

# Nordea

## Interim Report 1<sup>st</sup> quarter 2020

Nordea Direct Boligkreditt



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

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

# Key financial figures

## Summary of income statement

NOKt	Jan-Mar 2020	Jan-Mar 2019	Year 2019
Net interest income	33,855	34,108	116,615
Net commission income and other operating income	-1,772	927	3,223
<b>Total income</b>	<b>32,083</b>	<b>35,034</b>	<b>119,838</b>
Staff costs	597	672	2,299
Other expenses	6,734	3,327	15,007
<b>Total operating expenses</b>	<b>7,331</b>	<b>3,999</b>	<b>17,307</b>
Loan losses (negative figures are reversals)	-453	-319	380
<b>Operating profit</b>	<b>25,205</b>	<b>31,355</b>	<b>102,152</b>
Income tax expense	6,301	7,839	25,538
<b>Net profit for the period</b>	<b>18,904</b>	<b>23,516</b>	<b>76,614</b>

## Summary of balance sheet

NOKt	31 Mar 2020	31 Mar 2019	31 Dec 2019
Loans to the public (gross)	19,927,939	23,499,661	21,864,705
Allowance for loan losses	-1,136	-890	-1,589
Total assets	20,903,613	24,750,100	22,623,472
Equity	1,948,894	1,876,832	1,929,990

## Ratios and key figures

		Jan-Mar 2020	Jan-Mar 2019	Year 2019
Net interest margin, annualised	%	0.62	0.55	0.49
Loss rate	%	-0.01	-0.01	0.00
Non-performing loans in % of gross lending <sup>1</sup>	%	0.03	0.01	0.02
Return on equity, annualised	%	3.9	5.1	4.1
Capital adequacy <sup>2</sup>	%	25.6	20.8	23.7
Tier 1 capital ratio <sup>2</sup>	%	25.6	20.8	23.7
Common equity Tier 1 capital ratio <sup>2</sup>	%	25.6	20.8	23.7
Cost/income ratio	%	22.9	11.4	14.4
Liquidity Coverage Ratio	%	483	281	372
Average total assets	NOKt	22,068,694	25,201,015	23,606,417
Cover pool	NOKt	20,539,609	24,342,893	22,291,219
Number of loans	Number	11,676	13,221	12,532
Weighted indexed loan-to-value ratio <sup>3</sup>	%	47.0	50.1	48.6
Weighted average remaining life	Year	21.8	21.7	22.0

<sup>1</sup> Gross default over 90 days

<sup>2</sup> The profit for the period is not included in the calculation for the quarters, with the exception of fourth quarter.

<sup>3</sup> Quarterly updated house prices

# Nordea Direct Boligkreditt AS

## Introduction

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

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

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

## Income statement

The profit before tax expense was NOK 25.2m (NOK 31.4m). The decrease was mainly driven by lower volume, negative other operating income and increased operating expenses.

Total income amounted to NOK 32.1m (NOK 35.0m).

Net interest income amounted to NOK 33.9m (NOK 34.1m).

Net commission income and other income amounted to negative NOK 1.8m (positive NOK 0.9m).

The net interest margin<sup>1</sup> was 0.62% (0.55%).

Operating expenses were NOK 7.3m (NOK 4.0m) due to resolution fee for 2020 booked this period.

Total write-downs and losses amounted to positive NOK 0.5m (positive NOK 0.3m). The balance of group write-downs amounted to NOK 1.3m (NOK 0.9m).

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

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

The write-downs and losses were in line with expectations.

## Lending

As of 31 March 2020, the Company had 11,676 loans with a total outstanding balance of NOK 19,927.9m (NOK 23,499.7 m). The portfolio continues to be of high quality.

The entire lending portfolio has been acquired from Nordea Direct Bank ASA. It consists of loans with variable interest rates. The average loan commitment was NOK 1.7m per loan as of 31 March 2020. The largest single exposure was NOK 8.9m and 16.3% of the lending portfolio consisted of loans with credit lines (fleksilån). Including the unutilised credit facilities, 23.8% of the lending portfolio consisted of loans with credit lines (fleksilån).

Nordea Direct Boligkreditt AS has a weighted loan-to-value ratio, indexed, of 47.0% (50.1%).

## Segments

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

## Capital position

As of 31 March 2020, the Company had a common equity Tier 1 capital ratio of 25.6% (20.8%). The total capital held by the Company was NOK 1,929.7m (NOK 1,853.1 m).

## Rating

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

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

## Debt securities issued

The Company had issued covered bonds with a total face value of NOK 15,950.0m as of 31 March 2020. The portfolio includes five loans, the first of which matures on 11 September 2020 (extended due date to 13 September 2021).

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

### Liquidity

As of 31 March 2020, the Company had net liquid assets of NOK 847.8m, of which NOK 657.8m in bank deposits, NOK 78,1m in covered bonds and NOK 111.9m in treasury bills.

The Company has a long-term credit facility with the parent company of NOK 1,000.0m and a short-term credit facility of up to NOK 6,000.0m. Unutilised credit facilities amounted to NOK 4,195.6m as of 31

March 2020. In addition the Company has a credit facility agreement that allows Nordea Direct Boligkreditt AS to borrow money in order to repay its outstanding bond debt.

### Events after the balance sheet date

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

### Nordea Direct Boligkreditt AS

Oslo, 14 May 2020



Børre Sten Gundersen  
Chairman



Anders Frank-Læssøe  
Board member



Elen Margrethe Stiksrud  
Board member



Alex Madsen  
Board member



Jan Kåre Raae  
Chief Executive Officer

# Income statement

NOKt	Note	Jan-Mar 2020	Jan-Mar 2019	Year 2019
Interest income etc, amortised cost		145,580	132,017	534,108
Interest income etc, fair value		-1,920	375	454
Interest costs etc.		109,805	98,284	417,947
<b>Net interest income</b>		<b>33,855</b>	<b>34,108</b>	<b>116,615</b>
Fee and commission income		565	589	2,310
Net gains on financial instruments at fair value		-2,567	108	-4
Other operating income		229	229	917
<b>Net commission income and other operating income</b>		<b>-1,772</b>	<b>927</b>	<b>3,223</b>
<b>Total income</b>		<b>32,083</b>	<b>35,034</b>	<b>119,838</b>
Staff costs		597	672	2,299
Other operating expenses		6,734	3,327	15,007
<b>Total operating expenses</b>		<b>7,331</b>	<b>3,999</b>	<b>17,307</b>
<b>Profit / (loss) before loan losses</b>		<b>24,752</b>	<b>31,035</b>	<b>102,532</b>
Loan losses	4	-453	-319	380
<b>Operating profit</b>		<b>25,205</b>	<b>31,355</b>	<b>102,152</b>
Income tax expense		6,301	7,839	25,538
<b>Net profit for the period</b>		<b>18,904</b>	<b>23,516</b>	<b>76,614</b>
Basic/diluted earnings per share, NOK		145.4	324.4	589.3

# Statement of comprehensive income

NOKt	Jan-Mar 2020	Jan-Mar 2019	Year 2019
<b>Net profit for the period</b>	<b>18,904</b>	<b>23,516</b>	<b>76,614</b>
<b>Components of other comprehensive income</b>			
<b>Items that are not reclassified subsequently to profit or loss</b>			
Items that may be reclassified subsequently to profit or loss			
<b>Total components of other comprehensive income</b>			
<b>Total comprehensive income for the period</b>	<b>18,904</b>	<b>23,516</b>	<b>76,614</b>

# Balance sheet

NOKt	Note	31 Mar 2020	31 Mar 2019	31 Dec 2019
<b>Assets</b>				
Loans to credit institutions	6	657,776	993,810	513,847
Loans to the public	2,4	19,926,803	23,498,770	21,863,116
Interest-bearing securities	9	189,995	140,153	164,376
Derivatives	9	75,857	62,692	40,629
Deferred tax assets		243	2,258	243
Advance payments and accrued income		52,939	52,417	41,261
<b>Total assets</b>		<b>20,903,613</b>	<b>24,750,100</b>	<b>22,623,472</b>
<b>Liabilities and equity</b>				
Liabilities to credit institutions	6	2,804,416	2,780,655	1,728,317
Debt securities in issue	3,6	16,046,266	19,981,599	18,860,857
Derivatives	9	3,813	4,893	4,086
Current tax liabilities		10,545	24,568	23,523
Other liabilities		89,679	81,553	76,699
<b>Total liabilities</b>		<b>18,954,719</b>	<b>22,873,268</b>	<b>20,693,481</b>
<b>Equity</b>				
Share capital		221,000	221,000	221,000
Share premium reserve		999,020	999,020	999,020
Retained earnings		709,970	633,296	709,970
Net profit for the period		18,904	23,516	
<b>Total equity</b>		<b>1,948,894</b>	<b>1,876,832</b>	<b>1,929,990</b>
<b>Total liabilities and equity</b>		<b>20,903,613</b>	<b>24,750,100</b>	<b>22,623,472</b>

# Statement of changes in equity

NOKt	Share capital	Share premium reserve	Other equity	Total equity
<b>Balance at 1 Jan 2020</b>	<b>221,000</b>	<b>999,020</b>	<b>709,970</b>	<b>1,929,990</b>
Net profit for the period			18,904	18,904
Other comprehensive income, net of tax				
<b>Total comprehensive income</b>			<b>18,904</b>	<b>18,904</b>
Capital expansion				
Share-based payment transactions settled in equity				
<b>Balance at 31 Mar 2020</b>	<b>221,000</b>	<b>999,020</b>	<b>728,874</b>	<b>1,948,894</b>

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

NOKt	Share capital	Share premium reserve	Other equity	Total equity
<b>Balance at 1 Jan 2019</b>	<b>221,000</b>	<b>999,020</b>	<b>633,294</b>	<b>1,853,314</b>
Net profit for the period			23,516	23,516
Other comprehensive income, net of tax				
<b>Total comprehensive income</b>			<b>23,516</b>	<b>23,516</b>
Capital expansion				
Share-based payment transactions settled in equity			2	2
<b>Balance at 31 Mar 2019</b>	<b>221,000</b>	<b>999,020</b>	<b>656,812</b>	<b>1,876,832</b>

Number of shares at end of period 130.000

# Cash flow statement

NOKt	Jan-Mar 2020	Jan-Mar 2019	Year 2019
<b>Operating activities</b>			
Net payment of loans to customers	1,936,587	1,148,781	2,784,051
Payment of interest from customers	143,584	128,067	517,712
Net payment of interest from credit institutions etc.	-9,653	-9,041	13,839
Taxes paid	-19,280	-21,830	-38,559
Net other commission income	795	819	3,227
Payment to operations	-1,418	-4,863	-19,256
Net received/paid (-) upon purchase and sale of financial instruments and interest-bearing securities	-25,619	-254	-24,478
<b>Net cash flow from operating activities</b>	<b>2,024,997</b>	<b>1,241,677</b>	<b>3,236,538</b>
<b>Investment activities</b>			
Net purchase of intangible assets and fixed assets			
<b>Net cash flow from investment activities</b>			
<b>Financing activities</b>			
Net receipts/payments on deposits from credit institutions	1,076,099	-855,351	-1,907,690
Receipts of interest-bearing securities			
Payment of interest-bearing securities	-2,850,000		-2,873,000
Interest payments on interest-bearing securities	-107,168	-87,429	1,363,086
Capital increases			
<b>Cash flow from financing activities</b>	<b>-1,881,068</b>	<b>-942,780</b>	<b>-3,417,604</b>
<b>Cash flow for the period</b>	<b>143,929</b>	<b>298,897</b>	<b>-181,066</b>
<b>Cash and cash equivalents</b>			
Cash and cash equivalents at 1 January	513,847	694,913	694,913
Cash and cash equivalents at end of the period	657,776	993,810	513,847
<b>Change</b>	<b>143,929</b>	<b>298,897</b>	<b>-181,066</b>
<b>The following items are included in cash and cash equivalents:</b>			
Loans to credit institutions	657,776	993,810	513,847
<b>Total cash and cash equivalents</b>	<b>657,776</b>	<b>993,810</b>	<b>513,847</b>

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



# Notes to the financial statements

## Note 1 Accounting policies

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

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

### Changes in accounting policies

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

### Changes in IFRSs not yet applied

A number of new standards, changes to standards and interpretations have been issued for financial years beginning after 1 January 2020. They have not

been applied when preparing these consolidated financial statements. Nordea Direct Boligkreditt AS does not plan early implementation of these standards.

### Other amendments to IFRS

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

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

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

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

## Note 2 Segment information

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

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

## Note 3 Liabilities on the issue of securities

NOKt	31 Mar 2020	31 Mar 2019	31 Dec 2019
<b>Liabilities opened for the issue of securities</b>			
Bond debt	14,500,000	18,445,000	17,350,000
<b>Total liabilities at amortised cost</b>	<b>14,500,000</b>	<b>18,445,000</b>	<b>17,350,000</b>
<b>Liabilities opened for the issue of securities</b>			
Bond debt	1,450,000	1,450,000	1,450,000
<b>Total liabilities included in fair value hedge</b>	<b>1,450,000</b>	<b>1,450,000</b>	<b>1,450,000</b>
<b>Total liabilities</b>	<b>15,950,000</b>	<b>19,895,000</b>	<b>18,800,000</b>

### Maturity

Remaining maturity (nominal value)	31 Mar 2020	31 Mar 2019	31 Dec 2019
2019		1,095,000	
2020	850,000	3,700,000	3,700,000
2021	5,000,000	5,000,000	5,000,000
2022	5,000,000	5,000,000	5,000,000
2023	4,500,000	4,500,000	4,500,000
2025	600,000	600,000	600,000
<b>Total</b>	<b>15,950,000</b>	<b>19,895,000</b>	<b>18,800,000</b>

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

New issues in 2020

Repayments in 2020 2,850,000

### NOKt

ISIN Number	Currency	Rate	Due	Ext.Due	Nominal value
NO0010687429	NOK	Floating	11.9.2020	13.9.2021	850,000
NO0010727738	NOK	Fixed	12.5.2021	12.5.2022	5,000,000
NO0010770852	NOK	Floating	20.5.2022	20.5.2023	5,000,000
NO0010789266	NOK	Floating	23.5.2023	23.5.2024	4,500,000
NO0010678766	NOK	Fixed	8.5.2025	8.5.2026	600,000
<b>Total liabilities through the issuance of excluding own securities</b>					<b>15,950,000</b>

## Note 4 Write-downs and losses on loans

### Write-downs and losses on loans

NOKt	31 Mar 2020	31 Mar 2019	31 Dec 2019
<b>Write-downs and losses for the period</b>			
+/- Change in group write-downs for the period (ECL)	-453	-319	380
+ Write-off during the period			
- Payments on previously written-off accounts			
<b>Write-downs and losses for the period</b>	<b>-453</b>	<b>-319</b>	<b>380</b>
<b>Loss allowance</b>			
Loss allowance at the start of the period	1,589	1,210	1,210
+/- Change in loss allowance for the period	-453	-319	380
<b>Loss allowance at the end of the period</b>	<b>1,136</b>	<b>890</b>	<b>1,589</b>
<b>Defaulted loans</b>			
Gross default over 90 days	6,326	2,823	5,034

### Credit quality by risk group

31 Mar 2020 NOKt	Stage 1 12-month ECL	Stage 2 lifetime ECL	Stage 3 lifetime ECL	Total
<b>Loans to and claims on customers</b>				
Low	20,432,842	1,057	5,774	20,439,673
Medium	6,268	78,809	3,375	88,452
High		116,740	12,557	129,297
Not classified	566			566
Impaired and written down			6,326	6,326
Adjustment	-736,374			-736,374
<b>Total</b>	<b>19,703,302</b>	<b>196,606</b>	<b>28,031</b>	<b>19,927,939</b>
Loss allowance	452	148	536	1,136
<b>Total net</b>	<b>19,702,850</b>	<b>196,458</b>	<b>27,495</b>	<b>19,926,803</b>

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

31 Mar 2019 NOKt	Stage 1 12-month ECL	Stage 2 lifetime ECL	Stage 3 lifetime ECL	Total
<b>Loans to and claims on customers</b>				
Low	23,348,951		4,990	23,353,942
Medium	8,342	53,244		61,586
High	8,180	64,889	6,019	79,088
Not classified	2,434			2,434
Impaired and written down			2,823	2,823
Adjustment	-212			-212
<b>Total</b>	<b>23,367,695</b>	<b>118,133</b>	<b>13,833</b>	<b>23,499,661</b>
Loss allowance	796	94	1	890
<b>Total net</b>	<b>23,366,899</b>	<b>118,039</b>	<b>13,832</b>	<b>23,498,770</b>

31 Dec 2019 NOKt	Stage 1 12-month ECL	Stage 2 lifetime ECL	Stage 3 lifetime ECL	Total
<b>Loans to and claims on customers</b>				
Low	21,596,394		5,461	21,601,855
Medium	5,886	89,148		95,034
High	7,833	140,608	13,916	162,356
Not classified	449			449
Impaired and written down			5,034	5,034
Adjustment	-23			-23
<b>Total</b>	<b>21,610,538</b>	<b>229,756</b>	<b>24,411</b>	<b>21,864,705</b>
Loss allowance	480	114	995	1,589
<b>Total net</b>	<b>21,610,058</b>	<b>229,642</b>	<b>23,415</b>	<b>21,863,116</b>

### Loans to and claims on customers by past due status

NOKt	31 Mar 2020		31 Mar 2019		31 Dec 2019	
	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
0-29 days	19,906,123	827	23,488,649	816	21,849,171	1,415
30-59 days	11,036	114	5,021	74	6,682	71
60-89 days	4,454	74	3,167		3,817	24
90+ days	6,326	121	2,823		5,034	79
<b>Total</b>	<b>19,927,939</b>	<b>1,136</b>	<b>23,499,661</b>	<b>890</b>	<b>21,864,705</b>	<b>1,589</b>

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

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

Reconciling items includes the following:

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

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

### Loss allowance

NOKt	Stage 1 12-month ECL	Stage 2 lifetime ECL	Stage 3 lifetime ECL	Total allowance
<b>Loss allowance as at 1 Jan 2020</b>	<b>480</b>	<b>114</b>	<b>995</b>	<b>1,589</b>
Transfer to stage 1	42	-33	-9	
Transfer to stage 2	-25	25		
Transfer to stage 3	-55	-28	84	
New Financial assets originated during the period				
Financial assets that have been derecognised	-33	-2	-11	-45
Changes in balance with no transfer between stages	43	71	-523	-409
<b>Loss allowance as at 31 Mar 2020</b>	<b>452</b>	<b>148</b>	<b>536</b>	<b>1,136</b>

NOKt	Stage 1 12-month ECL	Stage 2 lifetime ECL	Stage 3 lifetime ECL	Total allowance
<b>Loss allowance as at 1 Jan 2019</b>	<b>880</b>	<b>85</b>	<b>245</b>	<b>1,210</b>
Transfer to stage 1	11	-11		
Transfer to stage 2	-58	58		
Transfer to stage 3				
New Financial assets originated during the period	56			56
Financial assets that have been derecognised	-98	-17	-40	-155
Changes in balance with no transfer between stages	5	-20	-205	-220
<b>Loss allowance as at 31 Mar 2019</b>	<b>796</b>	<b>94</b>	<b>1</b>	<b>890</b>

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

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

NOKt	31 Mar 2020	31 Mar 2019	31 Dec 2019
Stage 1	452	796	480
Stage 2	148	94	114
Stage 3	536	1	995
<b>Total</b>	<b>1,136</b>	<b>890</b>	<b>1,589</b>
Stage 1	39.7%	89.4%	30.2%
Stage 2	13.1%	10.6%	7.2%
Stage 3	47.2%	0.1%	62.6%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

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

Reconciling items includes the following:

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

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

### Loans to and claims on customers

NOKt	Stage 1 12-month ECL	Stage 2 lifetime ECL	Stage 3 lifetime ECL	Total
<b>Gross carrying amount as at 1 Jan 2020</b>	<b>21,610,538</b>	<b>229,756</b>	<b>24,411</b>	<b>21,864,705</b>
Transfer to stage 1	123,597	-120,615	-2,982	
Transfer to stage 2	-101,940	102,688	-749	
Transfer to stage 3	-5,628	-2,865	8,493	
New financial assets originated				
Financial assets that have been derecognised	-965,517	-10,375	-1,078	-976,970
Change in balances due to payments	-221,379	-1,983	-63	-223,426
Other Changes	-736,370			-736,370
<b>Gross carrying amount as at 31 Mar 2020</b>	<b>19,703,302</b>	<b>196,606</b>	<b>28,031</b>	<b>19,927,939</b>
Loss allowance as at 31 Mar 2020	452	148	536	1,136

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

### Loans to and claims on customers

NOKt	Stage 1 12-month ECL	Stage 2 lifetime ECL	Stage 3 lifetime ECL	Total
<b>Gross carrying amount as at 1 Jan 2019</b>	<b>24,458,691</b>	<b>172,872</b>	<b>17,047</b>	<b>24,648,610</b>
Transfer to stage 1	80,958	-79,435	-1,524	
Transfer to stage 2	-57,700	60,181	-2,480	
Transfer to stage 3	-3,380	-1,575	4,955	
New financial assets originated	1,853,889			1,853,889
Financial assets that have been derecognised	-2,672,703	-32,811	-4,069	-2,709,584
Change in balances due to payments	-291,843	-1,099	-95	-293,037
Other Changes	-216			-216
<b>Gross carrying amount as at 31 Mar 2019</b>	<b>23,367,695</b>	<b>118,133</b>	<b>13,833</b>	<b>23,499,661</b>
Loss allowance as at 31 Mar 2019	796	94	1	890

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

<sup>1</sup>Market value adjustment for fixed interest loans and overraft facilities balance with credit balance.

NOKt	31 Mar 2020	31 Mar 2019	31 Dec 2019
Stage 1	19,703,302	23,367,695	21,610,538
Stage 2	196,606	118,133	229,756
Stage 3	28,031	13,833	24,411
<b>Total</b>	<b>19,927,939</b>	<b>23,499,661</b>	<b>21,864,705</b>
Stage 1	98.9%	99.4%	98.8%
Stage 2	1.0%	0.5%	1.1%
Stage 3	0.1%	0.1%	0.1%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

## Note 5 Capital adequacy

NOKt	31 Mar 2020	31 Mar 2019	31 Dec 2019
<b>Primary capital</b>			
Share capital and share premium	1,220,020	1,220,020	1,220,020
Other equity	728,874	656,812	709,970
<b>Total equity</b>	<b>1,948,894</b>	<b>1,876,832</b>	<b>1,929,990</b>
Deduction			
Profit not included in the calculation of net primary capital	-18,904	-23,516	
Value adjustments due to the requirement for prudent valuation	-270	-208	-209
<b>Common equity Tier 1 capital</b>	<b>1,929,721</b>	<b>1,853,108</b>	<b>1,929,781</b>
<b>Net primary capital</b>	<b>1,929,721</b>	<b>1,853,108</b>	<b>1,929,781</b>
<b>Credit risk:</b>			
Of which:			
Central government or central banks	49		49
Institutions	15,692	20,690	11,229
Mass market positions	1,817	3,644	2,074
Positions secured by mortgage	557,285	656,527	611,427
Overdue positions	803	478	800
Covered bonds	626	630	627
Other positions	25	115	5
<b>Total minimum requirement credit risk</b>	<b>576,298</b>	<b>682,084</b>	<b>626,210</b>
Operational risk	22,755	23,355	22,755
CVA-risk	4,785	6,095	2,632
<b>Minimum requirement for net primary capital</b>	<b>603,837</b>	<b>711,534</b>	<b>651,596</b>
<b>Basis of calculation of balance sheet items not included in trading portfolio</b>	<b>7,146,215</b>	<b>8,478,809</b>	<b>7,794,530</b>
<b>Basis of calculation of off-balance sheet items not included in trading portfolio</b>	<b>57,507</b>	<b>52,884</b>	<b>33,089</b>
<b>Risk-weighted assets (calculation basis for capital adequacy ratio)</b>	<b>7,547,967</b>	<b>8,889,818</b>	<b>8,144,954</b>
<b>Buffer requirements</b>			
Systemic risk buffer	226,439	266,695	244,349
Conservation buffer	188,699	222,245	203,624
Countercyclical buffer	75,480	177,796	203,624
<b>Total buffer requirement for common equity Tier 1 capital</b>	<b>490,618</b>	<b>666,736</b>	<b>651,596</b>
<b>Pillar 2 requirement 1.7% for common equity Tier 1 capital set by the Financial Supervisory Authority of Norway</b>	<b>128,315</b>	<b>133,347</b>	<b>138,464</b>
<b>Available surplus common equity Tier 1 capital net min. requirement</b>	<b>971,129</b>	<b>652,983</b>	<b>773,198</b>
<b>Capital adequacy</b>			
Capital adequacy ratio	25.6 %	20.8 %	23.7 %
Tier 1 capital ratio	25.6 %	20.8 %	23.7 %
Common equity Tier 1 capital ratio	25.6 %	20.8 %	23.7 %
Leverage ratio	9.1 %	7.4 %	8.4 %

For credit risk the standard method is used, while basis method is used for operational risk. The Financial Supervisory Authority of Norway has end of Q4 2019 set a Pillar 2 requirement on additional 1.7% of risk-weighted assets for Nordea Direct Bank Group, covered by Common equity Tier 1 capital. Total regulatory requirement for common equity Tier 1 capital is 12,7% end of Q1 2020.



## Note 6 Transactions with related parties

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

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

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

Further information about the credit agreements:

a) long-term credit facility of up to NOK 2,000.0 million. Expiry date 31 December 2020.

b) short-term credit facility of up to NOK 4,000.0 million. Expiry date 30 November 2019.

c) Credit facility agreement that enables Nordea Direct Boligkreditt AS to borrow money in order to repay its outstanding bond debt. The credit facility shall be sufficient to cover the total repayment of the outstanding bonds over the next 12 months. As of 31 March 2020, the credit limit of the agreement was NOK 4,195.6m.

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

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

NOKt	Jan-Mar 2020		Jan-Mar 2019		Jan-Dec 2019	
	Nordea Direct Bank ASA	Nordea Bank Abp	Nordea Direct Bank ASA	Nordea Bank Abp	Nordea Direct Bank ASA	Nordea Bank Abp
Net interest income	21,499	5,930	13,016	4,416	65,169	14,575
Other operating income	229		229		917	
Andre driftskostnader	-2,703		-2,979		-11,510	

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

NOKt	31 Mar 2020		31 Mar 2019		31 Dec 2019	
	Nordea Direct Bank ASA	Nordea Bank Abp	Nordea Direct Bank ASA	Nordea Bank Abp	Nordea Direct Bank ASA	Nordea Bank Abp
Deposit	657,386	392	993,620	260	513,246	601
Loans to credit institutions	2,819,579		2,796,679		1,736,594	
Interest-bearing securities	1,677,901	44,589	898,135	159,067	2,495,854	317,604

## Note 7 Cover pool

NOKt	31 Mar 2020		31 Mar 2019		31 Dec 2019	
	Nominal value	Market value	Nominal value	Market value	Nominal value	Market value
<b>Assets</b>						
Loans to the public	19,927,939	19,927,939	23,499,661	20,049,515	21,864,705	21,864,705
- whereof pool of eligible loans	19,898,601	19,898,601	23,465,837	23,465,837	21,830,675	21,830,675
Supplementary assets and derivatives:	567,872	641,008	823,170	877,056	424,182	460,544
- whereof CIRS						
- whereof IRS		73,120		53,887		36,362
<b>Total cover pool</b>	<b>20,466,473</b>	<b>20,539,609</b>	<b>24,289,007</b>	<b>24,342,893</b>	<b>22,254,857</b>	<b>22,291,219</b>
Debt securities in issue (net outstanding amount)	15,950,000	16,098,145	19,895,000	20,134,078	18,800,000	18,980,351
Over-collateralization calculated on net outstanding covered bonds	28.3 %	27.6 %	22.1 %	20.9 %	18.4 %	17.4 %
Debt securities in issue (issued amount)	15,950,000	16,098,145	19,895,000	20,134,078	18,800,000	18,980,351
Over-collateralization calculated on issued covered bonds <sup>1</sup>	28.3 %	27.6 %	22.1 %	20.9 %	18.4 %	17.4 %

<sup>1</sup> without deduction for holdings of own bonds

## Note 8 Contingent liabilities and security

NOKt	31 Mar 2020	31 Mar 2019	31 Dec 2019
Unutilised credit facility	1,941,707	1,915,588	1,972,755
<b>Total contingent liabilities</b>	<b>1,941,707</b>	<b>1,915,588</b>	<b>1,972,755</b>

## Note 9 Fair value of financial instruments

### **Fair value**

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

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

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

### **Quoted prices in active markets**

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

### **Valuation based on observable market data**

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

### **Valuation based on non-observable market data**

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

### **Sensitivity financial assets level three**

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

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

NOKt	31 Mar 2020		31 Mar 2019		31 Dec 2019	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets</b>						
Loans to and receivables from credit institutions, amortised cost	657,776	657,776	993,810	993,810	513,847	513,847
<b>Loans to and receivables from credit institutions</b>	<b>657,776</b>	<b>657,776</b>	<b>993,810</b>	<b>993,810</b>	<b>513,847</b>	<b>513,847</b>
Loans to and receivables from customers, amortised cost	19,927,939	19,927,939	23,499,661	23,499,661	21,864,705	21,864,705
<b>Total loans before individual and group write-downs</b>	<b>19,927,939</b>	<b>19,927,939</b>	<b>23,499,661</b>	<b>23,499,661</b>	<b>21,864,705</b>	<b>21,864,705</b>
- Group write-downs	1,136	1,136	890	890	1,589	1,589
<b>Total net loans to customers</b>	<b>19,926,803</b>	<b>19,926,803</b>	<b>23,498,770</b>	<b>23,498,770</b>	<b>21,863,116</b>	<b>21,863,116</b>
Certificates and bonds, fair value	189,995	189,995	140,153	140,153	164,376	164,376
<b>Total bonds and other fixed-income securities</b>	<b>189,995</b>	<b>189,995</b>	<b>140,153</b>	<b>140,153</b>	<b>164,376</b>	<b>164,376</b>
Derivatives, fair value	75,857	75,857	62,692	62,692	40,629	40,629
<b>Derivatives</b>	<b>75,857</b>	<b>75,857</b>	<b>62,692</b>	<b>62,692</b>	<b>40,629</b>	<b>40,629</b>
Other financial assets, amortised cost	52,630	52,630	50,979	50,979	41,198	41,198
<b>Total other financial assets</b>	<b>52,630</b>	<b>52,630</b>	<b>50,979</b>	<b>50,979</b>	<b>41,198</b>	<b>41,198</b>
<b>Total financial assets</b>	<b>20,903,062</b>	<b>20,903,062</b>	<b>24,746,404</b>	<b>24,746,404</b>	<b>22,623,166</b>	<b>22,623,166</b>
<b>Liabilities</b>						
Loans and deposits from credit institutions, amortised cost	2,804,416	2,804,416	2,780,655	2,780,655	1,728,317	1,728,317
<b>Total liabilities to credit institutions</b>	<b>2,804,416</b>	<b>2,804,416</b>	<b>2,780,655</b>	<b>2,780,655</b>	<b>1,728,317</b>	<b>1,728,317</b>
Commercial paper and bonds, amortised cost	14,522,789	14,572,634	18,473,896	18,611,364	17,374,234	17,480,237
Liability incurred through the issue of securities, fair value hedge	1,523,477	1,525,511	1,507,702	1,522,714	1,486,623	1,500,114
<b>Total debt securities</b>	<b>16,046,266</b>	<b>16,098,145</b>	<b>19,981,599</b>	<b>20,134,078</b>	<b>18,860,857</b>	<b>18,980,351</b>
Derivatives, fair value	3,813	3,813	4,893	4,893	4,086	4,086
<b>Derivatives</b>	<b>3,813</b>	<b>3,813</b>	<b>4,893</b>	<b>4,893</b>	<b>4,086</b>	<b>4,086</b>
Other financial liabilities, amortised cost	76,874	76,874	73,880	73,880	71,663	71,663
<b>Total other financial liabilities</b>	<b>76,874</b>	<b>76,874</b>	<b>73,880</b>	<b>73,880</b>	<b>71,663</b>	<b>71,663</b>
<b>Total financial liabilities</b>	<b>18,931,369</b>	<b>18,983,248</b>	<b>22,841,027</b>	<b>22,993,507</b>	<b>20,664,923</b>	<b>20,784,416</b>

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

NOKt	31 Mar 2020			
	Level 1	Level 2	Level 3	Total
Interest-bearing securities, designated at fair value	111,869	78,126		189,995
Derivatives, fair value		75,857		75,857
<b>Total financial assets measured at fair value</b>	<b>111,869</b>	<b>153,984</b>		<b>265,852</b>
Liabilities opened for the issue of securities, measured at fair value				
Derivatives, fair value		3,813		3,813
<b>Total financial liabilities measured at fair value</b>		<b>3,813</b>		<b>3,813</b>
Liability incurred through the issue of securities, amortised cost		14,572,634		14,572,634
<b>Total financial liabilities measured at amortised cost</b>		<b>14,572,634</b>		<b>14,572,634</b>
Liability incurred through the issue of securities, fair value hedge		1,525,511		1,525,511
<b>Total financial liabilities included in fair value hedge</b>		<b>1,525,511</b>		<b>1,525,511</b>

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

NOKt	31 Mar 2019			
	Level 1	Level 2	Level 3	Total
Interest-bearing securities, designated at fair value	61,680	78,473		140,153
Derivatives, fair value		62,692		62,692
<b>Total financial assets measured at fair value</b>	<b>61,680</b>	<b>141,165</b>		<b>202,845</b>
Liabilities opened for the issue of securities, measured at fair value				
Derivatives, fair value		4,893		4,893
<b>Total financial liabilities measured at fair value</b>		<b>4,893</b>		<b>4,893</b>
Liability incurred through the issue of securities, amortised cost		18,611,364		18,611,364
<b>Total financial liabilities measured at amortised cost</b>		<b>18,611,364</b>		<b>18,611,364</b>
Liability incurred through the issue of securities, fair value hedge		1,522,714		1,522,714
<b>Total financial liabilities included in fair value hedge</b>		<b>1,522,714</b>		<b>1,522,714</b>

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

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

## Quarterly earnings performance

NOKt	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Interest income etc, amortised cost	145,580	142,344	130,781	128,966	132,017	126,841	124,914	123,370
Interest income etc, fair value	-1,920	572	546	-1,039	375	311	894	264
Interest costs etc.	109,805	113,630	106,049	99,983	98,284	90,659	87,362	80,599
<b>Net interest income</b>	<b>33,855</b>	<b>29,286</b>	<b>25,277</b>	<b>27,945</b>	<b>34,108</b>	<b>36,493</b>	<b>38,446</b>	<b>43,036</b>
Fee and commission income	565	573	568	580	589	583	582	585
Net gains on financial instruments at fair value	-2,567	-242	67	62	108	-131	246	-7,506
Other operating income	229	229	229	229	229	229	229	229
<b>Total income</b>	<b>32,083</b>	<b>29,845</b>	<b>26,142</b>	<b>28,816</b>	<b>35,034</b>	<b>37,174</b>	<b>39,503</b>	<b>36,344</b>
Staff costs	597	558	580	489	672	1,110	551	543
Other operating costs	6,734	4,681	3,491	3,508	3,327	3,613	3,518	3,713
<b>Total operating expenses</b>	<b>7,331</b>	<b>5,239</b>	<b>4,072</b>	<b>3,997</b>	<b>3,999</b>	<b>4,723</b>	<b>4,069</b>	<b>4,256</b>
<b>Profit / (loss) before loan losses</b>	<b>24,752</b>	<b>24,606</b>	<b>22,070</b>	<b>24,820</b>	<b>31,035</b>	<b>32,450</b>	<b>35,434</b>	<b>32,088</b>
Loan losses	-453	237	509	-47	-319	381	-23	-434
<b>Operating profit</b>	<b>25,205</b>	<b>24,369</b>	<b>21,561</b>	<b>24,866</b>	<b>31,355</b>	<b>32,070</b>	<b>35,457</b>	<b>32,522</b>

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