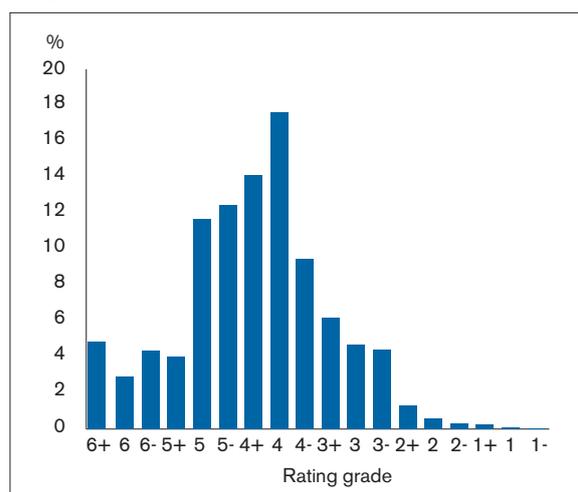
of customers that have not been found to be impaired on individual level. The collective impairment is based on the migration of rated and scored customers in the credit portfolio as well as management judgement. The assessment of collective impairment reacts to up- and downratings of customers as well as new customers and customers leaving the portfolio. Also customers going to and from default affect the calculation. Collective impairment is assessed quarterly for each legal unit. The rationale for this two-step procedure with both individual and collective assessment is to ensure that all incurred losses are accounted for up to and including each balance sheet day.

### Rating and scoring distribution

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-2015 (Figure 4) are shown below.

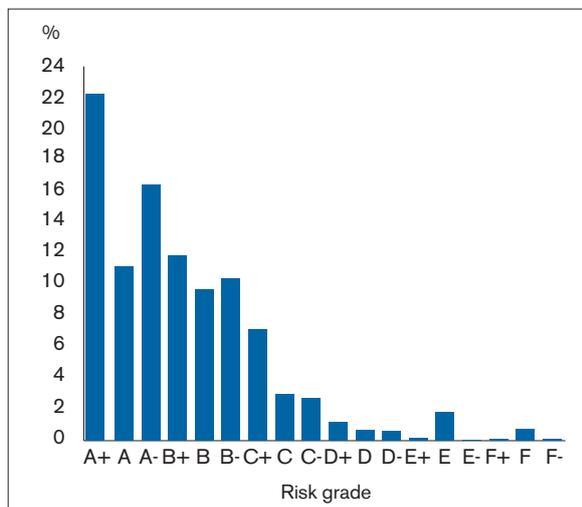
Improving credit quality was seen in 2015, mainly in the corporate credit portfolio. 81% (78%) of the corporate exposure was rated 4- or higher. Defaulted loans are not included in the rating/scoring distributions.

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+.

### Total capital ratio

At the end of 2015 the risk exposure amount (REA) of Nordea Kredit was DKK 67.2bn (DKK 64.9bn). With own funds, including profit, amounting to DKK 20.0bn at the end of 2015 (DKK 18.6bn), the total capital ratio at end-2015 was 29.7% (28.6%).

### 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).

### Operational and compliance risk

Operational risk is defined as the risk of direct or indirect loss, or damaged reputation, resulting from inadequate or failed internal processes, from people and systems, or from external events. Operational risk includes legal risk and is inherent in all activities within the organisation, in outsourced activities and in all interactions with external parties.

Compliance risk is defined as the risk of failing to comply with laws, regulations, rules and prescribed practices and ethical standards governing Nordea's activities in any jurisdiction which could result in material financial or reputational loss to Nordea, regulatory remarks or sanctions.

Managing operational and compliance risk is part of management's responsibilities. The operational

risks are monitored through regular risk assessment procedures and systematic quality – and risk – focused management of changes.

## Control and risk management

### Systems related to financial reports

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 FSA 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 assists 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 for 2015 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 on [www.nordea.com/csr](http://www.nordea.com/csr). The disclosures are not covered by the statutory audit.

### **Changes to the Board of Directors**

David Hellemann, Head of Banking Denmark at Nordea Bank Danmark A/S, was appointed as a new member of the Board of Directors on 27 February 2015.

### **Changes to the Executive Management**

Claus H. Greve, Head of Corporate Strategy & Development at Nordea Bank Danmark A/S, was appointed Deputy Chief Executive Officer on 15 January 2015.

Further information regarding members of the Board of Directors and the Executive Management is available on page 53.

## Balanced gender composition

The Nordea Group Board has approved a policy to promote gender balance on the other managerial levels. The Board of Directors of Nordea Kredit has endorsed this policy.

According to the policy, Nordea strives to ensure that the right person is employed for the right job at the right time, while ensuring the right mix of competencies needed, including an appropriate gender composition in leading positions.

The Board of Directors continuously assesses its composition to ensure that the necessary competencies are available while 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 continuously follows up on diversity measures and social data. To see new developments, the latest report and more please visit [www.nordea.com/en/responsibility/stories](http://www.nordea.com/en/responsibility/stories).

## Human resources

Creating opportunities for Nordea employees to flourish, and for talented individuals to join Nordea, is part of being a responsible employer. Nordea fully supports the aim of realising the potential and enabling them to enjoy a fulfilling career with Nordea, as well as to helping them adjust and continue to thrive during times of change.

People at Nordea are central to the ability to run the business well and accomplish the aims, both for the company and for society. Creating opportunities is about making sure that Nordea employs the right people, with the right blend of skills and competencies, and that Nordea develops people in the right way, in order to achieve the goals.

Good leadership is a key driver of strong performance, and is particularly critical in times of uncertainty and change. This makes developing and training existing and potential managers a high priority, as well as equipping them to develop their own employees and helping them to reach their potential.

More information is presented in the Corporate Social Responsibility report 2015 about how Nordea views leadership, how Nordea creates opportunities and supports our staff during times of change as well as how Nordea works to improve the gender balance.

## Remuneration

The Nordea Remuneration Policy will:

- Support Nordea's ability to recruit, develop and retain highly motivated, competent and performance-oriented employees and hence the People strategy.
- Supplement excellent leadership and challenging tasks as driving forces for creating high commitment among employees and a Great Nordea.
- Ensure that compensation at Nordea is aligned with efficient risk management and the Nordea values: Great customer experiences, It's all about people and One Nordea team.

Nordea offers competitive, but not market-leading compensation packages. Nordea has a total remuneration approach to compensation that recognises the importance of well-balanced but differentiated remuneration structures based on business and local market needs, and of compensation being consistent with and promoting sound and effective risk management, and not encouraging excessive risk-taking or counteracting Nordea's long-term interests.

### Nordea remuneration components – 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 customers and shareholders and is offered to all employees. The performance criteria for the 2015 programme are risk-adjusted return on capital at risk (RaRoCaR).

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 to maintain cost flexibility for Nordea. Assessment of individual performance will be 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 group, business area/group function/division and unit/individual level. The group performance criteria for EIP 2015 are Nordea's internal version of ROE being risk-adjusted return on capital at risk (RaRoCaR), operating profit and total costs.

## **Subsequent events**

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

## **Outlook for 2016**

The positive market trends from 2015 are expected to continue in 2016, though without the high level of remortgaging activity seen in 2015.

Nordea Kredit expects stable lending volumes, which together with increasingly risk-adjusted pricing will give a satisfactory financial results in 2016.

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## Income statement

DKKm	Note	2015	2014
Interest income		10,693	11,641
Interest expense		-7,902	-8,962
<b>Net interest income</b>	2	<b>2,791</b>	<b>2,679</b>
Dividend income		-	-
Fee and commission income	3	336	259
Fee and commission expense	3	-992	-872
<b>Net interest and fee income</b>		<b>2,135</b>	<b>2,066</b>
Net result from items at fair value	4	124	274
Other operating income		8	0
Staff costs and administrative expenses	5	-241	-201
Depreciation, amortisation and impairment charges of tangible and intangible assets	6	0	0
Other operating expenses		-	-
Net loan losses	11	-114	-366
Profit from investment in associated undertaking	7	1	2
<b>Profit before tax</b>		<b>1,913</b>	<b>1,775</b>
Tax	8	-449	-435
<b>Net profit for the year</b>		<b>1,464</b>	<b>1,340</b>

## Statement of comprehensive income

DKKm	2015	2014
Net profit for the year	1,464	1,340
Other comprehensive income, net of tax	-	0
<b>Total comprehensive income</b>	<b>1,464</b>	<b>1,340</b>
<b>Attributable to</b>		
Shareholder of Nordea Kredit Realkreditaktieselskab	1,464	1,340
<b>Total</b>	<b>1,464</b>	<b>1,340</b>

## Balance sheet

DKKm	Note	31 Dec 2015	31 Dec 2014
<b>Assets</b>			
Cash balance and demand deposits with central banks		609	3
Loans to credit institutions and central banks	10	50,916	70,462
Loans and receivables at fair value	11	385,583	381,056
Loans and receivables at amortised cost		-	-
Bonds at fair value	12	-	25
Investment in associated undertaking	13	15	13
Intangible assets	14	-	-
Other tangible assets	15	0	0
Current tax assets		-	-
Deferred tax assets	8	0	0
Assets in temporary possession	16	34	38
Other assets	17	706	324
Prepaid expenses		4	6
<b>Total assets</b>		<b>437,867</b>	<b>451,927</b>
<b>Liabilities</b>			
Deposits by credit institutions and central banks	18	24,608	42,250
Bonds in issue at fair value	19	389,568	387,106
Current tax liabilities	8	29	26
Other liabilities	20	3,341	3,671
Deferred income		20	36
<b>Total liabilities</b>		<b>417,566</b>	<b>433,089</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		15	14
Retained earnings		18,569	17,107
<b>Total equity</b>		<b>20,301</b>	<b>18,838</b>
<b>Total liabilities and equity</b>		<b>437,867</b>	<b>451,927</b>
<b>Contingent liabilities</b>			
Guarantees etc		75	74
<b>Total contingent liabilities</b>		<b>75</b>	<b>74</b>

## Statement of changes in equity

DKKm	Share capital <sup>1</sup>	Other reserves <sup>2</sup>	Retained earnings	Total
Balance at 1 Jan 2015	1,717	14	17,107	18,838
Net profit for the year	-	1	1,463	1,464
Other comprehensive income, net of tax	-	-	-	-
Total comprehensive income	-	1	1,463	1,464
Proposed dividends	-	-	-	-
Balance at 31 Dec 2015	1,717	15	18,569	20,301

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	-	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

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)	2015	2014	2013	2012	2011
Net interest income	2,791	2,679	2,355	2,214	2,068
Net interest and fee income	2,135	2,066	1,760	1,759	1,583
Net result from items at fair value	124	274	218	-108	-40
Other operating income	8	0	8	9	-1
Staff costs and administrative expenses	-241	-201	-210	-228	-236
Depreciation, amortisation and impairment charges of tangible and intangible assets	0	0	-4	-4	-11
Net loan losses	-114	-366	-390	-491	-284
Profit from investment in associated undertaking	1	2	1	1	-1
<b>Profit before tax</b>	<b>1,913</b>	<b>1,775</b>	<b>1,383</b>	<b>938</b>	<b>1,009</b>
Tax	-449	-435	-346	-235	-253
<b>Net profit for the year</b>	<b>1,464</b>	<b>1,340</b>	<b>1,037</b>	<b>703</b>	<b>756</b>
<b>Balance sheet</b> (DKKm)	2015	2014	2013	2012	2011
Loans to credit institutions and central banks	50,916	70,462	52,873	46,773	40,152
Loans and receivables at fair value	385,583	381,056	363,749	358,371	340,874
Loans and receivables at nominal value <sup>1</sup>	383,773	371,734	358,925	349,484	334,643
Other assets	1,368	409	416	1,900	6,366
<b>Total assets</b>	<b>437,867</b>	<b>451,927</b>	<b>417,038</b>	<b>407,044</b>	<b>387,392</b>
Deposits by credit institutions and central banks	24,608	42,250	46,470	48,905	63,547
Bonds in issue at fair value	389,568	387,106	349,074	336,402	302,951
Other liabilities	3,390	3,733	3,996	5,276	5,136
Equity	20,301	18,838	17,498	16,461	15,758
<b>Total liabilities and equity</b>	<b>437,867</b>	<b>451,927</b>	<b>417,038</b>	<b>407,044</b>	<b>387,392</b>
<b>Ratios and key figures</b> (%)	2015	2014	2013	2012	2011
Return on equity	7.5	7.4	6.1	4.4	4.9
Income/cost ratio	6.4	4.1	3.3	2.3	2.9
Cost/income ratio	10.6	8.6	10.8	14.0	16.1
Loans/equity	19.0	20.2	20.8	21.8	21.6
Lending growth for the year	3.2	3.6	2.7	4.5	5.2
Impairment ratio for the year	0.1	0.1	0.1	0.1	0.1
Total capital ratio <sup>2</sup>	29.7	28.6	16.4	16.2	17.4
Tier 1 capital ratio <sup>2</sup>	29.7	28.6	16.4	16.2	17.4
Tier 1 capital <sup>2</sup> , DKKbn	20.0	18.6	14.8	14.2	14.3
Risk exposure amount <sup>2</sup> , DKKbn	67.2	64.9	90.0	87.9	82.2
Number of employees (full-time equivalents) <sup>2</sup>	101	114	125	131	133
Average number of employees	110	125	129	135	144

<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.

## Business definitions

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### **Allowances in relation to impaired loans**

Allowances for individually assessed impaired loans divided by individually assessed impaired loans before allowances.

### **Cost/income ratio**

Total operating expenses divided by total operating income.

### **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.

### **Loan loss ratio**

Net loan losses divided by closing balance of loans to the public (lending).

### **Non-performing, not impaired**

Past due loans, not impaired due to future cash flows (included in Loans, not impaired).

### **Own funds**

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

### **Return on equity**

Net profit for the year excluding non-controlling interests as a percentage of average equity for the year. Average equity including net profit for the year and dividend until paid, non-controlling interests excluded.

### **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 of the Group's undertakings, 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**

Proportion of the capital base, which includes consolidated shareholders' equity excluding proposed dividend, deferred tax assets, intangible assets in the banking operations. Shortfall is deducted with 70% in CET1 in 2015, but 60% in 2014 – the negative difference between expected losses and provisions. Subsequent to the approval of the supervisory authorities, tier 1 capital also includes qualified forms of subordinated loans.

### **Tier 1 capital ratio**

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

### **Total capital ratio**

Own funds as a percentage of risk exposure amount.

# Notes to the financial statements

## Note 1 Accounting policies

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### 1. Basis for presentation

The annual report for Nordea Kredit is prepared in accordance with the Danish Financial Business Act, 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 last year.

### 2. Critical judgements and estimation uncertainty

The preparation of financial statements in accordance with generally accepted accounting principles requires, in some cases, the use of judgements and estimates by management. Actual outcomes can later, to some extent, differ from the estimates and the assumptions made.

In this section a description is made of:

- the sources of estimation uncertainty at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year, and
- the judgements made when applying accounting policies (apart from those involving estimations) that have the most significant effect on the amounts recognised in the financial statements.

Critical judgements and estimates are in particular associated with:

- the fair value measurement of certain financial instruments
- the impairment testing of:
  - loans and receivables at fair value.

### Fair value measurement of certain financial instruments

Nordea Kredit's accounting policy for determining the fair value of financial instruments is described in section 6 "Determination of fair value of financial instruments". Critical judgements that have a significant impact on the recognised amounts for financial instruments are exercised when determining fair value of other financial instruments that lack quoted prices or recently observed market prices. Those judgements relate to the following areas:

- The choice of valuation techniques.
- The determination of when quoted prices fail to represent fair value (including the judgement of whether markets are active).
- The construction of fair value adjustments in order to incorporate relevant risk factors such as credit risk, model risk and liquidity risk.
- The judgement of which market parameters are observable.

When determining the fair value of financial instruments that lack quoted prices or recently observed market prices, there is also a high degree of estimation uncertainty. That estimation

uncertainty is mainly a result of the judgement management exercises when:

- selecting an appropriate discount rate for the instrument and
- determining the expected timing of future cash flows from the instruments.

In all of these instances, decisions are based upon professional judgement in accordance with Nordea Kredit's accounting and valuation policies. In order to ensure proper governance, Nordea has a Group Valuation Committee that on an ongoing basis reviews critical judgements that are deemed to have a significant impact on fair value measurements.

### Impairment testing of loans and receivables at fair value

Nordea Kredit's accounting policy for impairment testing of loans is described in section 9 "Loans and receivables at fair value".

Management is required to exercise critical judgements and estimates when calculating loan impairment allowances on both individually assessed and collectively assessed loans. For more information, see Note 11 "Loans and receivables at fair value".

The most judgemental area is the calculation of collective impairment allowances. When testing a group of loans collectively for impairment, judgement has to be exercised when identifying the events and/or the observable data that indicate that losses have been incurred in the group of loans. Nordea Kredit monitors its portfolio through rating migrations and a loss event is an event resulting in a negative rating migration. Assessing the net present value of the cash flows generated by the customers in the group of loans also includes estimation uncertainty. This includes the use of historical data on probability of default and loss given default supplemented by acquired experience when adjusting the assumptions based on historical data to reflect the current situation.

### 3. Recognition of operating income and impairment Net interest income

Interest income and expense are calculated and recognised based on the effective interest rate method or, if considered appropriate, based on a method that results in an interest income or interest expense that is a reasonable approximation of using the effective interest rate method as basis for the calculation.

Interest income and expenses from financial instruments are classified as "Net interest income".

#### **Net fee and commission income**

Nordea Kredit earns commission income from different services provided to its customers. The recognition of commission income depends on the purpose for which the fees are received. Fees are either recognised as revenue when services are provided or in connection to the execution of a significant act. Fees received in connection to performed services are recognised as income in the period these services are provided.

Commission expenses are transaction based and recognised in the period when the services are received.

Expenses originated from bought financial guarantees are recognised under "Fee and commission expense".

#### **Net result from items at fair value**

Realised and unrealised gains and losses on financial instruments measured at fair value through profit or loss are recognised in the item "Net result from items at fair value".

Realised and unrealised gains and losses derive from:

- interest-bearing securities and other interest-related instruments
- other financial instruments, and
- foreign exchange gains/losses.

#### **Profit from companies accounted for under the equity method**

The profit from companies accounted for under the equity method is defined as the post-acquisition change in Nordea Kredit's share of net assets in the associated undertakings. Nordea Kredit's share of items accounted for in "Profit from investment in associated undertaking" and placed under equity, "Other reserves". Profits from companies accounted for under the equity method are reported in the income statement post-taxes. Consequently, the tax expense related to these profits is excluded from the income tax expense for Nordea Kredit.

The change in Nordea Kredit's share of the net assets is generally based on reporting from the associated undertakings. For some associated undertakings not individually significant, the change in Nordea Kredit's share of the net assets is based on the external reporting of the associated undertakings and affects the financial statements of Nordea Kredit in the period in which the information is available. The reporting from the associated undertakings is, if applicable, adjusted to comply with Nordea Kredit's accounting policies.

#### **Other operating income**

Net gains from divestments of shares in associated undertakings and net gains on sale of tangible assets as well as other operating income, not related to any other income line, are generally recognised when it is probable that the benefits associated with the transaction will flow to Nordea Kredit and if the significant risks and rewards have been transferred to the buyer (generally when the transactions are finalised).

#### **Net loan losses**

Impairment losses on loans and receivables at fair value on the balance sheet are reported as "Net loan losses". Also the fair value adjustments of credit risk on loans granted in accordance with mortgage finance legislation (see section 8 "Financial instruments") are reported under "Net loan

losses". Losses are reported net of any collateral and other credit enhancements. Nordea Kredit's accounting policies for the calculation of impairment losses on loans can be found in section 9 "Loans and receivables at fair value".

#### **4. Recognition and derecognition of financial instruments on the balance sheet**

Derivative instruments, quoted securities, foreign exchange spot transactions and other financial instruments are recognised on and derecognised from the balance sheet on the settlement date.

Financial assets are derecognised from the balance sheet when the contractual rights to the cash flows from the financial asset expire or are transferred to another party. The rights to the cash flows normally expire or are transferred when the counterparty has performed by eg repaying a loan to Nordea Kredit, ie on the settlement date.

Financial liabilities are derecognised from the balance sheet when the liability is extinguished.

For further information, see the section "Repurchase and reverse repurchase agreements" within section 8 "Financial instruments".

#### **5. Translation of assets and liabilities denominated in foreign currencies**

Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction, and unrealised translation differences on unsettled foreign currency monetary assets and liabilities, are recognised in the income statement in the item "Net result from items at fair value".

#### **6. Determination of fair value of financial instruments**

Fair value is defined as the price that at the measurement date would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants under current market conditions in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability.

The existence of published price quotations in an active market is the best evidence of fair value and when they exist they are used to measure financial assets and financial liabilities.

An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. The absolute level for liquidity and volume required for a market to be labelled active vary with the instrument classes. For some classes low price volatility is seen, also for those instruments within the class where the trade frequency is high. For instruments in such a class the liquidity requirements are lower and correspondingly, the age limit for the prices used for establishing fair value is higher.

The labelling of markets as active or non-active is assessed regularly. The trade frequency and volume are monitored daily.

Nordea Kredit is predominantly using published price quotations to establish fair value for debt securities in issue.

If quoted prices for a financial instrument fail to represent actual and regularly occurring market transactions or if quoted prices are not available, fair value is established by using an appropriate valuation technique. The adequacy of the valuation technique, including an assessment of whether to use quoted prices or theoretical prices, is monitored on a regular basis.

Valuation techniques can range from simple discounted cash flow analysis to complex option pricing models. Valuation models are designed to apply observable market prices and rates as input whenever possible, but can also make use of unobservable model parameters. The adequacy of the valuation model is assessed by measuring its capability to hit market prices. This is done by comparison of calculated prices to relevant benchmark data, eg quoted prices from an exchange, the counterparty's valuations, price data from consensus services etc.

Nordea Kredit is predominantly using valuation techniques to establish fair value for items disclosed under the following balance sheet items:

- loans and receivables at fair value
- interest-bearing securities (when quoted prices in an active market are not available)
- bonds in issue at fair value.

For financial instruments where fair value is estimated by a valuation technique, it is investigated whether the variables used in the valuation model are predominantly based on data from observable markets. By data from observable markets, Nordea Kredit considers data that can be collected from generally available external sources and where these data are judged to represent realistic market prices. If non-observable data have a significant impact on the valuation, the instrument cannot be recognised initially at the fair value estimated by the valuation technique and any upfront gains are thereby deferred and amortised through the income statement over the contractual life of the instrument. The deferred upfront gains are subsequently released to income if the non-observable data become observable.

The valuation models applied by Nordea Kredit are consistent with accepted economic methodologies for pricing financial instruments and incorporate the factors that market participants consider when setting a price.

New valuation models are subject to approval by the Group Model Risk Management Committee and all models are reviewed on a regular basis.

## **7. Cash and balances with central banks**

Cash and balances with central banks consist of cash and balances with central banks, where the following conditions are fulfilled:

- the Danish central bank
- the balance is readily available at any time.

## **8. Financial instruments**

Loans and receivables and bonds in issue in Nordea Kredit are measured at fair value through profit or loss to eliminate or significantly reduce an accounting mismatch. When Nordea Kredit grants mortgage loans to customers in accordance with the mortgage finance legislation Nordea Kredit at the same time issues bonds with matching terms, so called match funding. The customers can repay the loans either through repayments of the principal or by purchasing

the bonds issued and return them as a settlement of the loan. The bonds play an important part in the Danish money market and Nordea Kredit consequently buys and sells own bonds in the market. If the loans and bonds were measured at amortised cost, such buybacks of bonds would give rise to an accounting mismatch as any gains or losses would have to be recognised immediately in the income statement. If such bonds are subsequently sold in the market, any premium or discount would be amortised over the expected maturity, which would also create an accounting mismatch. To avoid such an accounting mismatch, Nordea Kredit measures both the loans and bonds at fair value.

### **Repurchase and reverse repurchase agreements**

Securities delivered under repurchase agreements and securities received under reverse repurchase agreements are not derecognised from or recognised on the balance sheet.

Cash received under repurchase agreements is recognised on the balance sheet as "Deposits by credit institutions and central banks". Cash delivered under reverse repurchase agreements is recognised on the balance sheet as "Loans and receivables at fair value".

### **Derivatives**

All derivatives are recognised on the balance sheet and measured at fair value. Derivatives with total positive fair values, including any accrued interest, are recognised as assets in the item "Other assets" on the asset side. Derivatives with total negative fair values, including any accrued interest, are recognised as liabilities in the item "Other liabilities" on the liability side.

Realised and unrealised gains and losses from derivatives are recognised in the income statement in the item "Net result from items at fair value".

### **Offsetting of financial assets and liabilities**

Nordea Kredit offsets financial assets and liabilities on the balance sheet if there is a legal right to offset, in the ordinary course of business and in case of bankruptcy, and if the intent is to settle the items net or realise the asset and settle the liability simultaneously.

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

Financial instruments classified as "Loans to credit institutions and central banks" on the balance sheet and into the category "Loans and receivables at fair value" are measured at fair value (see also the separate section 4 "Recognition and derecognition of financial instruments on the balance sheet").

### **Impairment test of individually assessed loans**

Nordea Kredit tests all loans for impairment on an individual basis. The purpose of the impairment tests is to find out if the loans have become impaired. As a first step in the identification process for impaired loans, Nordea Kredit monitors whether there are indicators of impairment (loss event) and whether these loss events represent objective evidence of impairment.

Loans that are not individually impaired will be transferred to a group of loans with similar risk characteristics for a collective impairment test.

### **Impairment test of collectively assessed loans**

Loans not impaired on an individual level are collectively tested for impairment. These loans are grouped on the

basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms. Nordea Kredit monitors its portfolio through rating migrations and the credit decision and annual review process supplemented by quarterly risk reviews. Through these processes Nordea Kredit identifies loss events indicating incurred losses in a group. A loss event is an event resulting in a deterioration of the expected future cash flows. Only loss events incurred up to the reporting date are included when performing the assessment of the group.

The objective of the group assessment process is to evaluate if there is a need to make a provision due to the fact that a loss event has occurred, which has not yet been identified on an individual basis. This period between the date when the loss event occurred and the date when it is identified on an individual basis is called emergence period. The impairment remains related to the group of loans until the losses have been identified on an individual basis. The identification of the loss is made through a default of the commitment or by other indicators.

For corporate customers and bank counterparties, Nordea Kredit uses the existing rating system as a basis when assessing the credit risk. Nordea Kredit uses historical data on the probability of default to estimate the risk of default in a rating class. These loans are rated and grouped mostly based on the type of industry and/or sensitivity to certain macro parameters, eg dependence on oil prices etc.

Personal customers and small corporate customers are monitored through scoring models. These are based mostly on historical data, as default rates and loss rates given a default, and experienced judgement performed by management. Rating and scoring models are described in more detail in the separate section Risk, liquidity and capital management.

The collective assessment is performed through a netting principle, ie when rated commitments are uprated due to estimated increases in cash flows, this improvement will be netted against losses on loans that are downrated due to estimated decreases in cash flows. Netting is only performed within groups with similar risk characteristics where Nordea Kredit assesses that the customers' future cash flows are insufficient to service the loans in full.

#### **Impairment loss**

If the carrying amount of the loans is higher than the sum of the net present value of the estimated cash flows (discounted with original effective interest rate), including the fair value of the collateral and other credit enhancements, the difference is the impairment loss.

For significant loans that have been individually identified as impaired, the measurement of the impairment loss is made on an individual basis.

For insignificant loans that have been individually identified as impaired and for loans not identified as impaired on an individual basis, the impairment loss is measured using portfolio-based expectations of the future cash flows.

If the impairment loss is not regarded as final, the impairment loss is accounted for on an allowance account representing the accumulated impairment losses. Changes in the credit risk and accumulated impairment losses are accounted for as changes in the allowance account and as "Net loan losses"

in the income statement (see also section 3 "Recognition of operating income and impairment").

If the impairment loss is regarded as final, it is reported as a realised loss and the value of the loan and the related allowance for impairment loss are derecognised. An impairment loss is regarded as final when bankruptcy proceedings are taken against the obligor and the administrator has declared the financial outcome of the bankruptcy proceedings, or when Nordea Kredit waives its claims either through a legally based or voluntary reconstruction or when Nordea Kredit, for other reasons, deems it unlikely that the claim will be recovered.

#### **Discount rate**

The discount rate used to measure impairment is the original effective interest rate for loans attached to an individual customer or, if applicable, to a group of loans. If considered appropriate, the discount rate can be based on a method that results in impairment that is a reasonable approximation of using the effective interest rate method as the basis for the calculation.

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

In Nordea Kredit the item "Assets in temporary possession" consists only of repossessed properties.

At initial recognition, all assets in temporary possession are recognised at fair value and the possible difference between the carrying amount of the loan and the fair value of the assets taken over is recognised as "Net loan losses". The fair value of the asset on the date of recognition becomes its cost or amortised cost value, as applicable. In subsequent periods, assets taken over are measured at the lower of the carrying amount at the time of classification and the fair value less expected costs to sell.

Any change in value, after the initial recognition of the asset taken over, is presented in the income statement.

#### **10. Intangible assets**

Intangible assets are identifiable, non-monetary assets without physical substance. The assets are under Nordea Kredit's control, which means that Nordea Kredit has the power and rights to obtain the future economic benefits flowing from the underlying resource. The intangible assets of Nordea Kredit mainly consist of IT development/computer software.

Amortisation is calculated on a straight-line basis over the useful life of the software, generally a period of 3 to 10 years.

#### **11. Other tangible assets**

Other tangible assets include leasehold improvements, IT equipment, furniture and other equipment. Items of machinery and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of machinery and equipment comprises its purchase price, as well as any directly attributable costs of bringing the asset to the working condition for its intended use. When parts of an item of machinery and equipment have different useful lives, they are accounted for as separate items.

Machinery and equipment is depreciated on a straight-line basis over the estimated useful life of the assets. The estimates of the useful life of different assets are reassessed on a yearly

basis. Below follows the current estimates:

Machinery and equipment	3–5 years
Leasehold improvements	Changes within buildings the shorter of 10 years and the remaining leasing term. New construction the shorter of the principles used for owned buildings and the remaining leasing term. Fixtures installed in leased properties are depreciated over the shorter of 10-20 years and the remaining leasing term.

At each balance sheet date, Nordea Kredit assesses whether there is any indication that an item of machinery and equipment may be impaired. If any such indication exists, the recoverable amount of the asset is estimated and any impairment loss is recognised.

Impairment losses are reversed if the recoverable amount increases. The carrying amount is then increased to the recoverable amount, but cannot exceed the carrying amount that would have been determined had no impairment loss been recognised.

## 12. Taxes

The item "Income tax expense" in the income statement comprises current and deferred income tax. The income tax expense is recognised in the income statement, except to the extent the tax effect relates to items recognised in other comprehensive income or directly in equity, in which case the tax effect is recognised in other comprehensive income or in equity, respectively.

Current tax is the expected tax expense on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognised, using the balance sheet method, for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets are recognised for the carry forward of unused tax losses.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, tax losses carry forward and unused tax credits can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Current tax assets and current tax liabilities are offset when the legal right to offset exists and Nordea Kredit intends to either settle the tax asset and the tax liability net or to recover the asset and settle the liability simultaneously. Deferred tax assets and deferred tax liabilities are generally offset if there is a legally enforceable right to offset current tax assets and current tax liabilities.

## 13. Employee benefits

All forms of consideration given by Nordea Kredit to its employees as compensation for services performed are employee benefits. Short-term benefits are to be settled within 12 months after the reporting period when the services have been performed. Post-employment benefits are benefits payable after the termination of the employment. Post-employment benefits at Nordea Kredit consist only of pensions. Termination benefits normally arise if an employment is terminated before the normal retirement date, or if an employee accepts an offer of voluntary redundancy.

### Short-term benefits

Short-term benefits consist mainly of fixed and variable salary. Both fixed and variable salaries are expensed in the period when the employees have performed services to Nordea Kredit.

More information can be found in Note 5 "Staff costs".

### Post-employment benefits

#### Pension plans

All pensions in Nordea Kredit are based on defined contribution arrangements that hold no pension liability for Nordea Kredit. Nordea Kredit also contributes to public pension systems.

## 14. Equity

### Other reserves

Other reserves comprise income and expenses, net after tax effects which are reported in equity through other comprehensive income. These reserves include reserve for Nordea Kredit's share of earnings in associated undertakings under the equity method.

### Retained earnings

Retained earnings comprise undistributed profits from previous years.

## 15. Related-party transactions

Nordea Kredit defines related parties as

- shareholders with significant influence
- other undertakings of the Nordea Group
- associated undertakings
- key management personnel
- other related parties.

All transactions with related parties are made on an arm's length basis.

### Shareholders with significant influence

Shareholders with significant influence are shareholders that have in one way or another significant influence on Nordea Kredit. Nordea Bank AB and Nordea Bank Denmark A/S have a significant influence over Nordea Kredit.

### Other undertakings of the Nordea Group

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

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

**Associated undertakings**

Further information on the associated undertakings is found in Note 13 "Investment in associated undertaking".

**Key management personnel**

Key management personnel includes the following positions:

- the Board of Directors
- the Executive Management.

For information about compensation, pensions and other transactions with key management personnel, see Note 5 "Staff costs"

**Other related parties**

Other related parties comprise close family members to individuals in key management personnel. Other related parties also include companies significantly influenced by key management personnel of Nordea Kredit as well as companies significantly influenced by close family members to these key management personnel.

Information concerning transactions between Nordea Kredit and other related parties is found in Note 23 "Related-party transactions".

## Note 2 Net interest income

DKKm	2015	2014
<b>Interest income</b>		
Loans to credit institutions and central banks <sup>1,3</sup>	-245	-23
Loans and receivables at fair value	7,936	8,754
Administration and reserve fees receivable	2,979	2,897
Interest rate derivatives	6	0
Other interest income	17	13
<b>Total interest income</b>	<b>10,693</b>	<b>11,641</b>
<b>Interest expense</b>		
Deposits by credit institutions and central banks <sup>2,4</sup>	-5	-274
Bonds in issue at fair value	-7,897	-8,687
Other interest expenses	0	-1
<b>Total interest expense</b>	<b>-7,902</b>	<b>-8,962</b>
<b>Net interest income</b>	<b>2,791</b>	<b>2,679</b>
<sup>1</sup> Of which interest income on purchase and resale transactions	-202	-24
<sup>2</sup> Of which interest expense on sale and repurchase transactions	52	0
<sup>3</sup> Of which negative interest income	-245	-23
<sup>4</sup> Of which positive interest expense	52	-

## Note 3 Net fee and commission income

DKKm	2015	2014
Loan processing fees	160	132
Brokerage	117	87
Other fee and commission income	59	40
<b>Fee and commission income</b>	<b>336</b>	<b>259</b>
Guarantee commissions etc payable to Nordea Bank Danmark A/S	-809	-733
Brokerage payable to Nordea Bank Danmark A/S	-109	-82
Other fee and commission expenses	-74	-57
<b>Fee and commission expenses</b>	<b>-992</b>	<b>-872</b>
<b>Net fee and commission income</b>	<b>-656</b>	<b>-613</b>

## Note 4 Net result from items at fair value

DKKm	2015	2014
Mortgage loans <sup>1</sup>	-8,471	3,280
Bonds at fair value	-	0
Foreign exchange gains/losses	7	-13
Interest rate derivatives	-70	15
Bonds in issue	8,658	-3,008
<b>Total</b>	<b>124</b>	<b>274</b>

<sup>1</sup> Mortgage loans are affected by the implementation of an interest rate floor on certain bond series, resulting in a negative non-recurring effect of DKK 234m.

## Note 5 Staff costs

DKKm	2015	2014
Salaries and remuneration (specification below)	-71	-77
Pension costs (specification below)	-8	-9
Social insurance contributions	-11	-10
Other staff costs	0	0
<b>Total</b>	<b>-90</b>	<b>-96</b>
Average number of employees	110	125
<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	-2
- Performance-related compensation	-1	1
To employees that have significant influence on Nordea Kredit's risk profile:		
- Fixed salary and benefits	-	-1
- Performance-related compensation	-	0
<b>Total</b>	<b>-3</b>	<b>-2</b>
To other employees	-68	-75
<b>Total</b>	<b>-71</b>	<b>-77</b>
<b>Pension costs</b>		
Defined benefit plans	-	-
Defined contribution plans:		
- Executive Management	0	0
- Employees that have significant influence on Nordea Kredit's risk profile	-	0
- Other employees	-8	-9
<b>Total</b>	<b>-8</b>	<b>-9</b>
<b>Compensation including pension</b>		
Board of Directors <sup>1</sup>	-	-
Executive Management <sup>2</sup>	-4	-2
Employees that have significant influence on Nordea Kredit's risk profile <sup>3</sup>	-	-1
<b>Total</b>	<b>-4</b>	<b>-3</b>

<sup>1</sup> The Board of Directors included five individuals in 2015.

<sup>2</sup> The Executive Management included two individuals in 2015. The Executive Management participates in the incentive programme EIP (Executive Incentive Programme). The programme is described in the Board of Directors' report.

<sup>3</sup> No other employees had significant influence on Nordea Kredit's risk profile in 2015.

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	2015	2014	DKKm	2015	2014
<b>Board of Directors<sup>2</sup></b>			<b>Executive Management</b>		
Anders Jensen <sup>3</sup>	-	2.2	Lars Bank Jørgensen <sup>7</sup>	-	0.3
Peter Lybecker	8.9	8.9	Michael Jensen <sup>8</sup>	-	1.2
Kim Skov Jensen	5.3	5.6	Charlotte Gullak Christensen <sup>4</sup>	2.1	0.9
Jørgen Holm Jensen	3.1	3.2	Claus H. Greve <sup>9</sup>	1.6	-
Charlotte Gullak Christensen <sup>4</sup>	-	1.1			
Jette Petersen <sup>5</sup>	1.1	0.4			
David Hellemann <sup>6</sup>	6.2	-			

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.

<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 in 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> David Hellemann entered as member of the Board of Directors on 27 February 2015.

<sup>7</sup> Lars Bank Jørgensen left the Executive Management on 28 February 2014.

<sup>8</sup> Michael Jensen left the Executive Management on 3 October 2014.

<sup>9</sup> Claus H. Greve entered the Executive Management on 15 January 2015.

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

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### **Depreciation/amortisation**

DKKm	2015	2014
<b>Intangible assets</b> (Note 14)		
Internally developed software	-	-
<b>Other tangible assets</b> (Note 15)		
Machinery and equipment	0	0
<b>Total</b>	<b>0</b>	<b>0</b>

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

DKKm	2015	2014
<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>0</b>

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

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DKKm	2015	2014
Profit from investment in associated undertaking	1	2
<b>Total</b>	<b>1</b>	<b>2</b>

## Note 8 Taxes

### Income tax expense

DKKm	2015	2014
Current tax	-449	-435
Deferred tax	0	0
Adjustment relating to prior years	-	-
<b>Total</b>	<b>-449</b>	<b>-435</b>
Profit before tax	1,914	1,775
Tax calculated at a tax rate of 23.5%	-449	-434
Non-deductible expenses	0	-1
Adjustment relating to prior years	-	-
<b>Tax charge</b>	<b>-449</b>	<b>-435</b>
Average effective tax rate	23.5%	24.5%

### Deferred tax

DKKm	Deferred tax assets		Deferred tax liabilities	
	2015	2014	2015	2014
<b>Deferred tax related to:</b>				
Machinery and equipment	0	0	-	-
<b>Total</b>	<b>0</b>	<b>0</b>	<b>-</b>	<b>-</b>

DKKm	2015	2014
<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>-</b>	<b>0</b>
<b>Current tax liabilities</b>	<b>29</b>	<b>26</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 2015, the net taxes receivable from the Danish Central Tax Administration by the companies included in the joint taxation amounted to DKK 283m (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 for the members of Nordea Kredit's Executive Management and Board of Directors and related parties:

DKKm	31 Dec 2015	31 Dec 2014
<b>Loans etc</b>		
Executive Management	7	3
Board of Directors	14	6

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

Loans to members of Nordea Kredit's Executive Management and Board of Directors consist of bank loans and mortgage loans on terms based on market conditions. At the end of 2015 interest on the mortgage loans was payable at the rate of 0.1% to 2.8% 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 2015 the loans amounted to DKK 5m (DKK 4m) with interest rates of 0.1% to 2.8%.

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 2015	31 Dec 2014
Loans to credit institutions	22,272	70,462
Loans with notice to central banks	28,644	-
<b>Total</b>	<b>50,916</b>	<b>70,462</b>
Of which purchase and resale transactions	20,467	68,631

## Note 11 Loans and receivables at fair value

DKKkM	31 Dec 2015	31 Dec 2014
<b>Mortgage loans, nominal value</b>		
Value at beginning of year	372,194	359,404
New loans (gross new lending)	103,028	82,298
Foreign exchange revaluations	51	-49
Redemptions and prepayments	-85,186	-64,437
Net new lending for the year	17,893	17,812
Scheduled principal payments	-5,986	-5,022
Mortgage loan portfolio at end of year	384,101	372,194
<b>Mortgage loans, fair value</b>		
Nominal value	384,101	372,194
Adjustment for interest rate risk etc	1,573	9,060
Adjustment for credit risk	-328	-460
Mortgage loan portfolio	385,346	380,794
Mortgage arrears and execution levied against debtors' properties	237	262
<b>Loans and receivables</b>	<b>385,583</b>	<b>381,056</b>

DKKkM	31 Dec 2015	31 Dec 2014
<b>Mortgage arrears</b>		
Mortgage arrears before provisions	103	140
Execution levied against debtors' properties before provisions	134	122
<b>Total mortgage arrears and execution levied against debtors' properties</b>	<b>237</b>	<b>262</b>
Mortgage arrears mid-January following year	88	108

DKKkM, 31 Dec 2015	Individually assessed	Collectively assessed
<b>Provisions for loans</b>		
At beginning of year	320	139
Movements during the year:		
- New provisions and value adjustments	390	23
- Reversals of provisions made in previous financial years	-200	-116
- Previous provisions now written off	-210	
- Other disposals <sup>1</sup>	-18	
<b>At end of year</b>	<b>282</b>	<b>46</b>

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>

<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 9.8bn (DKK 9.2bn) before allowance and DKK 9.4bn (DKK 8.9bn) after allowance.

Loans and receivables subject to collective impairment and provisioning amount to DKK 91.5bn (DKK 244.8bn) before allowance and DKK 91.4bn (DKK 244.7bn) after allowance. Loans and receivables subject to collective impairment for 2015 have been affected by a new collective provisioning model.

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.

DKKkm	31 Dec 2015	31 Dec 2014
<b>Provisions for other receivables from credit institutions and other items with credit risk</b>		
At beginning of year	66	80
Movements during the year:		
- New provisions and value adjustments	21	26
- Reversals of provisions made in previous financial years	-9	-11
- Previous provisions now written off	-18	-53
- Other additions <sup>1</sup>	18	24
<b>Total</b>	<b>78</b>	<b>66</b>
Impaired other receivables before provisions and value adjustments	155	124
Impaired other receivables after provisions and value adjustments	77	58

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

DKKkm	31 Dec 2015	31 Dec 2014
<b>Age distribution of mortgage loans in arrears before provisions</b>		
More than 3 months and up to 6 months	1,122	1,447
More than 6 months and up to 1 year	256	521
More than 1 year	194	711
<b>Total</b>	<b>1,572</b>	<b>2,679</b>

(%)	31 Dec 2015	31 Dec 2014
<b>Mortgage loan portfolio by property category</b>		
Owner-occupied dwellings	64	64
Holiday homes	3	3
Subsidised housing	0	0
Private rental property	7	6
Commercial property	1	1
Office and retail property	9	10
Agricultural property etc	13	13
Property for social, cultural and educational purposes	1	1
Other property	2	2
<b>Total</b>	<b>100</b>	<b>100</b>

## Note 12 Bonds at fair value

DKKm	31 Dec 2015	31 Dec 2014
Bonds at fair value	40,048	61,445
Own bonds offset against bonds in issue	-40,048	-61,420
<b>Total</b>	<b>-</b>	<b>25</b>
Assets sold as part of sale and repurchase transactions:		
Bonds at fair value	11,752	29,561
Bonds offset against bonds in issue	11,752	29,561

## Note 13 Investment in associated undertaking

DKKm	31 Dec 2015	31 Dec 2014
Acquisition value at beginning of year	1	2
Acquisitions during the year	-	-
Sales during the year	-	-1
<b>Acquisition value at end of year</b>	<b>1</b>	<b>1</b>
Revaluation at beginning of year	13	12
Revaluation during the year	1	1
<b>Total revaluation at end of year</b>	<b>14</b>	<b>13</b>
<b>Total</b>	<b>15</b>	<b>14</b>

The associated undertaking aggregated balance sheet and income statement can for the latest available annual report for 2014 be summarised as follows:

DKKm	31 Dec 2015	31 Dec 2014
Total assets	161	181
Total liabilities	90	114
Operating income	69	23
Operating profit/loss	4	6

DKKm, 31 Dec 2015	Registration number	Domicile	Carrying amount	Voting power of holding %
e-nettet A/S	21270776	Copenhagen	15	19

## Note 14 Intangible assets

DKKm	31 Dec 2015	31 Dec 2014
Internally developed software	-	-
<b>Total</b>	<b>-</b>	<b>-</b>

DKKm	31 Dec 2015	31 Dec 2014
<b>Internally developed software</b>		
Acquisition value at beginning of year	-	54
Acquisitions during the year	-	-
Sales/disposals during the year	-	-54
<b>Acquisition value at end of year</b>	<b>-</b>	<b>-</b>
Accumulated amortisation at beginning of year	-	-54
Amortisation according to plan for the year	-	-
Accumulated amortisation on sales/disposals during the year	-	54
Reclassifications	-	-
Translation differences	-	-
<b>Accumulated amortisation at end of year</b>	<b>-</b>	<b>-</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 2015	31 Dec 2014
<b>Machinery and equipment</b>		
Acquisition value at beginning of year	5	5
Acquisitions during the year	0	-
Sales/disposals during the year	-5	0
<b>Acquisition value at end of year</b>	<b>0</b>	<b>5</b>
Accumulated depreciation at beginning of year	-5	-5
Accumulated depreciation on sales/disposals during the year	5	-
Depreciation according to plan for the year	0	0
<b>Accumulated depreciation at end of year</b>	<b>0</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 2015	31 Dec 2014
Repossessed properties	34	38
<b>Total</b>	<b>34</b>	<b>38</b>

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

DKKm	31 Dec 2015	31 Dec 2014
Interest receivable on mortgage loans etc <sup>1</sup>	650	246
Interest receivable on bonds etc	3	1
Other	53	77
<b>Total</b>	<b>706</b>	<b>324</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 2015	31 Dec 2014
Central banks	-	-
Other banks	24,608	42,250
Other credit institutions	-	-
<b>Total</b>	<b>24,608</b>	<b>42,250</b>
Of which sale and repurchase transactions	11,963	30,056

## Note 19 Bonds in issue at fair value

DKKm	31 Dec 2015	31 Dec 2014
Bonds in issue at beginning of year (nominal value)	438,774	401,407
Bonds issued during the year	201,183	199,486
Translation differences	51	-49
Scheduled payments and notified prepayments	-49,268	-21,662
Redemptions and other prepayments	-163,509	-140,408
<b>Bonds in issue at end of year (nominal value)</b>	<b>427,231</b>	<b>438,774</b>
Adjustment at fair value	2,385	9,752
Own bonds at fair value offset	-40,048	-61,420
<b>Bonds in issue at end of year at fair value</b>	<b>389,568</b>	<b>387,106</b>
Of which pre-issued (nominal value)	11,485	28,927
Drawn for redemption at next payment date (nominal value)	3,697	16,767

### 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 390bn (DKK 387bn). 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 decreased in 2015 by approximately DKK 0.7bn (increase of approximately DKK 0.0bn) due to changes in own credit risk. The cumulative change since designation was a decrease of approximately DKK 5bn (decrease of approximately DKK 4bn). 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 2015	31 Dec 2014
Interest payable on bonds in issue	3,177	3,548
Other interest and commissions payable	72	66
Other	92	57
<b>Total</b>	<b>3,341</b>	<b>3,671</b>

## Note 21 Capital adequacy

### Transitional own funds

DKKm, 31 Dec 2015	(A) amount at disclosure date	(C) amounts subject to pre-Regulation (EU) no 575/2013 treatment or prescribed residual amount of Regulation (EU) no 575/2013
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### Common equity tier 1 capital: instruments and reserves

1	Capital instruments and the related share premium accounts	1,717	-
	of which: Share capital	1,717	-
2	Retained earnings	17,105	-
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	15	-
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	1,464	-
6	<b>Common equity tier 1 (CET1) capital before regulatory adjustments</b>	<b>20,301</b>	<b>-</b>

### Common equity tier 1 (CET1) capital: regulatory adjustments

7	Additional value adjustments (negative amount)	-1	-
12	Negative amounts resulting from the calculation of expected loss amounts	-231	99
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	-
25b	Foreseeable tax charges relating to CET1 items (negative amount)	-	-
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-99	-
28	<b>Total regulatory adjustments to common equity tier 1 (CET1)</b>	<b>-331</b>	<b>-</b>
29	<b>Common equity tier 1 (CET1) capital</b>	<b>19,971</b>	<b>-</b>

### Additional tier 1 (AT1) capital: instruments

36	Additional tier 1 (AT1) capital before regulatory adjustments	-	-
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### Additional tier 1 (AT1) capital: regulatory adjustments

45	<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>19,971</b>	<b>-</b>
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59	<b>Total capital (TC = T1 + T2)</b>	<b>19,971</b>	<b>-</b>
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60	<b>Total risk-weighted assets</b>	<b>67,191</b>	<b>-</b>
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### Capital ratios and buffers

61	Common equity tier 1 (as a percentage of risk exposure amount)	29.72%	-
62	Tier 1 (as a percentage of risk exposure amount)	29.72%	-
63	Total capital (as a percentage of risk exposure amount)	29.72%	-
64	Institution-specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	0.40%	-
67	of which: systemic risk buffer requirement	0.40%	-
68	Common equity tier 1 available to meet buffers (as a percentage of risk exposure amount)	21.72%	-

### Amounts below the thresholds for deduction (before risk weighting)

72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	2	-
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### Applicable caps on the inclusion of provisions in tier 2

78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	62,994	-
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	378	-

**Note 21**  
**Capital adequacy** (continued)

DKKm	31 Dec <sup>3</sup> 2015	31 Dec <sup>3</sup> 2014
<b>Own funds</b>		
Equity	20,301	18,838
IRB provisions shortfall (-) <sup>1</sup>	-330	-238
<b>Common equity tier 1 capital (net after deduction)</b>	<b>19,971</b>	<b>18,600</b>
<b>Tier 1 capital (net after deduction)</b>	<b>19,971</b>	<b>18,600</b>
<b>Own funds (net after deduction)<sup>2</sup></b>	<b>19,971</b>	<b>18,600</b>

<sup>1</sup> Total shortfall in 2015: transition rules allow 70% to be deducted in common equity tier 1 and 30% in tier 2 capital. For 2014 the shortfall was 60% in common equity tier 1 and 40% in tier 2 capital.

<sup>2</sup> Own funds adjusted for IRB provisions, ie adjusted own funds equal DKK 20,301m by December 2015.

<sup>3</sup> Including profit for the year.

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

DKKm	31 Dec 2015 Minimum capital requirement	31 Dec 2015 REA	31 Dec 2014 Minimum capital requirement	31 Dec 2014 REA
<b>Credit risk</b>	<b>5,045</b>	<b>63,066</b>	<b>4,969</b>	<b>62,118</b>
IRB	5,039	62,994	4,963	62,038
- of which corporate	2,443	30,546	2,532	31,653
- of which advanced	2,443	30,546	2,532	31,653
- of which foundation	-	-	-	-
- of which institutions	-	4	2	21
- of which retail	2,558	31,970	2,418	30,230
- of which other	38	474	11	134
Standardised	6	72	6	80
- of which retail	-	-	-	-
- of which institutions	-	1	-	-
- of which equity	2	23	-	-
- of which other	4	48	6	80
<b>Market risk</b>	-	-	-	-
<b>Operational risk</b>	<b>256</b>	<b>3,195</b>	<b>225</b>	<b>2,809</b>
- of which standardised	256	3,195	225	2,809
Additional risk exposure amount due to Article 3 CRR	74	930	-	-
<b>Sub-total</b>	<b>5,375</b>	<b>67,191</b>	<b>5,194</b>	<b>64,927</b>
<b>Adjustment for transition rules</b>				
Additional capital requirement according to transition rules	8,437	105,453	8,500	106,246
<b>Total</b>	<b>13,812</b>	<b>172,644</b>	<b>13,694</b>	<b>171,173</b>

**Note 21**  
**Capital adequacy** *(continued)*

	31 Dec 2015	31 Dec 2014
<b>Capital ratios, excl transition rules (%)</b>		
Tier 1 capital ratio	29.7	28.6
Total capital ratio	29.7	28.6
<b>Capital ratios, including transition rules (%)</b>		
Tier 1 capital ratio	11.6	10.9
Total capital ratio	11.6	10.9
<b>Leverage ratio<sup>1</sup></b>		
Tier 1 capital, transitional definition, DKKm <sup>2</sup>	19,971	18,600
Leverage ratio exposure, DKKm	436,023	385,728
Leverage ratio	4.6	4.8

<sup>1</sup> Leverage ratio and volumes presented are based on 3-month average according to the local FSA reporting process.

<sup>2</sup> Including profit for the period.

## Note 22 Maturity analysis for assets and liabilities

### Remaining maturity

31 Dec 2015, 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		609	-	-	-	-	-	609
Loans to credit institutions and central banks	10	1,805	49,111	-	-	-	-	50,916
Loans and receivables at fair value and amortised cost	11	103	1,946	9,425	47,271	326,838	-	385,583
Bonds at fair value	12	-	-	-	-	-	-	-
<b>Total assets with fixed maturities</b>		<b>2,517</b>	<b>51,057</b>	<b>9,425</b>	<b>47,271</b>	<b>326,838</b>	<b>-</b>	<b>437,108</b>
Non-financial assets	13, 14, 15, 16	-	-	-	-	-	49	49
Current tax assets		-	-	-	-	-	-	-
Other assets	17	-	706	-	-	-	-	706
Prepaid expenses		-	4	-	-	-	-	4
<b>Total assets</b>		<b>2,517</b>	<b>51,767</b>	<b>9,425</b>	<b>47,271</b>	<b>326,838</b>	<b>49</b>	<b>437,867</b>
Deposits by credit institutions	18	645	11,963	-	12,000	-	-	24,608
Bonds in issue at fair value	19	-	28,120	74,541	142,372	144,535	-	389,568
<b>Total liabilities with fixed maturities</b>		<b>645</b>	<b>40,083</b>	<b>74,541</b>	<b>154,372</b>	<b>144,535</b>	<b>-</b>	<b>414,176</b>
Non-financial liabilities	8	-	29	-	-	-	-	29
Other liabilities	20	-	3,341	-	-	-	-	3,341
Deferred income		-	20	-	-	-	-	20
Equity		-	-	-	-	-	20,301	20,301
<b>Total liabilities and equity</b>		<b>645</b>	<b>43,473</b>	<b>74,541</b>	<b>154,372</b>	<b>144,535</b>	<b>20,301</b>	<b>437,867</b>

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>194</b>	<b>69,998</b>	<b>77,854</b>	<b>136,318</b>	<b>148,725</b>	<b>18,838</b>	<b>451,927</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 2015	31 Dec 2014
<b>Operating items</b>		
Interest income:		
Interest on loans to credit institutions	-245	-23
Forward premium on derivatives	6	0
Interest expense:		
Interest on loans to credit institutions	-5	-275
Fee and commission expense:		
Guarantee commissions etc	-809	-720
Brokerage	-109	-82
Net result from items at fair value:		
Interest rate derivatives	-70	-
Staff costs and administrative expenses:		
IT expenses	-43	-26
Other administrative expenses	-32	-20
Systems development costs	-20	-9
Rent	-10	-16
Internal audit	-2	-1
Profit from investment in associated undertaking	1	2
<b>Assets</b>		
Loans to credit institutions	22,272	70,461
Interest receivables from credit institutions	3	0
Investment in associated undertaking	15	13
Other assets	281	-
- of which derivatives	215	-
<b>Liabilities</b>		
Deposits by credit institutions	24,608	42,250
Interest payable	4	7
IT expenses payable	14	11
Guarantee commissions payable	72	66
<b>Guarantees</b>		
Nordea Kredit's parent company, Nordea Bank Danmark A/S, provides on an ongoing basis guarantees to cover the first loss of the principal of mortgage loans disbursed.	100,189	97,523
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.	10,120	14,429

The main part of the transactions is between Nordea Kredit and Nordea Bank Danmark A/S.

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 2015 there were no unusual 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.

## **Note 23** **Related-party transactions** *(continued)*

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### **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	2015	2014	2013	2012	2011
<b>Key figures (%)</b>					
Total capital ratio	29.7	28.6	16.4	16.2	17.4
Tier 1 capital ratio	29.7	28.6	16.4	16.2	17.4
Pre-tax return on equity	9.8	9.8	8.1	5.8	6.6
Post-tax return on equity	7.5	7.4	6.1	4.4	4.9
Income/cost ratio	6.39	4.13	3.30	2.30	2.90
Foreign exchange exposure as % of tier 1 capital	0.2	0.7	1.0	0.6	0.4
Loans/equity	19.0	20.2	20.8	21.8	21.6
Lending growth for the year	3.2	3.6	2.7	4.5	5.2
Impairment ratio for the year	0.1	0.1	0.1	0.1	0.1
Return on assets	0.3	0.3	0.3	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 2015

DKK m	Note	Capital centre 2	Capital centre 1 (General Capital Centre)	Total
<b>Income statement</b>				
Income from lending		2,850	147	2,997
Interest, net		-66	-5	-71
Administrative expenses, net		-838	-61	-899
Provisions for loan losses		-66	-48	-114
Tax		-442	-7	-449
<b>Total</b>		<b>1,438</b>	<b>26</b>	<b>1,464</b>
<b>Balance sheet</b>				
<b>Assets</b>				
Mortgage loans		369,556	16,030	385,586
Other assets		87,433	5,459	92,892
<b>Total assets</b>	<b>1</b>	<b>456,989</b>	<b>21,489</b>	<b>478,478</b>
<b>Liabilities and equity</b>				
Bonds in issue	2	413,758	19,594	433,352
Other liabilities		24,249	576	24,825
Equity	3	18,982	1,319	20,301
<b>Total liabilities and equity</b>		<b>456,989</b>	<b>21,489</b>	<b>478,478</b>

### Note 1 Balance sheet, series financial statements

Balance sheet total, Nordea Kredit's annual financial statements	437,867
Own bonds, not offset in series financial statements	40,048
Interest receivable on own bonds	563
<b>Balance sheet total, series financial statements</b>	<b>478,478</b>

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

Bonds in issue, Nordea Kredit's annual financial statements	389,568
Own bonds, not offset in series financial statements	40,048
Deferred income	3,736
<b>Bonds in issue, series financial statements</b>	<b>433,352</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's annual report for 2015.

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

## Note 26 Risk disclosures

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

DKKm	31 Dec 2015	31 Dec 2014
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#### Derivatives

Currency forwards		
Market value, positive	-	8
Market value, negative	-	-
Nominal value	-	7,065

#### Interest rate risk, options

Market value, positive	204	-
Market value, negative	11	-
Nominal value	1,004	-

At the end of 2014 and 2015 there were no spot transactions.

DKKm, 31 Dec 2015	Total risk	Max	Min
Interest rate risk	12	50	12
Currency risk	-	1	0
<b>Total</b>	<b>12</b>	<b>51</b>	<b>12</b>

DKKm, 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>

<sup>1</sup> Market risk is described in the Board of Directors' report under Risk, liquidity and capital management, pages 8-13.

**Note 26**  
**Risk disclosures** (continued)

Credit risk <sup>2</sup>	31 Dec 2015	31 Dec 2014
DKK m		
<b>Maximum credit risk of on-balance-sheet items</b>		
Balances due from credit institutions and central banks	51,525	70,465
Loans and receivables at fair value	385,583	381,056
- of which owner-occupied dwellings and holiday homes	257,158	258,132
- of which commercial properties	128,425	122,924
Loans and receivables at amortised cost	-	-
Bonds at fair value	-	25
Investment in associated undertaking	15	13
Other asset items	744	368
<b>Loan commitments</b>	1,610	2,186
<b>Security received</b>		
The maximum credit risk on loans to credit institutions is secured by own bonds in connection with purchase and resale transactions	20,467	68,631
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 first loss of the principal of mortgage loans disbursed	100,189	97,523
In connection with the disbursement of loans, Nordea Bank Danmark A/S additionally provides statutory guarantees relating to registration with the Land Registry	10,120	14,429

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 8-13. See also Note 1, section 9 and 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:

DKKm	
Retained earnings	17,107
Net profit for the year	1,464
Transferred to Other reserves	-
<b>Total</b>	<b>18,569</b>

The Board of Directors proposes that the profit for 2015 is distributed as follows:

DKKm	
Dividends paid to the shareholder	-
To be carried forward	18,569
<b>Total</b>	<b>18,569</b>

The company's distributable earnings amount to DKK 18,569m. After the proposed distribution of earnings, the company's unrestricted equity amounts to DKK 20,301m.

## 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 2015.

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 2015 and of the results of the company's operations for the financial year 1 January-31 December 2015.

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, 5 February 2016

### Executive Management

Charlotte Gullak Christensen  
(Chief Executive Officer)

Claus H. Greve  
(Deputy Chief Executive Officer)

### Board of Directors

Peter Lybecker  
(Chairman)

David Hellemann  
(Vice Chairman)

Jørgen Holm Jensen

Jette Petersen

Kim Skov Jensen

# Independent auditors' report

## To the shareholders of Nordea Kredit Realkreditaktieselskab

### Report on the financial statements

We have audited the financial statements of Nordea Kredit Realkreditaktieselskab for the financial year 1 January-31 December 2015, which comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity, and notes, including summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Business Act.

### Management's responsibility for the financial statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the Danish Financial Business Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's 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 regulation. 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 audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, 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 auditor considers internal control relevant to the Company's preparation of financial statements that give a true and fair view 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.

The audit has not resulted in any qualification.

### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2015 and of the results of the Company's operations for the financial year 1 January-31 December 2015 in accordance with the Danish Financial Business Act.

### Statement on the Board of Directors' report

We have read the Board of Directors' report in accordance with the Danish Financial Business Act. We have not performed any procedures additional to the audit of the financial statements. On this basis, in our opinion, the information provided in the Board of Directors' report is consistent with the financial statements.

Copenhagen, 5 February 2016

PricewaterhouseCoopers  
Statsautoriseret Revisionspartnerselskab  
Business registration no 33 77 12 31

Erik Stener Jørgensen  
State-Authorised Public Accountant

Benny Voss  
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 Strategic 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 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.  
Vice Chairman of the Board of Directors of FR I af 16. september A/S.  
Member of the Board of Directors of VISA Europe.

**David Hellemann** (Vice Chairman)

### Internal assignments

Head of Banking Denmark at Nordea Bank Danmark A/S.

### External assignments

None.

**Kim Skov Jensen**

### Internal assignments

Managing Director, Group Treasury & Asset and Liability Management, 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 at Nordea Bank Danmark A/S.

### External assignments

Member of the credit council of the Danish Bankers Association.

**Jette Petersen**

### Internal assignments

Deputy Director at Nordea Bank Danmark 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** (Deputy Chief Executive Officer)

### Internal assignments

None.

### External assignments

Member of the Board of Directors of the Danish Mortgage Banks' Federation.

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