Nordea

Annual Report 2020

Nordea Kredit Realkreditaktieselskab

Business registration number 15134275

Nordea Kredit is part of the Nordea Group. Nordea is a leading Nordic universal bank. We are helping our customers realise their dreams and aspirations – and we have done that for 200 years. We want to make a real difference for our customers and the communities where we operate – by being a strong and personal financial partner. The Nordea share is listed on the Nasdaq Helsinki, Nasdaq Copenhagen and Nasdaq Stockholm exchanges. Read more about us on nordea.com.

Contents

Financial summary

Key financial figures (DKKm)	2020	2019	Change %	2018	2017
Income statement					
Total operating income	2,739	2,685	2	2,543	2,699
Total operating expenses	-608	-306	99	-286	-314
Profit before impairment losses on loans and receivables	2,131	2,379	-10	2,257	2,385
Impairment losses on loans and receivables	-491	-6	-	-215	-143
Profit before tax	1,640	2,373	-31	2,042	2,242
Net profit for the year	1,279	1,850	-31	1,593	1,750
Balance sheet					
Receivables from credit institutions and central banks	49,948	67,462	-26	43,440	46,220
Loans and receivables at fair value	417,553	404,998	3	394,916	393,008
Loans and receivables at nominal value[1]	409,222	398,497	3	387,159	383,582
Debt to credit institutions and central banks	4,998	5,597	-11	10,841	7,636
Bonds in issue at fair value	435,055	440,929	-1	400,817	405,629
Equity	22,481	22,590	0	22,333	22,052
Total assets	467,936	473,277	-1	438,825	440,201

Ratios and key figures

	2020	2019		2018	2017
Return on equity, %[2]	5.7	8.2		7.2	7.9
Cost/income ratio	22.2	11.4		11.3	11.7
Write-down ratio, basis points[3]	11.7	0.1		5.4	3.6
Common equity tier 1 capital ratio, %	25.0	24.4		23.9	29.7
Tier 1 capital ratio, %	25.0	24.4		23.9	29.7
Total capital ratio, %	29.6	27.0		26.5	32.9
Own funds, DKKm	24,432	22,803		22,463	22,636
Tier 1 capital, DKKm	20,682	20,603		20,263	20,443
Risk exposure amount, DKKm	82,626	84,322		84,807	68,898
Number of employees (full-time equivalents)[4]	116	119		113	111

1 After adjustment for provisions for loan losses.
2 The return on equity ratio excluding the negative transition effect from the new impairment rules in 2018 was 8.0%.
3 The write-down ratio excluding the negative transition effect from the new impairment rules in 2018 was 0.9 bps.
4 End of year.

Board of Directors' report

Nordea Kredit Realkreditaktieselskab is a wholly owned subsidiary of Nordea Bank Abp. 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" refers to the Nordea Bank Abp Group and "Nordea Bank" refers to the parent company Nordea Bank Abp. The figures in brackets refer to 2019.

Enhancing the customer experience

In 2020 Nordea Kredit continued its focus on the digital customer experience, delivering a smoother, faster and more transparent process for mortgage customers, including customers' easy access to their loan information on mobile devices via Nordea's mobile banking app.

Throughout the coronavirus pandemic, Nordea Kredit has seen high activity levels, particularly driven by properties with a change of ownership for household customers. Thanks to our dedicated colleagues and digital solutions Nordea Kredit managed to have large groups of colleagues working from home and keep up deliveries almost as usual. At the same time customer contact was successfully handled in digital channels and online meetings, so customers experienced the same good service as usual. The strong efforts to maintain and further improve the customer experience also resulted in an improvement in overall customer satisfaction.

Furthermore, the right mix of products, valuable advice and availability resulted in a positive trend in Nordea Kredit's market share for household properties during 2020.

The focus for Nordea Kredit in 2020 was to increase the use of the eBolig portal and thereby increasing the automation level. Several improvements were launched supporting the customer journey during advisory sessions and increasing the speed when issuing loans. Large parts of the internal process at Nordea and Nordea Kredit for handling home purchases are being digitalised. For the customers it has become easier to remortgage online via the eBolig portal, and in October Nordea launched online automated home loan certificates targeting first-time buyers.

Nordea's focus on the green transition is also clearly seen in Nordea Kredit's lending, where green mortgages amounted to DKK 3.8bn (zero) at the end of 2020.

Furthermore, a steady focus on digitalising the document solutions will result in even more documents being sent to the eBoks of household and corporate customers from the beginning of 2021. This journey towards increased digitalisation will continue throughout 2021.

Nordea Bank improved its overall value proposition to household customers and also facilitated the green transition by introducing an attractive low-interest loan (Energisparelån) earmarked for energy improvements in homes and aimed at household customers. This supplements Nordea Kredit's portfolio of mortgage products.

New loan product – Frihed30 Fast

Since 2018 Nordea Kredit has offered experienced homeowners with a limited financing need the opportunity of a 30-year interest-only period within a loan limit of 60%. Initially it was offered in the form of adjustable-rate mortgage loans (Frihed30 Rentetilpasningslån) with refinancing every three or five years.

The Frihed30 Rentetilpasningslån product provides comfort as the interest-only loan does not have to be renegotiated during the term of the loan, and many homeowners have taken advantage of this mortgage opportunity.

In October Nordea Kredit supplemented the homeowners' product range by a 30-year fixed-rate interest-only mortgage loan (Frihed30 Fast). In addition to the 30 years of interest-only payments, this gives the borrower security with a known and fixed interest rate throughout the term of the loan. The Frihed30 Fast product is also available to cooperative housing associations with limited financing needs.

Customers have welcomed the new opportunity, and at the end of 2020 Frihed30 Fast loans for more than DKK 1.8bn had been issued.

Financial review 2020

The solid growth in lending from the previous year continued in 2020. Total lending increased by 3% to DKK 409bn (DKK 398bn) measured at nominal value. The increase was mainly related to owner-occupied dwellings positively affected by new loans on properties with a change of ownership. The low interest rate levels in the bond market continued in 2020. Remortgaging activity was somewhat lower compared to an all-time high level in 2019, however the activity was high compared to the level in 2017-2018.

Profit before impairment losses was down by 10% to DKK 2,131m (DKK 2,379m) mainly due to lower commission income from remortgaging and refinancing activity, which was in line with expectations, and an increase in commission expenses related to the first loss guarantee from Nordea Bank. Total commission expenses has decreased due to a new agreement on customer related services provided by Nordea Bank as costs previously included as commission expenses are now presented under administrative expenses. Net interest income was up, positively affected by the increase in lending volume. Impairment losses on loans significantly increased mainly due to the impact from an update of the model for calculating expected credit losses and management judgements as the impact of the coronavirus pandemic on Nordea Kredit's customers remains uncertain. Credit quality remained strong and realised loan losses continued on a low level despite the coronavirus pandemic. Profit before tax was down by 31% to DKK 1,640m compared to DKK 2,373m in 2019.

Operating income
Net interest income increased by 2% to DKK 3,211m (DKK 3,156m) mainly due to higher income from administration margins driven by higher loan volumes. The increase in interest income following higher loan volumes was partly offset by a decrease in margins following the customers' orientation towards fixed-rate loans or adjustable-rate loans with a longer fixing period. Furthermore, net interest income was positively affected by a slight decrease in negative interest rates on the investment of capital.

Fee and commission income was down by 28% to DKK 584m (DKK 815m), affected by lower remortgaging activity in 2020 compared to the all-time high level in 2019. Refinancing fees decreased as expected following lower refinancing volumes in 2020 compared to 2019.

Fee and commission expenses decreased by 18% to DKK 1,073m (DKK 1,301m) mainly due to the reclassification of costs of DKK 304m for customer-related services provided by Nordea Bank in accordance with a new agreement from 1 January 2020. The costs for 2020 are presented under Administrative expenses. Disregarding this reclassification, commission expenses were up by DKK 76m mainly related to higher fees for the first loss guarantee from Nordea Bank following new pricing effective from 1 July 2020.

Staff and administrative expenses
Total staff and administrative expenses were up by 99% to DKK 608m (DKK 306m).

Administrative expenses increased by DKK 301m to DKK 500m (DKK 199m) due to the reclassification of costs of DKK 304m regarding the new agreement for customer-related services provided by Nordea Bank. Disregarding the reclassification, administrative expenses decreased by DKK 3m primarily related to lower IT operational costs.

Staff costs increased slightly to DKK 108m (DKK 107m) as the average number of full-time equivalent employees increased to 116 (114) and due to general salary increases.

Impairment losses on loans and receivables
Impairment losses on loans and receivables increased significantly to DKK 491m (DKK 6m) mainly due to the impact from an update of the model for calculating expected credit losses. Furthermore, Nordea Kredit has considered it prudent and appropriate to recognise management judgements of a total of DKK 143m to cover the risk of losses due to the coronavirus pandemic as well as expected losses on loans in stage 1 covering rating migration not yet identified in the rating/scoring models. Appropriate action will be taken to release management judgements as the respective losses are realised or captured by the model, while maintaining adequate provisioning coverage in a forward-looking manner.

The realised losses on loans and receivables for 2020 remained at a very low level, reflecting consistent strong credit quality supported by the coverage from the first loss guarantee from Nordea Bank.

The write-down ratio increased to 11.7 bps (0.1 bps) of the loan portfolio.

Tax
Income tax expense was DKK 361m (DKK 523m) and the effective tax rate was 22% (22%).

Net profit for the year
Net profit for the year decreased to DKK 1,279m (DKK 1,850m), corresponding to a return on equity in 2020 of 5.7% (8.2%).

Assets
Total assets decreased by 1% to DKK 468bn (DKK 473bn).

Receivables from credit institutions and central banks, mainly consisting of deposits with Nordea Bank, decreased to DKK 50bn (DKK 67bn) following lower redemption levels due to lower remortgaging levels at end-2020.

Loans and receivables at fair value increased to DKK 418bn (DKK 405bn), while total lending at nominal value after loan losses increased by 3% to DKK 409bn (DKK 398bn). The increase was related to owner-occupied dwellings. Owner-occupied dwellings increased by 5%, commercial properties were stable and agricultural properties decreased by 6%, which was overall in line with expectations.

Table 1. Lending at nominal value by property category

DKKbn	2020	2019	Change %
Owner-occupied dwellings and holiday homes	283	269	5%
Commercial properties	86	87	0%
Agricultural properties	40	42	-6%
Total	**409**	**398**	**3%**

The quality of the loan portfolio is considered satisfactory. The accumulated loan loss provisions increased to DKK 671m (DKK 243m). Accumulated loan loss provisions regarding stages 1, 2 and 3 amounted to DKK 60m (zero), DKK 257m (DKK 55m) and DKK 354m (DKK 188m), respectively.

The loss guarantees from Nordea Bank are first loss guarantees covering loans totalling DKK 400bn (DKK 387bn). The share of the total loans covered by the loss guarantees was 98% (97%). The loss guarantee is significantly reducing the loan losses at Nordea Kredit.

Assets held temporarily consisted of a total of 6 (10) repossessed properties by the end of 2020 with a carrying amount of DKK 6m (DKK 12m). The repossessed properties consist of 5 owner-occupied dwellings and 1 agricultural property.

Debt
Debt to credit institutions and central banks amounted to DKK 5bn (DKK 6bn), consisting of short-term funding from Nordea Bank.

Bonds in issue at fair value totalled DKK 435bn (DKK 441bn) after offsetting the portfolio of own bonds of DKK 12bn (DKK 12bn).

Subordinated debt
Subordinated debt was up by DKK 1.6bn as a new tier 2 loan was issued by the end of March 2020.

Equity
Shareholders' equity amounted to DKK 22bn (DKK 23bn) at the end of 2020. Net profit for the year was DKK 1.3bn (DKK 1.9bn).

It is proposed that the net profit is distributed as dividend to the parent company Nordea Bank Abp. The proposed dividend payment of DKK 1.3bn is equivalent to DKK 76 (DKK 81) per share.

The proposed dividend payment reflects the strong capital position of Nordea Kredit. Recent recommendations from the European Central Bank (the ECB) and the Danish Financial Supervisory Authority (the Danish FSA) restricting dividend distributions following the coronavirus pandemic apply at the consolidated level for the Nordea Group. Intragroup dividends from subsidiaries to Nordea Bank Abp are not targeted by the recommendation on dividend distributions.

Capital adequacy
At year-end the risk exposure amount (REA) of Nordea Kredit was DKK 82.6bn (DKK 84.3bn). The common equity tier 1 ratio was 25.0% (24.4%) and the total capital ratio was 29.6% (27.0%) at end-2020. The capital ratios increased due to lower REA and, additionally, the total

capital ratio was affected by a new tier 2 loan of DKK 1.6bn issued by the end of March 2020. The decrease in REA was mainly related to credit risk on corporate exposures calculated according to the IRB model and exposures to institutions calculated according to the standardised approach.

Nordea Kredit complies with the conditions for temporary use of internal models in accordance with the ECB ruling of 16 August 2018 for Nordea and approved for Nordea Kredit by the Danish FSA in December 2018. The application for model improvement has been postponed due to the coronavirus pandemic and is expected to be delivered during the first three quarters of 2021.

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

The property market

The economy
Last year the Danish economy was markedly affected by the coronavirus pandemic, which started in the beginning of 2020 and quickly spread across the country. The government was forced to impose social restrictions and shut down sections of society to prevent the spread of the infection from getting out of control. The measures had a major effect on economic activity, and Denmark and many other countries experienced a historically large setback in GDP in the first half of 2020. However, the downturn was brief as economic activity started to recover already in late spring, in step with the lifting of measures implemented to contain the spread of the coronavirus. As a result of the sharp setback in the first half of 2020, Nordea Kredit expects that Danish GDP will drop by 4.5% in 2020. Nordea Kredit assumes that much of the ground lost will be regained in 2021. An increase in GDP by 3% is Nordea Kredit's expected baseline scenario for 2021.

The crisis also had an impact on the labour market, where employment fell sharply in the first half of the year. In Denmark, however, the downturn has been relatively mild, as the Danish economy is not nearly as cyclically sensitive as the economies of many of the countries Denmark is normally compared to. In Denmark many pharmaceutical products and food are produced, and those sectors have experienced a smaller setback than for example the tourism sector.

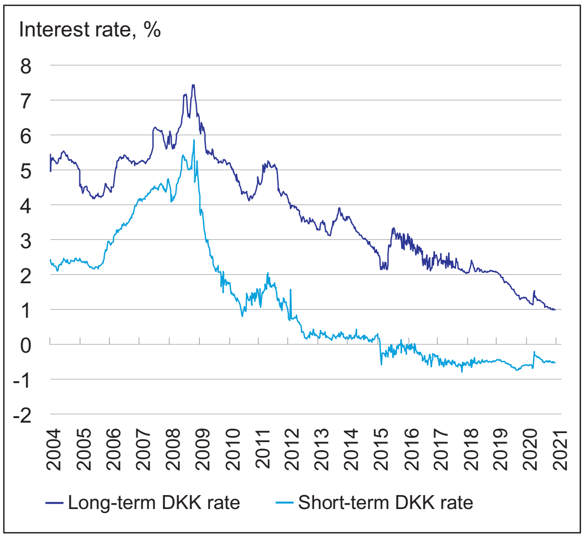
Historically, the labour market has been of great importance to the housing market. During the current economic crisis, however, unemployment has risen less for middle- and high-income groups than for people with lower education and incomes, and this again has a positive effect on the housing market.

The crisis has also meant that households' usual consumption patterns have changed in a relatively short time. In Denmark there are signs that households have reduced their consumption of services to reduce the risk of infection, while the purchase of consumer goods has been higher than last year. The trend is recurring in other countries as well and is reflected, among other things, in the fact that retail trade has recovered markedly after a temporary dip in the spring months.

A recovery of the Danish economy is deemed to be underway, but the renewed spread of the infection and the partial closure in the fourth quarter of 2020 and the beginning of 2021 will prolong the crisis and point towards lower economic activity in 2021.

Interest rates

Figure 1. Mortgage interest rates



The market for fixed income was also affected by the coronavirus pandemic during 2020. At the start of the pandemic, long-term Danish mortgage rates followed the classic pattern that has been observed before, where lower global risk appetite led investors to turn to Danish mortgage bonds. In the days before 11 March, when the Danish prime minister introduced the first closure of the Danish economy, the coupon rate of the leading 30-year mortgage loan was 0.5% and the quote around 98.2, which was close to the lowest interest rate level ever.

In the days after the closure, when the crisis exploded in Denmark and globally, long-term Danish housing interest rates rose sharply, and the coupon of the 30-year mortgage loan reached 2% for a short period. Subsequently, the interest rate fell again, and a 30-year fixed-rate loan with amortisation taken out at the end of 2020 had a coupon rate of 0.5%.

The immediate rise in interest rates during the coronavirus crisis was caused by the enormous uncertainty created by the health crisis for the global economy. The subsequent fall in interest rates was primarily due to the monetary policy support packages that both the ECB and the US Federal Reserve were quick to launch in March, and which both central banks have subsequently updated.

The ECB initiated a new purchase programme, the Pandemic Emergency Purchase Programme (PEPP), in March, and has subsequently expanded it by several rounds. The programme intends to ensure sufficient market liquidity and thereby more lenient financing costs in the Euro area. The purchases under the PEPP are significant compared to previous purchase programmes, and the programme has resulted in falling interest rates and narrowing interest rate differentials across Europe.

The US Federal Reserve also eased monetary policy significantly in response to the coronavirus pandemic. In March 2020 the central bank lowered interest rates twice and launched a large and unlimited buyback programme.

Property prices and market activity

Owner-occupied dwellings

The coronavirus pandemic has a major impact on the Danish housing market. During an economic downturn, there is usually lower appetite for buying a home, partly as a result of lower incomes and greater uncertainty. During the pandemic, however, the exact opposite has happened, and both house prices and trading activity have risen in Denmark.

Part of the explanation is that many people have spent more time at home than usual. Travel, leisure activities and dinners with friends and family have been cancelled and working remotely has become more common. This has created a stronger focus on our immediate surroundings, including our homes, and the interest in moving home has increased.

Another factor behind the strong housing market is the large aid packages that have supported the labour market and thereby people's purchasing power during the downturn.

The easing of monetary policy also plays a role, with both the ECB and the US Federal Reserve boldly keeping interest rates down, thereby reducing borrowing costs.

According to the housing market statistics from the business association Finance Denmark, house prices rose by 4.0% from the third quarter of 2019 to the third quarter of 2020. At the same time trading activity rose by 6.6%, and this resulted in a significantly lower supply and declining price reductions.

The market for flats also gained momentum. An average flat increased by 5.9% from the third quarter of 2019 to the third quarter of 2020, while trading activity increased by 7.5%.

The market for holiday homes was a surprise in 2020. Interest in buying a holiday home was overwhelming all year round, and prices rose by 11.7% from the third quarter of 2019 to the third quarter of 2020. At the same time trading activity was 45% higher compared to the previous year.

House prices are expected to continue to rise in the coming year. If the forecast holds true, it will be the eighth consecutive year with rising prices. This trend is expected to be supported by rising incomes and continued low interest rates.

No signs of an overheating of the housing market in Denmark as a whole are seen. Yet there is increased cause for concern about the price level of owner-occupied flats in the Copenhagen area and Aarhus as the level is assessed to be higher than warranted by developments in disposable incomes and interest rates. For the country as a whole, the price level is still moderate and most of the price rises can be explained by the low financing costs and increased disposable income.

Residential rental properties
In 2020 the market for residential rental properties had another good year with rising prices especially in Copenhagen and Aarhus despite a large supply of new rental housing.

In many areas the yield requirement has fallen to a very low level and has fully compensated for the decrease in value following a slight increase in vacancies in some areas.

In several major provincial towns, there has also been a trend towards rising prices due to lower requirements as to yield levels.

New legislation came into force on 1 July 2020 amending section 5(2) of the Danish housing regulation act with restrictions in relation to rent adjustments for the first five years after improving the rental property. Few trades were seen in the older housing stock regulated by the new act as investors preferred to invest in new housing projects not regulated by the act.

Office properties
A high demand at stable prices for modern and well-located properties in the larger cities, especially in Copenhagen and Aarhus, was evident during the second half of 2020. However, future uncertainty over demand is expected as the coronavirus has shown that many tasks can be solved by working remotely.

In the smaller cities, downward pressure on rents must be expected resulting in falling prices.

Retail properties
Generally, vacancies are increasing as a consequence of online trading with pressure on rents resulting in falling prices.

Warehouse and logistics properties
There is solid demand for modern and well-located properties with good infrastructure. Here vacancy rates are low and rent levels are good. During the year a fall in required yield levels and an increase in prices in this segment were seen.

Agricultural properties
Total earnings in agriculture have improved significantly in recent years, which has contributed to a reduction in debt and thus increased robustness in the industry. From the beginning, agriculture was relatively unaffected by the coronavirus pandemic, but over time pig prices in particular were affected and the coronavirus eventually led to the closure of mink production in Denmark. The outbreak of African swine fever in Germany accelerated the decrease in the price of especially piglets. The outlook for 2021 for parts of the pig industry is therefore bleak, and the result will depend on how quickly the market turns around. Agriculture in general faces a number of uncertainties in the coming years such as the consequences of Brexit, a new EU agricultural regime and the green transition.

Trading activity in land and crop properties was good in 2020 and with stable prices – partly due to the low interest rates and the resultant interest from investors. The turnover of properties with pig production was from the start of the year positively influenced by high pig prices, but subsequently flattened out. The market for milk production properties is still under pressure due to a relatively large supply of properties. Trading activity is expected to be at the same level in 2021.

Nordea Kredit's lending

The loan portfolio
Total lending at nominal value after loan losses amounted to DKK 409bn by end-2020 (DKK 398bn). The increase was primarily driven by 5% growth in lending for owner-occupied dwellings and holiday homes.

Although lending activity in 2020 did not match the all-time high level from 2019, continued low interest rates and stable remortgaging activity kept gross lending on a high level through the year.

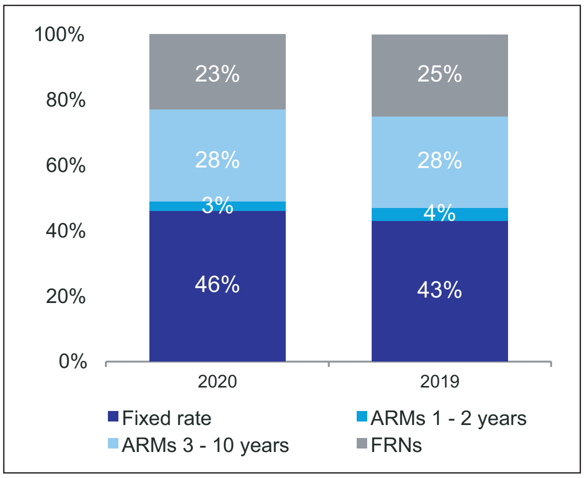
As the coronavirus pandemic took off in March and April, lending activity slowed down somewhat, but the short-term effects of the pandemic proved to be temporary, with lending activity in the second half of 2020 exceeding the first half of 2020. The high lending activity was further supported by growing activity on the private housing market especially in the second half of 2020.

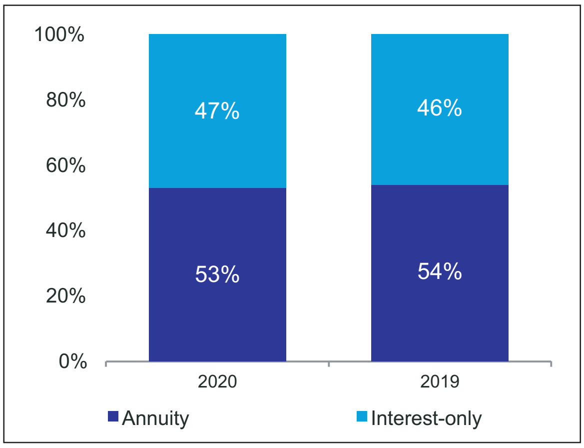
Total gross new lending in 2020 was DKK 95bn (DKK 131bn). Lending for change of ownership of owner-occupied dwellings and holiday homes accounted for DKK 25bn in 2020 (DKK 20bn).

Low long-term interest rates led many household and corporate customers to prefer fixed-rate loans. 67% of new loans in 2020 were fixed-rate loans and by year-end 46% (43%) of the portfolio was fixed-rate loans. The second-most popular loan type among household customers in 2020 was F5 loans while corporate customers had floating-rate products (Cibor6 and Cibor6 Green) as their second choice. Lending in Green Cibor6 loans for corporate customers introduced in late 2019 amounted to DKK 3.8bn by end-2020.

By end-2020 47% (46%) of the lending portfolio was interest-only loans. The growing use of interest-only loans is primarily due to the popularity of the 30-year interest-only loan with both adjustable and fixed interest rates (Frihed30) for household customers. Frihed30 lending amounted to DKK 21bn by end-2020.

Figure 2. Total loan portfolio by loan type





Supplementary collateral for loans financed through covered mortgage bonds
Mortgage institutions issuing loans based on covered bonds (SDROs) must regularly monitor the value of the mortgaged properties. The value of residential properties must be monitored at least every three years under existing legislation, whereas commercial properties must be monitored annually. In the event of significant changes in market conditions, values must be monitored more frequently.

If it is determined in the monitoring process that the statutory loan to value (LTV) limit for the individual property has been exceeded, the mortgage institution must provide supplementary collateral out of its own funds. Total supplementary collateral is an overcollateralisation requirement and represents the sum of statutory LTV breaches on every single loan. This is monitored and calculated over the lifetime of the individual loans.

The supplementary collateral required based on the LTV ratios for the individual loans in capital centre 2 (SDRO bonds) was DKK 7bn at end-2020 (DKK 9bn).

Funding

Bond issuance
Nordea Kredit adheres to the specific balance principle and exclusively match-funds its lending by the issuance of bonds.

Bond issuance before redemptions amounted to DKK 142bn nominal in 2020 (DKK 192bn), all financed by means of covered bonds. The decrease mainly related to lower remortgaging activity in 2020.

Nordea Kredit's green mortgage loans are floating-rate loans based on Cibor 6M and are offered to corporate customers against a mortgage on for example assets within renewable energy and properties with a Danish EPC (Energy Performance Certificate) rating of A-B. Nordea Kredit's green mortgage loans are financed by a designated green covered mortgage bond.

At end-2020 the total outstanding nominal value of bonds, before offsetting the portfolio of own bonds, amounted to DKK 439bn (DKK 446bn). Of this amount, mortgage bonds accounted for DKK 2bn (DKK 3bn) and covered mortgage bonds accounted for DKK 437bn (DKK 443bn). At end-2020 the fair value of the total outstanding volume of bonds was DKK 435bn (DKK 441bn) after offsetting the portfolio of own bonds.

The coronavirus outbreak in March 2020 caused major uncertainty about the economic outlook in many countries. This uncertainty also affected the financial markets. The Danish mortgage bond market did not escape the uncertainty as a decline in market liquidity resulted in significantly higher mortgage rates during the stressed period in March and April. The daily increases in mortgage rates were larger than during the financial crisis. However, the mortgage bond market remained open throughout the stressed period and Nordea Kredit issued covered bonds every day. Since May 2020 the Danish mortgage bond market has steadily recovered from the higher credit spreads to a pre-coronavirus level and is fully functional at all levels. Post-analysis of the coronavirus outbreak has further shown that the increase in mortgage rates was mainly driven by weak demand and not by selling pressure, underpinning the strength of and confidence in the Danish covered bond market.

Refinancing of adjustable-rate mortgages

Adjustable-rate mortgage loans (F1-F5) are refinanced as of January, April and October and funded by issuance of bullet bonds. The share of adjustable-rate loans refinanced every year (F1) amounted to 3% at end-2020, while adjustable-rate mortgages with longer interest reset periods (F3-F5) amounted to 28% of the portfolio. Adjustable-rate mortgage loans for DKK 6.9bn, DKK 8.1bn and DKK 11.4bn were refinanced as of January 2020, April 2020 and October 2020, respectively.

Refinancing auctions during 2020 resulted in low and negative interest rates for customers. For example the interest rate for adjustable-rate mortgage loans with refinancing in April 2020 was fixed at -0.37% for a 30-year annuity loan with reset every three years (F3).

Rating

The mortgage bonds issued by Nordea Kredit are rated by the rating agency Standard & Poor's. All bonds have been assigned the highest rating of AAA.

Risk and capital management

Risk management

Nordea Kredit is exposed to credit risk on borrowers as well as operational risk because of Nordea Kredit's activities. Furthermore, Nordea Kredit is exposed to liquidity risk and market risk in the form of interest rate risk and modest currency risk related to its mortgage loans and the investment of capital.

Risk management is described in Note 24 Risk and liquidity management.

Capital management

Nordea Kredit strives to be efficient in its use of capital and therefore actively manages its balance sheet with respect to assets, liabilities and risk categories. 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 ratings-based (AIRB) approach for large enterprises. The internal ratings-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, 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 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.

Supervisory diamond

The supervisory diamond for mortgage institutions consists of five specific benchmarks that mortgage institutions in general should not exceed. The five benchmarks comprise risk areas identified by the Danish FSA.

Due to Nordea Bank's strong market position, Nordea Kredit's lending for residential rental properties has shown a positive trend in recent years. To be able to serve creditworthy and attractive customers within residential rental properties, Nordea Kredit decided to temporarily exceed the 15% recommendation in April 2020. The Danish FSA was informed in advance. Lending growth for residential rental properties was within the recommendation of 15% again by September 2020. Nordea Kredit received a risk remark from the Danish FSA on 27 November 2020 regarding the temporary deviation from the recommendation.

With the exception of the above-mentioned, Nordea Kredit complied with all the benchmarks of the supervisory diamond for mortgage institutions throughout 2020.

Table 2. The supervisory diamond

	2020	Limit
1. Lending growth		
• Owner-occupied dwellings and holiday homes	5%	15%
• Residential rental properties	8%	15%
• Agriculture	-6%	15%
• Other	-8%	15%
2. Borrower's interest rate risk[1]	13%	25%
3. Interest-only lending[2]	7%	10%
4. Short-term funding[3]		
• Annually	6%	25%
• Quarterly	2%	12.5%
5. Large exposures[4]	35%	100%

[1] Loans for owner-occupied dwellings and holiday homes and residential rental properties where the LTV ratio exceeds 75% of the lending limit and the interest rate is fixed for less than two years are limited to 25%.

[2] Interest-only lending for owner-occupied dwellings and holiday homes where the LTV ratio exceeds 75% of the lending limit is limited to 10%.

[3] Yearly/quarterly refinancing is limited to 25%/12.5% of the total portfolio.

[4] The 20 largest exposures less CRR deductions are limited to 100% of CET1.

New legislation

Capital regulation

The Capital Requirements Directive IV (CRD IV) and the Capital Requirements Regulation (CRR) entered into force on 1 January 2014 followed by the Bank Recovery and Resolution Directive (BRRD) on 15 May 2014. The CRR became applicable in all EU countries from 1 January 2014 while the CRD IV and the BRRD were implemented through national law within all EU member states from 2014.

In June 2019 the banking package containing revisions to the BRRD, the CRD and the CRR was adopted. The revisions include a review of the minimum requirement for own funds and eligible liabilities (MREL), a review of the market risk requirements (Fundamental Review of the Trading Book, FRTB), the introduction of a binding net stable funding ratio (NSFR), the introduction of a strict leverage ratio requirement of 3% to be met by tier 1 capital and amendments to the pillar 2 and macroprudential framework. The revised CRD (CRD V) and BRRD (BRRD II) are to be applied from 28 December 2020, while the majority of the changes in the CRR (CRR II) are to be applied from 28 June 2021.

On 17 December 2020 the Danish parliament adopted an update of the Danish Financial

Business Act which includes the revised CRD and BRRD. Items included are the MREL requirement, the definition of pillar 2 add-ons – pillar 2 capital requirements (P2R) and pillar 2 guidance (P2G) – and the definition of buffers, where a systemically important financial institution (SIFI) going forward has to apply a buffer to other systemically important institutions (O-SII) and not a systemic risk buffer (SRB). The identification process and the buffer level are unchanged. The SRB will be a new macroprudential buffer which can be activated by the Danish Minister for Industry, Business and Financial Affairs. Currently there are no plans to activate the buffer.

On 26 June 2020 a so-called "quick fix" was implemented with the intention to ensure that banks can continue to lend money to support the economy and help mitigate the significant economic impact of the coronavirus pandemic. The package includes a few targeted "quick fix" amendments to the CRR with the intention to maximise the ability of banks to lend and absorb losses related to the coronavirus pandemic. Among the changes, the "quick fix" implements the extended SME factor and the changed treatment of software at an earlier date than previously decided.

The new European Covered Bond Directive and Regulation have been finalised. The Directive entered into force on 8 January 2020, the national transposition period will last until 8 July 2021 and national measures must be applied by 8 July 2022. The Regulation will apply from 8 July 2022, in parallel with the deadline for the national measures of the Directive. The proposal to implement the Directive in Danish legislation was in consultation in the autumn of 2020.

The countercyclical capital buffer (CCyB), the capital conservation buffer (CCoB) and the SRB are fully phased in in Denmark. The CCoB is 2.5%. On 12 March 2020 the CCyB decreased from 1% to 0% and the increases already decided during 2020 were cancelled. At end-2020 no increases from the current level of 0% had been decided.

In response to the coronavirus pandemic, the Danish Minister for Industry, Business and Financial Affairs issued two executive orders on 17 March 2020 which regulate reporting requirements. This gave the Danish FSA a mandate to grant an exemption if institutions see practical and administrative problems in fulfilling requirements in regulation due to the pandemic. On 19 March 2020 the Danish FSA communicated practice on the use of flexibility in several areas. This is the case regarding provisioning, pillar 2 requirements and the use of the buffer in the LCR requirement. Regarding dividends and the buyback of shares the Danish FSA communicated on 18 December 2020 that they follow the recommendation from the European Systemic Risk Board (ESRB) with a few additions.

Nordea Kredit was identified as a SIFI in January 2017. The identification and the buffer requirement were confirmed most recently on 8 December 2020. The buffer requirement was 1.5% in 2020 and will be unchanged in 2021. There is also a pillar 2 requirement that can be set for an institution on an individual basis. No pillar 2 requirement was set for Nordea Kredit in 2020.

On 27 September 2019 (updated 29 November 2019) the Danish FSA published a model for a new pillar 2 liquidity coverage ratio (LCR) add-on for mortgage institutions. The new pillar 2 add-ons must be reported in an observation period starting with data based on figures from 31 December 2019 and running until the overcollateral (OC) requirement of the European Covered Bond Directive is implemented in Danish legislation. At that time – with possible changes – it is expected to replace the current requirement of 2.5% based on lending exposure. The model for LCR pillar 2 add-ons is institution-specific and risk-sensitive and will include risk types not included in the current LCR.

Debt buffer requirement

As part of the implementation of the BRRD in Denmark, mortgage institutions such as Nordea Kredit must fulfil a debt buffer requirement of 2% of nominal lending. The requirement was fully implemented in June 2020. According to legislation the debt buffer requirement must be fulfilled using tier 1/tier 2 instruments or unsecured senior debt instruments.

The Danish Financial Business Act was amended in May 2018 regarding the debt buffer requirement for mortgage institutions. However, the main principle for a SIFI mortgage institution belonging to an international group with a parent company outside Denmark – such as Nordea

Kredit – is that besides the current debt buffer requirement of 2%, no additional requirement will apply if an 8% minimum requirement for eligible liabilities (MREL) is fulfilled on group level. The requirement is valid from 1 January 2022.

Finalised Basel III framework ("Basel IV")

Basel III is the global, regulatory framework on bank capital adequacy, stress testing and liquidity risk. In December 2017 the finalised Basel III framework, often called the Basel IV package, was published. The Basel IV package was supposed to be implemented in 2022, but was postponed until 2023 due to the coronavirus pandemic, and includes revisions to credit risk, market risk, operational risk, credit valuation adjustment (CVA) risk and leverage ratio and introduces a new output floor.

On credit risk, the package includes revisions to the IRB approach, where restrictions to the use of IRB for certain exposures are implemented, as well as to the standardised approach. Also for market risk, the internal models approach and the standardised approach have been revised. For operational risk, the existing three approaches will be replaced by one standardised approach to be used by all banks. On CVA risk, the internally modelled approach will be removed and the standardised approach revised. The package also includes the implementation of a minimum leverage ratio requirement of 3% to be met with tier 1 capital.

The output floor is to be set to 72.5% of the standardised approaches on an aggregate level, meaning that the capital requirement under the floor will be 72.5% of the total pillar 1 REA calculated with the standardised approaches for credit, market and operational risks. The floor will be phased in, starting with 50% from 2023 to be fully implemented at 72.5% from 1 January 2028.

Before being applicable to Nordea Kredit, the Basel IV package needs to be implemented into EU regulations and will therefore be subject to negotiations between the European Commission, the European Council and the European Parliament which might change the implementation and potentially also the timetable. The European Commission is expected to publish the proposal for implementation in mid-2021 after which time the negotiations in the council and parliament will begin.

Control and risk management in connection with the financial reporting process

Control environment

The systems for internal control and risk management of financial reporting at Nordea Kredit are designed to provide reasonable assurance about the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, applicable laws and regulations as well as other requirements for companies with listed bonds. The internal control and risk management activities are included in Nordea Kredit's planning and resource allocation processes. Internal control and risk management of financial reporting at Nordea Kredit can be described in accordance with the COSO Framework as follows below.

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, 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 a risk management function headed by a Chief Risk Officer (CRO) which is responsible for ensuring that the overall risk control at Nordea Kredit is conducted adequately. The CRO independently reports directly to the Board of Directors. Furthermore, Nordea Kredit has established a compliance function, which is responsible for independently monitoring, providing advice and assurance, and reporting of compliance risks.

Monitoring

The Executive Management of Nordea Kredit reports on an ongoing basis to the Board of Directors and the Board Audit Committee 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 a conclusion to the Board of Directors on the overall effectiveness of the governance, risk management and internal controls of Nordea Kredit.

The Board Audit Committee of Nordea Kredit assists the Board of Directors in fulfilling its oversight responsibilities, among other things by monitoring the financial reporting process and submitting recommendations to ensure its reliability, monitoring the effectiveness of the internal controls and risk management systems, in relation to the financial reporting process, monitoring the effectiveness of the internal audit function and keeping itself informed as to the statutory audit of the annual accounts, informing the Board of Directors of the outcome of the statutory audit and explaining how the statutory audit contributed to the reliability of financial reporting. Finally, the Board Audit Committee reviews and monitors the impartiality and independence of external auditors in accordance with section 24 of the Danish Act on Approved Auditors and Audit Firms, and in particular the provision of additional services to Nordea Kredit, and in conjunction therewith, pays special attention to whether the auditor provides Nordea Kredit with services other than auditing services.

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 Board Audit Committee.

Policy and measures to prevent financial crime

Nordea Kredit comply to Nordea´s policy and measures to prevent financial crime based on international standards, EU regulation and local legislation. Nordea Kredit is committed to comply with applicable laws, regulations, best practice and has established policies, procedures and controls to mitigate and manage the risks of being used for financial crime activities.

Nordea Kredit conducts an annual risk assessment - built on the Nordea framework - to ascertain any specific financial crime risks arising from Nordea Kredit's business model and activities and take appropriate actions to mitigate the risks.

Sustainability

Nordea issues a sustainability report for 2020. The report includes Nordea Kredit. The sustainability report is available under Sustainability on www.nordea.com/en/sustainability. The disclosures are not covered by the statutory audit.

Changes to the Board of Directors

At the beginning of 2020 the Board of Directors consisted of Mads Skovlund Pedersen (Chair), Anne Rømer (Vice Chair and external member), Jørgen Holm, Kim Skov Jensen, Anita Ina Nielsen, Marte Kopperstad and Thomas Vedel Kristensen. In August 2020 Jørgen Holm left the Board of Directors due to retirement and was replaced by Torben André Petersen.

After the changes, the Board of Directors consists of Mads Skovlund Pedersen (Chair), Anne Rømer (Vice Chair and external member), Marte Kopperstad, Thomas Vedel Kristensen, Kim Skov Jensen, Anita Ina Nielsen and Torben André Petersen.

Changes to the Executive Management

As part of a generational succession in the Executive Management the Board of Directors decided in June 2020 to appoint Deputy Chief Executive Officer Kamilla Hammerich Skytte as Chief Executive Officer. Former Chief Executive Officer Claus H. Greve continued as Deputy Chief Executive Officer.

The Executive Management consists of Kamilla Hammerich Skytte (Chief Executive Officer) and Claus H. Greve (Deputy Chief Executive Officer).

Further information regarding members of the Board of Directors and the Executive Management is available on page 60.

Balanced gender composition

The Nordea Group Board of Directors has approved a policy to promote gender balance when selecting board members of subsidiaries of Nordea Bank Abp. The Board of Directors of Nordea Kredit has endorsed this policy where the Board of Directors should have a gender balance of 40/60. The gender balance was met throughout 2020.

The Executive Management consists of one woman and one man and therefore also complies with the Danish Business Authority's guidance on gender balance.

Furthermore, the Nordea Group Board of Directors 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 considering the need for an equal gender balance.

Nordea continuously follows up on diversity measures and social data. See the latest sustainability report on www.nordea.com/en/sustainability.

Remuneration at Nordea

Nordea has a clear remuneration policy, instructions and processes, ensuring sound remuneration structures throughout the organisation.

The Board of Directors of Nordea decides on the Nordea Remuneration Policy, based on an analysis of the possible risks involved, and ensures that it is applied and followed up as proposed by the Board Remuneration Committee (BRC).

The Remuneration Policy must
- Support Nordea's ability to recruit, develop and retain highly motivated, competent and performance-oriented employees and hence support the Group strategy.
- Ensure that employees are offered a competitive and market-aligned total reward offering.
- Support sustainable results and the long-term interest of the shareholders.
- Ensure that remuneration at Nordea is aligned with efficient risk management, the Nordea Purpose and Values and applicable regulations.

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, as well as the importance of remuneration 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
Nordea's remuneration structure comprises fixed remuneration and variable remuneration.

Fixed remuneration components:
- Fixed Base Salary remunerates employees for role and position and is impacted by job complexity, responsibility, performance and local market conditions.
- Allowance is a predetermined fixed remuneration component. Fixed Base Salary is, however, the cornerstone of all fixed remuneration. Allowances are not linked to performance or otherwise incentivising risk-taking.
- Pension and Insurance aims at ensuring employees an appropriate standard of living after retirement as well as personal insurance during employment. Pension and insurance provisions are in accordance with local laws, regulations and market practice either collectively agreed schemes or company-determined schemes, or a combination thereof. Nordea aims to have defined contribution pension schemes.
- Benefits at Nordea are awarded as a part of the total rewards being either individually agreed or based on local laws, market

practice, collective bargaining agreements and company-determined practice.

Variable remuneration components:

- Executive Incentive Programme (EIP) is offered to recruit, motivate and retain selected people leaders and key employees, and aims to reward strong performance and efforts. Assessment of individual performance is based on a predetermined set of well-defined financial as well as non-financial goals. Individual EIP awards will not exceed 50% of annual fixed salary.
- Variable Salary Part (VSP) may be offered to selected people leaders and specialists to reward strong performance. Assessment of individual performance is based on a predetermined set of well-defined financial as well as non-financial goals.
- Profit Sharing Plan (PSP) is offered groupwide to all Nordea employees but not to employees who are eligible for any of Nordea's other formal annual variable remuneration plans. For eligible employees, the PSP is offered irrespective of position and salary and aims to collectively reward employees based on achievement against predetermined financial goals as well as goals relating to customer satisfaction. The PSP is capped financially, and the outcome is not linked to the value of Nordea's share price.

Subsequent events

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

Outlook for 2021

Nordea Kredit expects that lending volumes for both owner-occupied dwellings and commercial properties will increase in 2021, while lending to the agricultural market is expected to decline slightly. In total, net interest income is expected to increase slightly driven by higher volumes. However, changes in negative interest rates on the investment of capital can also affect the trend in net interest income.

Commission income is expected to be positively affected by higher refinancing fees. However, a lower contribution from remortgaging fees means that total commission income is expected to be on the same level as in 2020. Commission expenses will increase due to the full-year impact from the price adjustment to the guarantee agreement with Nordea Bank that came into force at 1 July 2020.

Staff and administrative expenses are expected to be at the same level.

Loan losses are expected to decrease significantly from the very high level in 2020.

On an overall level, profit before tax for 2021 is expected to increase compared to 2020 driven by slightly higher net interest income from lending volume and significantly lower impairment losses that are expected to more than offset the increase in commission expenses.

Financial statements – contents

Income statement

DKKm	Note	2020	2019
Operating income			
Interest income		7,493	8,601
Interest expenses		-4,282	-5,445
Net interest income	2	**3,211**	**3,156**
Fee and commission income	3	584	815
Fee and commission expenses	3	-1,073	-1,301
Net interest and fee income		**2,722**	**2,670**
Value adjustments	4	10	13
Other operating income		6	4
Staff and administrative expenses	5	-608	-306
Depreciation of tangible assets		0	0
Impairment losses on loans and receivables	6	-491	-6
Profit from equity investment in associated undertaking	7	1	-2
Profit before tax		**1,640**	**2,373**
Tax	8	-361	-523
Net profit for the year		**1,279**	**1,850**
Attributable to			
Shareholder of Nordea Kredit Realkreditaktieselskab		1,279	1,850
Total		**1,279**	**1,850**

Statement of comprehensive income

DKKm	2020	2019
Net profit for the year	1,279	1,850
Other comprehensive income, net of tax	-	-
Total comprehensive income	**1,279**	**1,850**
Attributable to		
Shareholder of Nordea Kredit Realkreditaktieselskab	1,279	1,850
Total	**1,279**	**1,850**

Balance sheet

DKKm	Note	31 Dec 2020	31 Dec 2019
Assets			
Cash in hand and demand deposits with central banks		50	50
Receivables from credit institutions and central banks	10	49,948	67,462
Loans and receivables at fair value	11	417,553	404,998
Loans and receivables at amortised cost		1	1
Investment in associated undertaking	12	19	20
Tangible assets		0	0
Deferred tax assets	8	2	3
Assets held temporarily	13	6	12
Other assets	14	351	723
Prepaid expenses		6	8
Total assets		**467,936**	**473,277**
Debt			
Debt to credit institutions and central banks	15	4,998	5,597
Bonds in issue at fair value	16	435,055	440,929
Current tax liabilities	8	9	19
Other liabilities	17	1,624	1,919
Deferred income		19	23
Total debt		**441,705**	**448,487**
Subordinated debt			
Subordinated debt	18	3,750	2,200
Equity			
Share capital		1,717	1,717
Other reserves		21	21
Retained earnings		19,464	19,464
Proposed dividend		1,279	1,388
Total equity		**22,481**	**22,590**
Total equity and debt		**467,936**	**473,277**
Contingent liabilities			
Guarantees etc		0	75
Credit commitments		1,508	1,498
Total contingent liabilities		**1,508**	**1,573**

Statement of changes in equity

DKKm	Share capital[1]	Other reserves[2]	Retained earnings	Proposed dividend	Total
Balance at 1 Jan 2020	1,717	21	19,464	1,388	22,590
Net profit for the year	-	1	1,278	-	1,279
Other comprehensive income, net of tax	-	-	-	-	-
Dividends paid	-	-	-	-1,388	-1,388
Proposed dividend	-	-	-1,279	1,279	-
Balance at 31 Dec 2020	**1,717**	**21**	**19,464**	**1,279**	**22,481**

DKKm	Share capital	Other reserves[2]	Retained earnings	Proposed dividend	Total
Balance at 1 Jan 2019	1,717	23	19,000	1,593	22,333
Net profit for the year	-	-2	1,852	-	1,850
Other comprehensive income, net of tax	-	-	-	-	-
Dividends paid	-	-	-	-1,593	-1,593
Proposed dividend	-	-	-1,388	1,388	-
Balance at 31 Dec 2019	**1,717**	**21**	**19,464**	**1,388**	**22,590**

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

[1] Total shares registered were 17,172,500 of DKK 100 each all fully owned by Nordea Bank Abp, Helsinki, Finland. All issued shares are fully paid. All shares are of the same class and hold equal rights.
[2] Reserve for net revaluation according to the equity method.

5-year overview

Income statement (DKKm)	2020	2019	2018	2017	2016
Net interest income	3,211	3,156	3,190	3,270	2,992
Net interest and fee income	2,722	2,670	2,555	2,685	2,578
Value adjustments	10	13	-18	3	-4
Other operating income	6	4	3	7	8
Staff and administrative expenses	-608	-306	-286	-314	-293
Depreciation of tangible assets	0	0	0	0	0
Impairment losses on loans and receivables	-491	-6	-215	-143	-138
Profit from equity investment in associated undertaking	1	-2	3	4	1
Profit before tax	**1,640**	**2,373**	**2,042**	**2,242**	**2,152**
Tax	-361	-523	-449	-492	-473
Net profit for the year	**1,279**	**1,850**	**1,593**	**1,750**	**1,679**

Balance sheet (DKKm)	2020	2019	2018	2017	2016
Receivables from credit institutions and central banks	49,948	67,462	43,440	46,220	45,985
Loans and receivables at fair value	417,553	404,998	394,916	393,008	390,028
Loans and receivables at nominal value[1]	409,222	398,497	387,159	383,582	383,093
Other assets	435	817	469	973	999
Total assets	**467,936**	**473,277**	**438,825**	**440,201**	**437,012**
Debt to credit institutions and central banks	4,998	5,597	10,841	7,636	4,515
Bonds in issue at fair value	435,055	440,929	400,817	405,629	405,197
Other liabilities	5,402	4,161	4,834	4,884	5,320
Equity	22,481	22,590	22,333	22,052	21,980
Total equity and debt	**467,936**	**473,277**	**438,825**	**440,201**	**437,012**

Ratios and key figures	2020	2019	2018	2017	2016
Return on equity, %	5.7	8.2	7.2	7.9	7.9
Cost/income ratio	22.2	11.4	11.3	11.7	11.3
Write-down ratio, basis points	11.7	0.1	5.4	3.6	3.5
Loans/equity ratio	18.6	17.9	17.7	17.4	17.7
Lending growth for the year, %	2.7	3.0	1.0	0.1	-0.2
Common equity tier 1 capital ratio, %	25.0	24.4	23.9	29.7	31.8
Tier 1 capital ratio, %	25.0	24.4	23.9	29.7	31.8
Total capital ratio, %	29.6	27.0	26.5	32.9	35.3
Own funds, DKKbn	24.4	22.8	22.5	22.6	22.2
Tier 1 capital, DKKbn	20.7	20.6	20.3	20.4	20.0
Risk exposure amount, DKKbn	82.6	84.3	84.8	68.9	63.0
Number of employees (full-time equivalents)[2]	116	119	113	111	103
Average number of employees	116	114	110	106	100

[1] After adjustment for provisions for loan losses.
[2] End of year.

The Danish Financial Supervisory Authority's ratio system is shown in Note 22.

Glossary

The following definitions apply for ratios and key figures.

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

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

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

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

Loans/equity ratio
Loans and receivables at fair value divided by equity end of year.

Operating income
Total of net interest and fee income, value adjustments, other operating income and profit from equity investment in associated undertaking.

Operating expenses
Total of staff and administrative expenses.

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

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

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

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

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

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

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

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, including the Danish Financial Supervisory Authority's Executive Order on Financial Reports for Credit Institutions and Investment Firms etc (the Executive Order).

The accounting policies and methods of computation 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 impact 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, and
- measurement of loans and receivables at fair value due to changes in credit risk, including critical judgements emphasised by significant uncertainties following the coronavirus pandemic.

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 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.

The critical judgements required when determining fair value of financial instruments that lack quoted prices or recently observed market prices also introduce a high degree of estimation uncertainty.

In all of these instances, decisions are based upon professional judgement in accordance with Nordea's accounting and valuation policies that are adopted by the Board of Directors of Nordea Kredit.

Measurement of loans and receivables at fair value due to changes in credit risk, including critical judgements emphasised by the coronavirus pandemic

Nordea Kredit's accounting policy for measurement of loans and receivables at fair value due to changes in credit risk is described in section 9 "Loans and receivables at fair value".

Management is required to exercise critical judgements and estimates when calculating changes in credit risk. The credit risk is calculated based on the impairment rules for loans at amortised cost with relevant fair value adjustments. The credit risk is recognised in the balance sheet as loan impairment allowances.

When calculating allowances for individually impaired loans, judgement is exercised to estimate the value of the collateral received and the timing of the sale of the property.

Judgement is exercised in the choice of modelling approaches covering parameters used when calculating the expected losses, such as the expected lifetime, as well as in the assessment of whether the parameters based on historical experience are relevant for estimating future losses. Judgement is exercised in the modelling approach for the coverage of the first loss guarantee as it will depend on the composition of future defaults. The statistical models used to calculate provisions are based on macroeconomic scenarios, which requires management to exercise judgement when identifying such scenarios and when assigning the likelihood of the different scenarios occurring. Judgement is also exercised in the assessment of to what extent the parameters for the different scenarios, based on historical experience, are relevant for estimating future losses. Besides the model-based impairments, management judgements are made to include impairments related to risks that are not captured by the impairment model.

Nordea Kredit has applied significant critical judgements in the preparation of the annual report for 2020 due to the significant uncertainties concerning the potential long-term impact of the coronavirus pandemic in the application of macro scenarios when estimating the increase in expected credit losses and in assessing the effect on credit risk not captured by the impairment model.

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".

Negative interest income is presented as part of interest expenses and negative interest expenses are presented as part of interest income.

Net fee and commission income

Nordea Kredit earns commission income from different services provided to customers. The recognition of commission income depends on the purpose for which the fees are received. Fee income is recognised either when or as performance obligations are satisfied.

Fees categorised as loan processing, brokerage, refinancing fees and pay-out fees plus other fee and commision income are recognised at a point of time.

Expenses for bought financial guarantees are amortised over the duration of the instruments. Other commission expenses are transaction based and recognised in the period when the services are received.

Value adjustments

Realised and unrealised gains and losses on financial instruments measured at fair value through profit and loss are recognised in the item "Value adjustments".

Realised and unrealised gains and losses derive from:

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

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).

Impairment losses on loans and receivables

Changes in the credit risk on loans and receivables at fair value on the balance sheet are reported as "Impairment losses on loans and receivables". Nordea Kredit's accounting policies for the calculation of changes in the credit risk on loans and receivables at fair value can be found in section 9 "Loans and receivables at fair value".

Profit from investment in associated undertaking

The profit from investment in associated undertaking is defined as the post-acquisition change in Nordea Kredit's share of net assets in the associated undertaking. Nordea Kredit's share of profit is accounted for in "Profit from investment in associated undertaking" and placed under equity, "Other reserves". Profits from investment in associated undertaking 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 undertaking.

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

Unrealised translation differences on unsettled foreign currency monetary assets and liabilities are recognised in the income statement in the item "Value adjustments".

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 trade frequency and volume are monitored regularly in order to assess if markets are active or non-active. Nordea Kredit is predominantly using published price quotations to establish fair value for interest-bearing securities and bonds 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 are described in section 9
- 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.

7. Cash in hand and demand deposits with central banks

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

- the central bank is domiciled in Denmark
- the balance is readily available at any time.

8. Financial instruments

Each financial instrument has been classified into one of the following categories: amortised cost, fair value through profit and loss or fair value through other comprehensive income. The classification of a financial instrument is dependent on the business model for the portfolio in which the instrument is included and on whether the cash flows are solely payments of principal and interest (SPPI).

Financial assets with cash flows that are not solely payments of principal and interest (SPPI) are measured at fair value through profit and loss. All other assets are classified based on the business model.

All financial assets and liabilities are initially measured at fair value. The classification of financial instruments into different categories forms the basis for how each instrument is subsequently measured on the balance sheet and how changes in its value are recognised.

Mortgage loans and the related bonds issued are based on the analyses of the business model and the SPPI review and according to the Executive Order classified at fair value through profit and loss.

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 "Debt to credit institutions and central banks". Cash delivered under reverse repurchase agreements is recognised on the balance sheet as "Receivables from credit institutions and central banks".

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 "Value adjustments".

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 default, bankruptcy and insolvency of Nordea Kredit and the counterparties, 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

Recognition and presentation

Financial instruments classified into the category "Loans and receivables at fair value" are measured at fair value. The fair value of loans and receivables is based on the fair value of the underlying bonds issued adjusted for changes in the credit risk on the customers. Changes in the credit risk are measured based on the impairment rules for loans at amortised cost with relevant fair value adjustments.

Loans and receivables at fair value are recognised gross with an offsetting allowance for changes in the credit risk. The allowance account is disclosed net on the face of the balance sheet, but the allowance account is disclosed separately in the notes. Changes in the allowance account are recognised in the income statement and classified as "Impairment losses on loans and receivables".

If the change in the credit risk is regarded as final, it is reported as a realised loss and the carrying amount of the loan and the related allowance for changes in the fair value of credit risk are derecognised. An impairment loss is regarded as final when the collateral is sold in either an agreed sale or a forced sale.

Changes in credit risk

Nordea Kredit classifies all exposures into stages on an individual basis. Stage 1 includes assets where there has been no significant increase in credit risk, stage 2 includes assets where there has been a significant increase in credit risk and stage 3 includes credit-impaired assets. Nordea Kredit monitors whether there are indicators of exposures being credit impaired (stage 3) by identifying events that have a detrimental impact on the estimated future cash flows (loss event). Nordea Kredit applies the same definition of default as the Capital Requirements Regulation. More information on the identification of loss events can be found in Note 24 Risk and liquidity management. Exposures without individually calculated allowances will be covered by the model-based impairment calculation.

For credit-impaired exposures impairment tested on an individual basis, the carrying amount of the exposure is compared with the sum of the net present value of the collaterals and the first loss guarantee. If the carrying amount is higher, the difference is recognised as an impairment loss.

For credit-impaired exposures with impairment not calculated on an individual basis, the impairment loss is measured using the model described below but based on the fact that the exposures are already credit impaired.

Model-based calculation of changes in credit risk

For exposures not impairment tested on an individual basis, a statistical model is used for calculating impairment losses. The provisions are calculated as the exposure at default times the change in probability of default (PD) times the loss given default. In stage 3 the expected loss is calculated based on the actual probability of default.

Changes in credit risk are measured based on a distribution of loans and receivables into three groups depending on the stage of credit deterioration:

- Stage 1 includes loans and receivables where management has assessed that there has not been a significant increase in credit risk since first recognition. The assessment is made using a portfolio approach and covers the coming 12 months' expected loss.
- Stage 2 includes loans and receivables with a significant increase in credit risk, but which are not credit impaired. The provision is based on the lifetime expected loss. In addition, customers with forbearance measures and customers with payments more than 30 days past due are also transferred to stage 2, unless already identified as credit impaired (stage 3). There has been a significant increase in credit risk in the following situations:
    - o An increase in PD of 100% for the expected maturity for the exposure and an increase in the 12-month PD of 0.5% point for exposures when the 12-month PD at initial recognition was less than 1%.
    - o An increase in PD of 100% for the expected maturity for the exposure or an increase in the 12-month PD of 2% points for exposures when the 12-month PD at initial recognition was 1% or higher.
- Stage 3 includes credit-impaired loans and receivables.

When calculating the expected loss, the calculation is based on probability-weighted forward-looking information. Nordea Kredit applies three macroeconomic scenarios to address the non-linearity in expected credit losses. The different scenarios are used to adjust the relevant parameters for calculating expected losses and a probability-weighted average of the expected losses under each scenario is recognised as a provision.

Besides the model-based impairments, management judgements are made to include impairments related to risks that are not captured by the impairment model.

Assets held temporarily

At Nordea Kredit the item "Assets held temporarily" consists of repossessed properties.

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 is presented in the income statement under "Impairment losses on loans and receivables".

10. Tangible assets

Tangible assets include IT equipment, furniture and other equipment. Tangible assets are measured at cost less accumulated depreciation and accumulated impairment losses. The cost of a tangible asset comprises its purchase price as well as any directly attributable costs of bringing the asset to the working condition for its intended use.

Tangible assets also include right-to-use assets (leases). The right-to-use asset is initially measured as the present value of the lease payments.

Tangible assets are 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. The current estimate for tangible assets is 3-5 years.

11. Taxes

The item "Tax" in the income statement comprises current and deferred income tax. The 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.

12. 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 and administrative expenses”.

Post-employment benefits

Pension plans

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

13. 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.

14. Related-party transactions

Nordea Kredit defines related parties as

- the parent company Nordea Bank Abp
- other undertakings of the Nordea Group
- associated undertakings
- members of the Board of Directors and the Executive Management
- members of the parent company’s Board of Directors and Executive Management
- other related parties.

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

Other undertakings of the Nordea Group

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

Intragroup transactions between legal entities are performed according to the arm’s length principle in compliance with the Danish Financial Supervisory Authority OECD transfer pricing requirements.

Associated undertakings

Further information on the associated undertakings is found in Note 12 “Investment in associated undertaking”.

Members of the Board of Directors and the Executive Management

For information about compensation, pensions and other transactions with members of the Board of Directors and the Executive Management, see Note 5 “Staff and administrative expenses”.

Other related parties

Other related parties comprise close family members of members of the Board of Directors and the Executive Management. Other related parties also include companies significantly influenced by members of the Board of Directors and the Executive Management of Nordea Kredit as well as companies significantly influenced by close family members of the members of the Board of Directors and the Executive Management.

Information concerning transactions between Nordea Kredit and other related parties is found in Note 21 “Related-party transactions”.

Note 2
Net interest income

DKKm	2020	2019
Interest income		
Loans and receivables at fair value	3,817	4,897
Administration margins	3,390	3,342
Positive interest expenses	270	348
Other interest income	16	14
Total interest income	**7,493**	**8,601**
Interest expenses		
Debt to credit institutions and central banks	-2	-2
Bonds in issue at fair value	-3,972	-5,057
Subordinated debt	-53	-25
Negative interest income	-255	-361
Total interest expenses	**-4,282**	**-5,445**
Net interest income	**3,211**	**3,156**

Note 3
Net fee and commission income

DKKm	2020	2019
Loan processing fees	149	191
Brokerage	104	137
Refinancing fees and pay-out fees	278	436
Other fee and commission income	53	51
Fee and commission income	**584**	**815**
Guarantee commissions etc payable to Nordea Denmark[1]	-822	-1,000
Brokerage payable to Nordea Bank	-96	-129
Other fee and commission expenses	-155	-172
Fee and commission expenses	**-1,073**	**-1,301**
Net fee and commission income	**-489**	**-486**

[1] Due to a new agreement for 2020 and onwards on customer related services provided by Nordea Bank expenses previously included in commission expenses are presented under administrative expenses. The new agreement on customer related services amounted to DKK 304m for 2020 based on the estimated costs including a mark-up.

Note 4
Value adjustments

DKKm	2020	2019
Mortgage loans	1,142	-1,188
Foreign exchange gains/losses	-2	0
Interest rate derivatives	20	24
Bonds in issue[1]	-1,150	1,177
Total	**10**	**13**

[1] Including value adjustments on own positions.

Note 5
Staff and administrative expenses

DKKm	2020	2019
Salaries and remuneration (specification below)	-79	-79
Pension costs (specification below)	-9	-8
Social insurance contributions	-20	-20
Administrative expenses[1]	-500	-199
Total	**-608**	**-306**
Average number of employees	116	114

[1] Due to a new agreement for 2020 and onwards on customer related services provided by Nordea Bank expenses previously included in commission expenses are presented under administrative expenses. The new agreement on customer related services amounted to DKK 304m for 2020 based on the estimated costs including a mark-up.

DKKm	2020	2019
Salaries and remuneration		
To the Board of Directors:		
- Board and Audit Committee fee	0	-1
To the Executive Management:		
- Fixed salary and benefits	-3	-4
- Performance-related compensation[4]	-2	-1
To employees that have significant influence on Nordea Kredit's risk profile:		
- Fixed salary and benefits	-4	-5
- Performance-related compensation	0	0
Total	**-9**	**-11**
To other employees	-70	-68
Total	**-79**	**-79**
Pension costs		
Defined contribution plans:		
- Executive Management	0	0
- Employees that have significant influence on Nordea Kredit's risk profile	0	0
- Other employees	-9	-8
Total	**-9**	**-8**
Compensation including pension		
Board of Directors[1]	0	-1
Executive Management[2]	-5	-5
Employees that have significant influence on Nordea Kredit's risk profile[3]	-5	-5
Total	**-10**	**-11**

[1] The Board of Directors included in 2020 seven individuals (8).
[2] The Executive Management included two individuals in 2020.
[3] Other employees that had significant influence on Nordea Kredit´s risk profile in 2020 included 6 individuals (7).
[4] Performance-related compensation consists of the Executive Incentive Programme (EIP).

The aim of EIP is to strengthen Nordea's capability to recruit, motivate and retain selected people leaders and key employees, and aims to reward strong performance. The aim is also to further stimulate these people whose efforts have direct impact on Nordea's result, profitability and long term value growth. The Executive management of Nordea Kredit participates in EIP.

EIP 2020 rewards performance meeting is based on predetermined targets on group, business unit and individual level. The effect on the long term result is to be considered when determining the targets. The estimated expense for the 2020 EIP awards is recognised in the income statement for 2020. All EIP awards from 2019 and 2020 are allocated partly in cash and partly in Nordea shares. EIP awards shall not exceed 50% of the fixed salary and is subject to deferral for all participants.

Note 5
Staff and administrative expenses *(continued)*

Disclosure according to section 77d (4) of the Danish Financial Business Act[1]
The total remuneration earned by Board of Directors and the Executive Management is disclosed in accordance with section 77d (4) of the Danish Financial Business Act.

DKKm	2020	2019
Board of Directors[2]		
Nicklas Ilebrand[5]	-	0.2
Mads Skovlund Pedersen	-	-
Jørgen Holm[6]	-	-
Torben Laustsen[5]	-	0.1
Kim Skov Jensen	-	-
Anita Ina Nielsen	-	-
Marte Kopperstad[3]	-	-
Thomas Vedel Kristensen[4]	-	-
Torben André Petersen[7]	-	-
Anne Rømer	0.4	0.4

DKKm	2020	2019
Executive Management		
Kamilla Hammerich Skytte	2.7	2.3
Claus H. Greve	2.7	2.2
Peter Smith[8]	-	0.3

According to section 77d (4) of the Danish Financial Business Act, Nordea Kredit Realkreditaktieselskab is required to disclose the total remuneration for 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 Nordea.

1 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.
2 The external members of the Board of Directors are the only members of the board who receive remuneration as board members. Remuneration relates to Board and Audit Committee fee.
3 Marte Kopperstad was appointed member of the Board of Directors of Nordea Kredit at 7 May 2019.
4 Thomas Vedel Kristensen was appointed member of the Board of Directors of Nordea Kredit at 1 January 2020.
5 Nicklas Ilebrand and Torben Laustsen left the Board of Directors of Nordea Kredit at 1 January 2020.
6 Jørgen Holm left the Board of Directors of Nordea Kredit at 24 August 2020.
7 Torben André Petersen was appointed member of the Board of Directors of Nordea Kredit at 24 August 2020.
8 Peter Smith left the Executive Management at 6 February 2019.

Note 6
Impairment losses on loans and receivables

DKKm	2020	2019
Stage 1		
New and increased impairment charges	-60	-
Reversals of impairment charges	-	-
Impairment losses on loans and receivables, non-credit impaired	**-60**	**-**
Stage 2		
New and increased impairment charges	-306	-11
Reversals of impairment charges	104	39
Impairment losses on loans and receivables, non-credit impaired	**-202**	**28**
Stage 3, credit impaired		
Realised loan losses	-71	-100
Decrease in impairment charges to cover realised loan losses	63	91
Recoveries on previous realised loan losses	6	11
New and increased impairment charges	-407	-245
Reversals of impairment charges	180	209
Impairment losses on loans and receivables, credit impaired	**-229**	**-34**
Impairment losses on loans and receivables	**-491**	**-6**

Note 7
Profit from equity investment in associated undertaking

DKKm	2020	2019
Profit from equity investment in associated undertaking	1	-2
Total	**1**	**-2**

Note 8
Tax

Income tax expense

DKKm	2020	2019
Current tax	-360	-525
Deferred tax	-1	2
Adjustment relating to prior years	0	0
Total	**-361**	**-523**
Profit before tax	1,640	2,373
Tax calculated at a tax rate of 22.0%	-361	-522
Income from associated undertaking	0	-1
Non-deductible expenses	0	0
Adjustment relating to prior years	0	0
Tax charge	**-361**	**-523**
Average effective tax rate	22.0%	22.0%

Deferred tax

	Deferred tax assets		Deferred tax liabilities	
DKKm	2020	2019	2020	2019
Deferred tax related to:				
Provision	2	3	-	-
Total	**2**	**3**	**-**	**-**

DKKm	2020	2019
Movements in deferred tax assets/liabilities, net are as follows:		
Amount at beginning of year (net)	3	1
Deferred tax in the income statement	-1	2
Amount at end of year (net)	**2**	**3**
Current tax liabilities	**9**	**19**

Nordea Kredit is jointly taxed with the Danish companies and branches of Nordea. The companies and branches included in the joint taxation have joint and several unlimited liability for Danish corporation taxes and withholding taxes on dividends and interest. At 31 December 2020, the net taxes receivable from the Danish Tax Agency by the companies and branches included in the joint taxation amounted to DKK 230m (net taxes receivable DKK 352m). 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 Nordea entities as a whole are not liable to others.

In terms of payroll tax and VAT, Nordea Kredit is registered jointly with Nordea Danmark, filial af Nordea Bank Abp Finland and with the majority of the Danish subsidiary undertakings of Nordea and these companies are jointly and severally liable for such taxes.

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

Loans for the members of Nordea Kredit's Executive Management and Board of Directors and related parties:

DKKm	31 Dec 2020	31 Dec 2019
Loans etc		
Executive Management	-	-
Board of Directors	25	28

Interest income on these loans to members of Nordea Kredit's Executive Management and Board of Directors amounts to DKK 0.2m (DKK 0.5m).

Loans to members of Board of Directors consist of mortgage loans on terms based on market conditions. At the end of 2020 interest on the mortgage loans was payable at the rate of 0.2% to 1.5% pa. Loans to related parties of 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 company Nordea Bank consist of mortgage loans on market-based terms. At the end of 2020 the loans amounted to DKK 2m (DKK 12m) with interest rates of 0.3% to 0.8%.

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
Receivables from credit institutions and central banks

DKKm	31 Dec 2020	31 Dec 2019
Receivables from credit institutions	49,948	67,462
Total[1]	**49,948**	**67,462**
Of which purchase and resale transactions	48,446	66,432

1 Carrying amount is a fair approximation to fair value.

Note 11
Loans and receivables at fair value

DKKm	31 Dec 2020	31 Dec 2019
Mortgage loans, nominal value		
Value at beginning of year	398,740	387,482
New loans (gross new lending)	94,809	130,874
Foreign exchange revaluations	-23	6
Redemptions and prepayments	-74,245	-110,535
Net new lending for the year	20,541	20,345
Scheduled principal payments	-9,388	-9,087
Mortgage loan portfolio at end of year	**409,893**	**398,740**
Mortgage loans, fair value		
Nominal value	409,893	398,740
Adjustment for interest rate risk etc	8,147	6,348
Adjustment for credit risk (see below)	-671	-243
Mortgage loan portfolio	417,369	404,845
Mortgage arrears (see below)	184	153
Loans and receivables at fair value	**417,553**	**404,998**

DKKm	Stage 1[1]	Stage 2	Stage 3	Total
Movements of allowance account for credit risk value changes				
Balance at 1 January 2020	**-**	**55**	**188**	**243**
Changes due to origination	0	23	24	47
Transfer between stages	-	25	30	55
Changes due to changes in credit risk (net) and modelling approach[3]	60	157	201	418
Changes due to repayments	-	-3	-33	-36
Write-off through decrease in allowance account	-	-	-56	-56
Other changes[2]	-	-	-	-
Closing balance at 31 December 2020	**60**	**257**	**354**	**671**

DKKm	Stage 1[1]	Stage 2	Stage 3	Total
Movements of allowance account for credit risk value changes				
Balance at 1 January 2019	**-**	**83**	**240**	**323**
Changes due to origination	-	0	7	7
Transfer between stages	0	1	10	11
Changes due to changes in credit risk (net)	-	-28	43	15
Changes due to repayments	-	-1	-27	-28
Write-off through decrease in allowance account	-	-	-83	-83
Other changes[2]	-	-	-2	-2
Closing balance at 31 December 2019	**-**	**55**	**188**	**243**

[1] Stage 1 includes loans and receivables where management has assessed that there has not been a significant increase in credit risk since first recognition. The assessment is made using a portfolio approach.
[2] Relates to transfer of impairment charges on loans to Assets held temporarily.
[3] Including the impact from an update of the model and parameters for calculating expected credit losses.

Individually assessed loans and receivables at fair value in stage 3 with no adjustment for credit losses due to full coverage from the value of the mortgaged property and the first loss guarantee from Nordea Bank amount to DKK 3bn (DKK 8bn).

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

DKKm	31 Dec 2020	31 Dec 2019
Mortgage arrears[1]		
Mortgage arrears before provisions	97	78
Execution levied against debtors' properties before provisions	87	75
Total	**184**	**153**
Mortgage arrears mid-January following year	68	57

[1] Impairments on mortgage arrears and execution levied against debtors' properties are included in the allowance account for credit risk value changes.

DKKm	31 Dec 2020	31 Dec 2019
Age distribution of mortgage loans in arrears before allowance for credit risk value changes[1]		
More than 3 months and up to 6 months	343	833
More than 6 months and up to 1 year	860	307
More than 1 year	106	84
Total	**1.309**	**1,224**

[1] Mortgage loans at nominal value.

(%)	31 Dec 2020	31 Dec 2019
Mortgage loan portfolio by property category (nominal value)		
Owner-occupied dwellings	65	64
Holiday homes	4	4
Subsidised housing	0	0
Private rental property	11	10
Commercial property	0	1
Office and retail property	8	8
Agricultural property etc	10	11
Property for social, cultural and educational purposes	0	0
Other property	2	2
Total	**100**	**100**

For additional information on credit risks, see Note 24.

Note 12
Investment in associated undertaking

DKKm	31 Dec 2020	31 Dec 2019
Acquisition value at beginning of year	1	1
Sales during the year	-1	-
Acquisition value at end of year	**0**	**1**
Revaluation at beginning of year	19	21
Revaluation during the year	1	-2
Total revaluation at end of year	**20**	**19**
Total	**19**	**20**

2020	Domicile	Business activity	Carrying amount (DKKm)	Voting power of holding (%)	Equity (DKKm)	Net profit for the year (DKKm)
e-nettet A/S	Copenhagen	Development of software solutions for the property industry	19	18	103	0

2019	Domicile	Business activity	Carrying amount (DKKm)	Voting power of holding (%)	Equity (DKKm)	Net profit for the year (DKKm)
e-nettet A/S	Copenhagen	Development of software solutions for the property industry	20	18	103	4

Note 13
Assets held temporarily

DKKm	31 Dec 2020	31 Dec 2019
Repossessed properties	6	12
Total	**6**	**12**

Note 14
Other assets

DKKm	31 Dec 2020	31 Dec 2019
Interest receivable	5	6
Derivatives	94	88
Other assets[1]	252	629
Total	**351**	**723**

[1] Other assets include short-term receivables related to remortgaging activity.

Note 15
Debt to credit institutions and central banks

DKKm	31 Dec 2020	31 Dec 2019
Debt to credit institutions	4,998	5,597
Total[1]	**4,998**	**5,597**
Of which sale and repurchase transactions	4,992	5,591

[1] Carrying amount is a fair approximation to fair value.

Note 16
Bonds in issue at fair value

DKKm	31 Dec 2020	31 Dec 2019
Bonds in issue at beginning of year (nominal value)	446,343	417,323
Bonds issued during the year	141,706	191,505
Exchange differences	-23	6
Scheduled payments and notified prepayments	-31,183	-59,019
Redemptions and other prepayments	-118,049	-103,472
Bonds in issue at end of year (nominal value)	**438,794**	**446,343**
Adjustment at fair value	8,355	6,525
Own bonds at fair value offset	-12,094	-11,939
Bonds in issue at end of year at fair value	**435,055**	**440,929**
Of which pre-issued (nominal value)	5,035	5,581
Drawn for redemption at next payment date (nominal value)	21,117	31,183

Changes in fair value of financial liabilities attributable to changes in credit risk
The financial liabilities designated at fair value through profit and loss are bonds issued, DKK 435bn (DKK 441bn). For the bonds issued a change in the liability's credit risk and price will have a corresponding effect on the value of the loan.

The fair value of bonds issued increased in 2020 by approximately DKK 0.3bn (increase of approximately DKK 0.7bn) due to changes in own credit risk. The cumulative change since designation was a decrease of approximately DKK 3.1bn (decrease of approximately DKK 3.4bn). 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 17
Other liabilities

DKKm	31 Dec 2020	31 Dec 2019
Interest payable on bonds in issue	1,391	1,661
Other interest and commissions payable	105	84
Other	128	174
Total	**1,624**	**1,919**

Note 18
Subordinated debt

DKKm	31 Dec 2020	31 Dec 2019
Other subordinated debt	3,750	2,200
Total	**3,750**	**2,200**
Interest	-53	-25
Cost of increase in and repayments of subordinated debt	-	-
Total	**-53**	**-25**

At 31 December 2020 two loans – with terms specified below – were outstanding.

Issued by	Year of issue/ maturity	Call date	Nom value DKKm	Carrying amount DKKm	Interest rate (coupon)
Nordea Kredit Realkreditaktieselskab	2016/2026	28 September 2021	2,200	2,200	Floating rate
Nordea Kredit Realkreditaktieselskab	2020/2030	31 March 2025	1,550	1,550	Floating rate

Subordinated debt is subordinated to other liabilities.

Pursuant to the Danish Financial Business Act repayment of subordinated debt may neither take place at the initiative of the lender nor without the approval of the Danish Financial Supervisory Authority.

Note 19
Capital adequacy

Summary of items included in own funds

DKKm	31 Dec 2020	31 Dec 2019
Calculation of own funds		
Equity in the consolidated situation	22,481	22,590
Proposed/actual dividend	-1,279	-1,388
Common equity tier 1 capital before regulatory adjustments	**21,203**	**21,203**
IRB provisions shortfall (-)[1]	-360	-415
Other items, net	-161	-185
Total regulatory adjustments to common equity tier 1 capital	-521	-600
Common equity tier 1 capital (net after deduction)	**20,682**	**20,603**
Tier 1 capital (net after deduction)	**20,682**	**20,603**
Tier 2 capital before regulatory adjustments	3,750	2,200
Total regulatory adjustments to tier 2 capital	**-**	**-**
Tier 2 capital	**3,750**	**2,200**
Own funds (net after deduction)[2]	**24,432**	**22,803**

[1] Total shortfall in 2020 and 2019 was 100% deducted in common equity tier 1.
[2] Own funds adjusted for IRB provisions, ie adjusted own funds, equal DKK 24,792m at 31 December 2020.

Note 19
Capital adequacy *(continued)*

Minimum capital requirements and risk exposure amount (REA)

DKKm	31 Dec 2020 Minimum capital requirement	31 Dec 2020 REA	31 Dec 2019 Minimum capital requirement	31 Dec 2019 REA
Credit risk	**6,277**	**78,463**	**6,417**	**80,205**
- of which counterparty credit risk	85	1,066	108	1,346
IRB	5,645	70,562	5,695	71,189
- sovereign	-	-	-	-
- corporate	2,265	28,308	2,532	31,656
- advanced	2,265	28,308	2,532	31,656
- foundation	-	-	-	-
- institutions	0	0	1	6
- retail	3,335	41,687	3,144	39,300
- secured by immovable property collateral	3,291	41,136	3,085	38,568
- other retail	44	551	59	732
- other	45	567	18	227
- corporate	-	-	-	-
Standardised	632	7,901	722	9,016
- central governments or central banks	0	5	1	7
- regional governments or local authorities	-	-	-	-
- institutions	623	7,787	701	8,767
- corporate	0	0	0	1
- secured by mortgages on immovable properties	7	89	18	222
- in default	-	-	-	-
- equity	2	20	2	19
Market risk	**-**	**-**	**-**	**-**
Operational risk	**331**	**4,142**	**328**	**4,100**
Standardised	331	4,142	328	4,100
Additional risk exposure amount related to Swedish RW floor due to Article 458 CRR	2	21	1	17
Total	**6,610**	**82,626**	**6,746**	**84,322**

Note 19
Capital adequacy *(continued)*

Minimum capital requirement and capital buffers

31 Dec 2020 (%)	Minimum capital requirements	Capital buffers					Total
		CCoB	CCyB	SII	SRB	Capital buffers total[1]	
Common equity tier 1 capital	4.5	2.5	0.0	1.5	0.0	4.0	8.5
Tier 1 capital	6.0	2.5	0.0	1.5	0.0	4.0	10.0
Own funds	8.0	2.5	0.0	1.5	0.0	4.0	12.0

31 Dec 2020 (DKKm)							
Common equity tier 1 capital	3,718	2,066	1	1,239	-	3,306	7,024
Tier 1 capital	4,958	2,066	1	1,239	-	3,306	8,263
Own funds	6,610	2,066	1	1,239	-	3,306	9,916

[1] Only the maximum of the SRB and the SII is used in the calculation of the total capital buffers.

Common equity tier 1 available to meet capital buffers

Percentage points of REA	31 Dec 2020	31 Dec 2019
Common equity tier 1 capital	19.0	18.4

Capital ratios, excl Basel I floor (%)	31 Dec 2020	31 Dec 2019
Common equity tier 1 capital ratio	25.0	24.4
Tier 1 capital ratio	25.0	24.4
Total capital ratio	29.6	27.0

Leverage ratio

	31 Dec 2020	31 Dec 2019
Tier 1 capital, transitional definition, DKKm	20,682	20,603
Leverage ratio exposure, DKKm	468,112	473,450
Leverage ratio	4.4	4.4

Note 19
Capital adequacy *(continued)*

Credit risk exposures for which internal models are used, split by rating/risk grade

31 Dec 2020	On-balance sheet exposure, DKKm	Off-balance sheet exposure, DKKm	Exposure value (EAD), DKKm[1]	of which EAD for off-balance, DKKm	Exposure-weighted average risk weight
Corporate, advanced IRB:	118,188	1,019	94,178	738	30
of which					
- rating grades 6	17,587	124	17,673	90	7
- rating grades 5	38,935	488	33,216	354	28
- rating grades 4	45,788	394	32,603	286	36
- rating grades 3	9,311	4	6,958	3	37
- rating grades 2	1,930	1	1,146	1	58
- rating grades 1	742	0	492	0	74
- unrated	417	6	234	4	75
- defaulted	3,478	2	1,856	-	110
Institutions, foundation IRB:	3	-	1	-	34
of which					
- rating grades 5	2	-	1	-	34
- rating grades 4	-	-	-	-	-
- rating grades 3	1	-	-	-	-
- unrated	-	-	-	-	-
Retail, of which secured by real estate:	288,787	489	289,106	319	14
of which					
- scoring grades A	197,961	260	198,131	170	11
- scoring grades B	61,649	115	61,724	75	13
- scoring grades C	18,576	58	18,614	38	19
- scoring grades D	3,667	49	3,699	32	38
- scoring grades E	2,893	3	2,895	2	66
- scoring grades F	1,950	0	1,951	0	103
- not scored	11	2	11	1	94
- defaulted	2,080	2	2,081	1	155
Retail, of which other retail:	10,408	-	2,713	-	20
of which					
- scoring grades A	2,049	-	2,048	-	11
- scoring grades B	937	-	440	-	20
- scoring grades C	3,296	-	84	-	39
- scoring grades D	1,451	-	32	-	55
- scoring grades E	1,109	-	29	-	62
- scoring grades F	724	-	31	-	97
- not scored	4	-	0	-	100
- defaulted	838	-	49	-	306
Other non credit-obligation assets:	567	-	567	-	100

Nordea Kredit does not have the following IRB exposure classes: equity exposures, central governments and central banks, qualifying revolving retail.

[1] Includes EAD for on-balance sheet, off-balance sheet, derivatives and securities financing.

Note 20
Maturity analysis for assets and liabilities

Remaining maturity

31 Dec 2020, DKKm	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Total
Receivables from credit institutions and central banks	1,502	48,446	-	-	-	49,948
Loans and receivables at fair value	97	2,644	8,521	48,950	357,341	417,553
Debt to credit institutions and central banks	6	4,992	-	-	-	4,998
Bonds in issue at fair value	-	9,537	46,331	175,848	203,339	435,055

31 Dec 2019, DKKm	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Total
Receivables from credit institutions and central banks	1,030	66,432	-	-	-	67,462
Loans and receivables at fair value	78	2,627	8,579	48,862	344,852	404,998
Debt to credit institutions and central banks	-	5,597	-	-	-	5,597
Bonds in issue at fair value	-	9,027	31,079	194,802	206,021	440,929

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 bonds issued are allocated through the maturity distribution in comparison to the refinancing period.

Note 21
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 2020	31 Dec 2019
Operating items		
Interest income:		
Positive interest expenses	56	126
Interest expenses:		
Interest on debt to credit institutions	-80	-27
Negative interest income	-255	-351
Fee and commission income:		
Other fee and commission income	3	5
Fee and commission expenses:		
Guarantee commissions etc	-822	-1,000
Brokerage	-96	-129
Value adjustments:		
Interest rate derivatives	20	24
Other operating income	5	5
Staff and administrative expenses:		
IT expenses	-64	-65
Other administrative expenses	-363	-57
Rent	-13	-14
Internal audit	-4	-4
Profit from investment in associated undertaking	1	-2
Assets		
Receivables from credit institutions	49,948	67,462
Interest receivable from credit institutions	0	0
Investment in associated undertaking	19	20
Other assets	94	88
- of which derivatives	94	88
Debt		
Debt to credit institutions	4,998	5,597
Bonds in issue at fair value	31,566	25,894
Interest payable	31	8
IT expenses payable	15	20
Other liabilities	46	-
Guarantee commissions payable	105	84
Subordinated debt	3,750	2,200
Guarantees		
Nordea Bank provides on an ongoing basis guarantees to cover the first loss of the principal of mortgage loans disbursed	113,411	114,537
Nordea Bank 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	9,510	14,311

The main part of the transactions is between Nordea Kredit and Nordea Bank.

The majority of the mortgage loans originated by Nordea Kredit are disbursed through Nordea Bank.

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

A Liquidity Transfer and Support Agreement has been signed between Nordea Bank Abp and the specialised mortgage lending entities being Nordea Kredit Realkreditaktieselskab, Nordea Eiendomskreditt AS, Nordea Hypotek AB and Nordea Mortgage Bank Plc. The agreement ensures that Nordea Kredit has sufficient cash resources to comply with the liquidity coverage ratio (LCR) requirement on an ongoing basis and to meet its payment obligations in respect of outstanding covered bonds in a timely manner. Nordea Kredit is thereby also required to provide liquidity support to the other entities in the agreement, however only to the extent that it would not in any way result in Nordea Kredit breaching any of its own central obligations.

Note 21
Related-party transactions *(continued)*

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.

In 2020 there were no unsual related-party transactions.

Compensation and loans to Board of Directors and Executive Management
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 the parent company, other Nordea companies, associated undertakings and other related parties. Other related parties are companies significantly influenced by the Board of Directors and the Executive Management of Nordea Kredit as well as companies significantly influenced by related parties to the Board of Directors and the Executive Management.

Note 22
The Danish Financial Supervisory Authority's ratio system

	2020	2019	2018	2017	2016
Total capital ratio, %	29.6	27.0	26.5	32.9	35.3
Tier 1 capital ratio, %	25.0	24.4	23.9	29.7	31.8
Pre-tax return on equity, %	7.3	10.6	9.2	10.2	10.2
Post-tax return on equity, %	5.7	8.2	7.2	7.9	7.9
Income/cost ratio	2.49	8.60	5.10	5.90	6.00
Foreign exchange exposure as % of tier 1 capital	1.6	1.6	1.1	0.6	0.1
Loans/equity ratio	18.6	17.9	17.7	17.4	17.7
Lending growth for the year, %	2.7	3.0	1.0	0.1	-0.2
Impairment ratio for the year, %	0.1	0.0	0.1	0.0	0.1
Return on assets, %	0.3	0.4	0.4	0.4	0.4

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 23
Series financial statements

DKKm	Note	Capital centre 2	Capital centre 1 (General Capital Centre)	Total
Income statement for 2020				
Income from lending		3,391	15	3,406
Interest, net		-168	-9	-177
Administrative expenses, net		-1,040	-59	-1,099
Provisions for loan losses		-437	-54	-491
Tax		-384	23	-361
Total		**1,363**	**-84**	**1,279**
Balance sheet, 31 Dec 2020				
Assets				
Mortgage loans		415,510	2,048	417,558
Other assets		60,970	1,561	62,531
Total assets	**1**	**476,480**	**3,609**	**480,089**
Liabilities and equity				
Bonds in issue	2	446,255	2,313	448,568
Other liabilities		8,971	68	9,039
Equity	3	21,254	1,228	22,481
Total liabilities and equity		**476,480**	**3,609**	**480,089**

Note 1 Balance sheet, series financial statements

Balance sheet total, Nordea Kredit's annual financial statements	467,936
Own bonds, not offset in series financial statements	12,094
Interest receivable on own bonds	59
Balance sheet total, series financial statements	**480,089**

Note 2 Bonds in issue, series financial statements

Bonds in issue, Nordea Kredit's annual financial statements	435,055
Own bonds, not offset in series financial statements	12,094
Deferred income	1,419
Bonds in issue, series financial statements	**448,568**

Note 3 Equity

Movements in capital, net	-	-	-

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

The series financial statements have been prepared on the basis of Nordea Kredit Realkreditaktieselskab's annual report for 2020.

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

Note 24
Risk and liquidity management

Maintaining risk awareness in the organisation is engrained in Nordea Kredit's business strategies. Nordea Kredit 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

The Board of Directors of Nordea Kredit has the responsibility for limiting and monitoring risk exposures as well as for approving the setting of target capital ratios and the individual solvency need and deciding on the risk appetite. Risk is measured and reported according to common principles and policies approved by the Board of Directors of Nordea Kredit.

In accordance with the Danish Financial Business Act, the Board of Directors has established a Board Risk Committee (BRIC). BRIC assists the Board of Directors in fulfilling its oversight responsibilities concerning the management and control of risk, risk frameworks as well as controls and processes associated with Nordea Kredit's operations. Furthermore, BRIC assesses whether the incentives of Nordea Kredit's remuneration structure take account of Nordea Kredit's risk, capital and liquidity as well as the likelihood of profit and timing for this.

The Executive Management has the responsibility for ensuring that the risk strategy and risk management decided by the Board of Directors are implemented, that the necessary practical measures are taken and that risks are monitored and limited.

In accordance with the Danish Executive Order on Management and Control of Banks etc, Nordea Kredit has appointed a Chief Risk Officer (CRO). The CRO is appointed by the Board of Directors of Nordea Kredit and functionally reports to the Executive Management of Nordea Kredit. The CRO is the overall manager with specific responsibility for the risk management function at Nordea Kredit – including the responsibility for ensuring that an overall risk assessment is provided, ensuring coordination of risk control activities and ensuring adequate risk management practice within Nordea Kredit. The CRO independently reports directly to the Board of Directors of Nordea Kredit.

The Charter for the CRO of Nordea Kredit defines the role, responsibilities, tasks and mandate of the CRO and forms part of Nordea Kredit's risk management framework. The CRO mainly operates through established functions for risk management at Nordea such as Group Risk & Compliance, Group Credit Management and Group Finance.

It is the responsibility of the CRO to ensure that the overall risk control at Nordea Kredit is conducted adequately. The CRO must provide a complete view of the whole range of risks at Nordea Kredit to the relevant governing bodies and ensure that all risks at Nordea Kredit are monitored.

In accordance with the Danish Executive Order on Management and Control of Banks etc, Nordea Kredit has appointed a Chief Compliance Officer (CCO). The CCO is appointed by the Executive Management of Nordea Kredit and functionally reports to the Executive Management of Nordea Kredit. The CCO has the overall functional responsibility for the compliance function at Nordea Kredit – including the responsibility for monitoring compliance which is based on collecting information and providing independent assessments of the compliance risks. Furthermore, the compliance function advises and supports the first line of defence on ways to effectively and efficiently manage compliance obligations. The CCO independently reports directly to the Board of Directors of Nordea Kredit.

The Charter for the CCO of Nordea Kredit defines the role and responsibilities of the CCO and forms part of Nordea Kredit's internal control framework. The Nordea Kredit compliance function utilises the functional framework within Group Risk & Compliance, Group Compliance. This means that the methodology and standard processes applied by Group Compliance are – to the extent possible – also applied by Nordea Kredit.

Risk management

Nordea Kredit is exposed to credit risk on borrowers as well as operational risk because of Nordea Kredit's activities. Furthermore, Nordea Kredit is exposed to liquidity risk and market risk in the form of interest rate risk and modest currency risk related to its mortgage loans and the investment of capital.

Monitoring and reporting of risk is conducted on a daily basis for liquidity risk and market risk and on a quarterly basis for credit risk and operational risk. Reporting on the risk profile, the risk appetite, the individual solvency need (ISN) and the debt buffer requirements is presented to the Board of Directors, BRIC and the Executive Management on a quarterly basis.

Additional information on risk and capital management is presented in the Capital and Risk Management Report 2020 in accordance with the CRR, which is based on the Basel III framework issued by the Basel Committee on Banking Supervision. The report is available under Investor Relations on www.nordea.com.

Note 24
Risk and liquidity management *(continued)*

Credit risk management
The credit approval process follows directives and guidelines for Nordea. Within the powers to act granted by the Board of Directors of Nordea Kredit, internal credit risk limits are approved by credit decision-making bodies on different levels in the Nordea organisation constituting the maximum risk appetite on the customer in question. The risk categorisation and the exposure of the customer determine at what level the decision will be made. The customer responsible units take individual credit decisions with a primary focus on the customer's creditworthiness based on mandates and instructions from Nordea Kredit. Furthermore, individual credit decisions for mortgage loans with a primary focus on the property are made within Nordea Kredit.

The assessment and monitoring of credit risks lies with the customer responsible unit. Customers are risk categorised by a rating or score in accordance with Nordea's rating and scoring guidelines. The rating and scoring of customers aims to predict their probability of default and to consequently rank them according to their respective default risk. Rating and scoring of customers are used as integrated parts of the credit risk management and decision-making process. Representatives from the credit organisation approve the rating independently.

Credit risk
Credit risk is defined as the potential for loss due to the inability of Nordea Kredit's customers to repay their loans. If the customer is unable to repay the loan, Nordea Kredit's credit risk depends on the value of the property received as collateral and coverage by the first loss guarantee issued by Nordea Bank. Nordea Kredit's credit risk is therefore affected by the general price trends on the property market.

Nordea Kredit's maximum exposure to credit risk consists of the following balance sheet line items:

Maximum exposure to credit risk

DKKm	31 Dec 2020	31 Dec 2019
Demand deposits with central banks	50	50
Receivables from credit institutions and central banks[1]	49,948	67,462
Loans and receivables at fair value	417,553	404,998
Loans and receivables at amortised cost	1	1
Other asset items	365	746
Guarantees etc	0	75
Loan commitments	1,508	1,498
Total	**469,425**	**474,830**

[1] The maximum credit risk on receivables from credit institutions is secured by own securities in connection with purchase and resale transactions.

Concentration risk
Nordea Kredit have a well-diversified lending portfolio in respect of single customer groups and industry segments. The diversification of concentration risks is stipulated in Nordea Kredit's Risk Appetite framework and limits adverse concentration risk developments.

Collateral
Mortgage loans are collateralised by the mortgaged properties in accordance with Danish mortgage legislation. The credit risk is therefore significantly reduced by the value of the mortgaged property. The value of the mortgaged properties is monitored on a quarterly basis and properties are continuously up for review of the valuation based on criteria decided on a quarterly basis.

To further reduce the credit risk of Nordea Kredit and to align incentives, loss guarantees are provided by Nordea Bank covering a significant part of the principal of mortgage loans disbursed. If a customer defaults, the realised loss is calculated and the guarantee is settled by Nordea Bank. The first loss guarantees amounted to DKK 113,411m (DKK 114,537m) at end-2020. The share of the loans covered by the first loss guarantees was 98% (97%).

Furthermore, in connection with the disbursement of loans, Nordea Bank provides statutory guarantees relating to registration with the Land Registry. At end-2020 the guarantee amounted to DKK 9,510m (DKK 14,311m).

Note 24
Risk and liquidity management *(continued)*

Loan to value
The loan to value (LTV) ratio is considered a useful measure to evaluate the quality of collateral, that is, the credit extended divided by the market value of the properties pledged.

As shown in the tables below, mortgage loans with an LTV ratio higher than 80% fell by 1% point.
Furthermore, the LTV ratio for owner-occupied dwellings decreased by 2% points to 61% in 2020, while the LTV ratio for commercial properties decreased by 1% point to 47%. The LTV ratio for agriculture was unchanged at 48%.

For owner-occupied dwellings and holiday homes, 45% of lending was in the 0-60% LTV range compared to 42% at end-2019. For commercial properties, 38% of loans was in the 0-40% LTV range compared to 36% at end-2019.

The lower LTV values for owner-occupied dwellings and commercial properties through 2020 were mainly due to increasing property prices.

Mortgage loans by loan to value (LTV) and property category

	Owner-occupied dwellings and holiday homes		Commercial properties		Agricultural properties		Total	
DKKm	2020	2019	2020	2019	2020	2019	2020	2019
0-40%	14%	13%	38%	36%	33%	34%	21%	20%
40-60%	31%	29%	38%	40%	41%	40%	33%	32%
60-80%	42%	44%	21%	21%	22%	21%	36%	36%
>80%	13%	15%	4%	4%	5%	5%	10%	11%
Total fair value, DKKbn	290	275	87	87	40	43	418	405
Weighted average LTV	**61%**	**63%**	**47%**	**48%**	**48%**	**48%**	**57%**	**58%**

Further information regarding LTV figures can be found in the quarterly investor presentations and the European Covered Bond Council (ECBC) covered bond labelling report. Both reports are available at www.nordea.com/en/investor-relations/debt-and-rating/bonds/nordea-kredit-covered-bonds.

Measurement of changes in credit risk
The change in credit risk is measured as part of the fair value of the mortgage loans. The change in credit risk is measured based on the impairment rules for loans at amortised cost with relevant fair value adjustments.

All mortgages are tested for changes in underlying credit risk. The mortgage loans are divided into three groups depending on the stage of credit deterioration. Stage 1 includes mortgage loans where it has been assessed that there has not been a significant increase in credit risk since the first recognition of the mortgage loan. Stage 2 includes mortgage loans where there has been a significant increase in credit risk and stage 3 includes credit-impaired mortgage loans. All mortgage loans are assessed individually for staging. Mortgage loans in stage 3 are assessed for changes in credit risk either on an individual basis or by using a statistical model. Mortgage loans in stage 1 and stage 2 are assessed for changes in credit risk by using a statistical model. Impairment assessment applies three forward-looking and weighted scenarios.

The quality of credit exposures is continuously reviewed throughout the process of identifying and mitigating changes in credit risk. Weak and credit-impaired mortgage loans are closely monitored and reviewed at least on a quarterly basis regarding a possible need for provisions.

Calculation of provisions regarding changes in credit risk
A change in the credit risk is recognised as a provision if based on credit events and observable data, a negative impact is likely on the customer's expected future cash flow to the extent that full repayment is unlikely (pledged properties and guarantees received considered). The size of the provision is equal to the estimated loss, which is the difference between the carrying amount of the outstanding exposure and the discounted value of the expected future cash flow, including the value of pledged properties and guarantees received.

The calculation of provisions regarding changes in credit risk is executed quarterly. One important driver for provisions is the trigger for transferring mortgage loans from stage 1 to stage 2. For mortgage loans recognised from 1 January 2018 changes to the lifetime probability of default are used as the trigger. In addition, customers with forbearance measures and customers with payments more than 30 days past due are also transferred to stage 2. In stage 1, the provisions are based on changes to the 12-month expected loss assessed using a portfolio approach. In stage 2, the provisions are based on changes to the lifetime expected loss except from weak stage 2 loans. For weak stage 2 loans and loans in stage 3, the provisions equal the lifetime expected loss. The output is complemented with an analysis process to ensure adequate provisioning.

Note 24
Risk and liquidity management *(continued)*

Credit impaired (stage 3)
Customers with exposures that are past due more than 90 days, customers in bankruptcy or considered unlikely to pay are regarded as credit impaired. If a customer recovers from being credit impaired, the customer is seen as cured. Typically, this situation occurs if the customer succeeds in ensuring a balance between income and expenses. In order to be cured the recovery should include the customer's total liabilities with Nordea. The customer will be kept in stage 3 for a penalty period to ensure sufficient recovery.

The provisioning for credit-impaired exposures is either calculated individually or by the statistical model.

Forbearance
Forbearance is negotiated terms or restructuring due to the borrower experiencing or being about to experience financial difficulties. The intention with granting forbearance for a limited time period is to ensure full repayment of the outstanding debt. Examples of negotiated terms are changes in the amortisation profile or reduced administration margins due to financial stress. Forbearance is undertaken on a selective and individual basis and followed by impairment testing. Loan loss provisions are recognised if full repayment is unlikely.

Sensitivity
The loan loss provisions are sensitive to rating migration even if triggers for a significant increase in credit risk or credit-impaired loans are not reached. The impact on provisions from a one-notch downgrade on all exposures will be an increase in provisions of DKK 190m at end-2020. It includes both the impact of the higher risk for all exposures and the impact of transferring exposures that reach the trigger from stage 1 to stage 2. It also includes the impact from the exposures with one rating grade above default becoming default. This figure is based on calculations with the statistical model rather than individual estimates that would be the case in reality for part of the defaulted loans.

Forward-looking information
Forward-looking information is used in a model for the calculation of expected credit losses (ECL). Nordea Kredit uses three macroeconomic scenarios, a base scenario, a favourable scenario and an adverse scenario. For 2020 the scenarios have been weighted into the final expected credit losses using 50% for the base scenario (60% at year-end 2019), 45% for the adverse scenario (20% at year-end 2019) and 5% for the favourable scenario (20% at year-end 2019).

The weighting of the adverse scenario was increased in the second half of 2020 to give more weight to the downside risks surrounding the expiry of government support packages and the continuation of the pandemic. The base scenario was still maintained as the most probable one.

The macro scenarios are based on the Oxford Economics model. The forecast is a combination of modelling and expert judgement, subject to thorough checks and quality control processes. The model has been built to give a good description of the historical relationships between economic variables and to capture the key linkages between those variables. The forecast period in the model is ten years, and for periods beyond, a long-term average is used in the ECL calculations.

The macro scenarios reflect Nordea's view of how the coronavirus pandemic and lockdowns potentially will impact the economic outlook. The scenarios also reflect the macroeconomic effects of the government support packages. When developing the scenarios, Nordea took into account projections from the central bank, Nordea Research and the ECB's macroeconomic forecasts.

Following one of the largest contractions in output since the Second World War, the Danish economy experienced a significant recovery of activity in the third quarter of 2020. Although the economic recovery during the second half of 2020 appeared to be relatively strong, growth in 2021 is predicted to be slow, as the outlook is still clouded by a very high level of uncertainty. Thus, the resurgence of the coronavirus pandemic in the autumn of 2020 with renewed and widespread lockdowns in most of Europe poses a serious threat to the export-dependent Danish economy. The high level of uncertainty also weighs on business investments. On the other hand, the roll-out of vaccines, and the willingness of the Danish government to extend special support packages for sectors hit by lockdowns, point to a continued but modest recovery in the base scenario. This implies that economic output in Denmark does not return to the pre-pandemic levels before 2022. The significant loss of output will continue to weigh on labour markets leading to an additional rise in unemployment in 2021. The rise in unemployment and the impact on consumer confidence are also expected to weigh on housing markets in spite of the strong price increases seen in 2020 and the low level of interest rates.

The adjustments to model-based provisions amount to DKK 143m. This management judgement covers projected loan losses not yet covered by the IFRS 9 model and the possible impact of the coronavirus pandemic on loan losses. The management judgement is based on a stressed simulation of the ECL reflecting adverse or base scenarios dependent on the assessed default sensitivity of the exposures towards the coronavirus pandemic.

Note 24
Risk and liquidity management *(continued)*

The table below presents the applied scenarios and recognised loan loss provisions.

Scenarios and provisions

		2020	2021	2022	Unweighted ECL, DKKm	Probability weight	Model-based provisions, DKKm	Adjustment, model-based provisions, DKKm	Individual provisions, DKKm	Total provisions, DKKm
Favourable scenario	GDP growth, %	-2.8	4.7	2.4	398	5%				
	Unemployment, %	4.7	4.3	3.9						
	Home prices, %	2.3	-0.6	0.3						
Base scenario	GDP growth, %	-4.5	3.0	2.5	399	50%	404	143	132	679
	Unemployment, %	5.1	5.6	4.8						
	Home prices, %	1.8	-2.6	0.6						
Adverse scenario	GDP growth, %	-5.7	-0.5	3.6	411	45%				
	Unemployment, %	5.4	7.5	6.8						
	Home prices, %	1.2	-5.6	-4.6						

The sensitivity of the applied scenarios to the model-calculated ECL reflects Nordea Kredit's business model and credit risk management. The high collateralisation and additional first loss guarantee from Nordea Bank are to a high extent expected to absorb losses from deterioration in credit quality. The model-calculated ECL take into account the expected improvement in the macro scenarios as a recovery is assumed following the coronavirus pandemic.

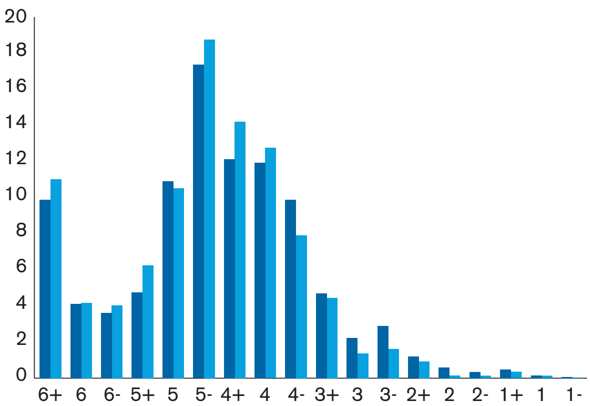
Rating and scoring distribution
One way of assessing credit quality is through analysis of the distribution across rating grades for rated corporate customers as well as risk grades for scored household and small business customers, that is, retail exposures.

The overall credit quality is solid with strongly rated customers.

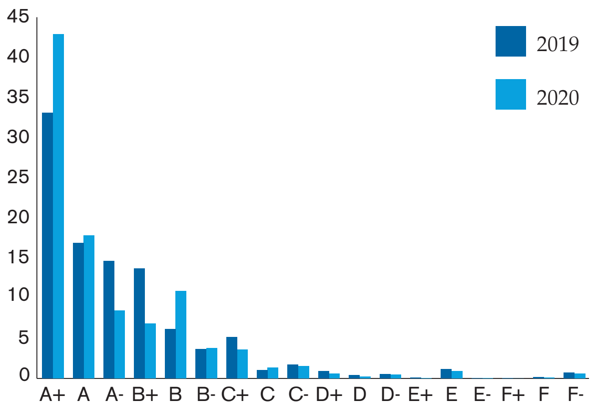
The average credit quality improved in 2020 as 28% of corporate customers migrated upwards (2019: 24%) while 18% (2019: 29%) were downrated. 90% (85%) of the corporate exposure was rated 4- or higher with an average rating for the portfolio of 5-.

Retail customers showed a distribution that was biased towards the higher risk grades. 97% (96%) of the retail exposure was rated C- or higher, which indicates a probability of default of 1% or lower. Defaulted loans are not included in the rating/scoring distributions.

Rating distribution IRB corporate customers[1]



Risk grade distribution IRB retail customers[2]



[1] Rating grades 4- and better are comparable to investment grade as defined by external rating agencies such as Moody's and Standard & Poor's. Rating grades 2+ to 1- are considered as weak and require special attention.
[2] Scoring grades A+ to F- are non-defaulted. The best score is A+.

Note 24
Risk and liquidity management *(continued)*

The table below presents loans and receivables at fair value (gross carrying amount) broken down by rating/scoring distributions plus stage 1, 2 and 3:

DKKbn, 31 Dec 2020	Stage 1	Stage 2	Stage 3	Total
6 / A	204	0	0	204
5 / B	107	0	0	107
4 / C	70	5	0	75
3 / D	10	6	0	16
2 / E	1	5	0	6
1 / F	0	3	0	3
0 (credit impaired)	0	0	7	7
Unrated customers	0	0	0	0
Total	**392**	**19**	**7**	**418**

DKKbn, 31 Dec 2019	Stage 1	Stage 2	Stage 3	Total
6 / A	184	0	0	184
5 / B	106	0	0	106
4 / C	66	8	0	74
3 / D	12	9	0	21
2 / E	2	6	0	8
1 / F	0	4	0	4
0 (credit impaired)	0	0	8	8
Unrated customers	0	0	0	0
Total	**370**	**27**	**9**	**405**

Market and liquidity risks
Market risk is the risk of loss on Nordea Kredit's positions in the banking book as a result of changes in market rates and parameters that affect the market values or net interest income flows. Liquidity risk is the risk that Nordea Kredit can only meet its liquidity commitments at an unsustainably high price or, ultimately, is unable to meet its obligations as they come due.

The business model of Nordea Kredit is to provide mortgage loans match-funded by covered bond issuance. Consequently, Nordea Kredit's market risk exposure is limited to the following three sources: (i) liquidity investments of cash and equity in reverse repos generate risk to its net interest income (NII) in case of falling interest rates; (ii) adherence to the specific balance principle generates interest rate risk, primarily from cash flow mismatches stemming from the early redemption of loans; (iii) the income from administration margins on bonds denominated in euros generates some currency risk, as the income is not immediately exchanged to Danish kroner.

Nordea Kredit is exposed to liquidity risk from the funding of loans, the refinancing of maturing adjustable-rate mortgage (ARM) bonds and floating-rate mortgage (FRM) bonds, as well as the supplementary collateral requirement in the SDRO issuing cover pool (capital centre 2). Furthermore, the credit risk on borrowers can create a liquidity risk if a borrower cannot pay according to agreed terms, while Nordea Kredit is obliged to pay the investor.

Note 24
Risk and liquidity management *(continued)*

Interest rate risk
For the lending portfolio, the Danish executive order on bond issuance, match-funding and risk management stipulates that the interest rate risk resulting from differences between incoming payments on loans and outgoing payments on mortgage bonds issued calculated based on the specific balance principle must not exceed 1% of own funds, or DKK 244m (DKK 228m). For the securities portfolio, the interest rate risk on capital investments must not exceed 8% of own funds, or DKK 1,955m (DKK 1,824m).

Nordea Kredit is significantly below both of the above-mentioned limits.

Interest rate risk

DKKm	31 Dec 2020	31 Dec 2019
Capital investments (IR sensitivity)[1]	24	14
Specific balance principle (IR stress loss)[2]	8	6

[1] Capital investments (IR sensitivity) measures the interest rate risk on the capital and liquidity investments as a parallel shift in interest rates of +/- 100bp, where the total interest rate risk is the numerical sum of interest rate risk across all currencies (for NK only DKK is relevant).
[2] Specific balance principle (IR stress loss) measures the interest rate risk stemming from payment differences as the most adverse potential loss based on six predetermined scenarios. The scenarios are +/- 100bp parallel shift, +/- 300bp parallel shift for option-like cash flows divided by 3, and a curve steepening as well as a curve flattening scenario.

Currency risk
At end-2020 the currency risk amounted to DKK 0.6m (DKK 0.4m) with effect on profit before tax and equity and relates solely to exposures in euros.

DKKm	Total risk	Max	Min
31 Dec 2020	1	1	0
31 Dec 2019	0	0	0

Market risk related to derivatives

DKKm	31 Dec 2020	31 Dec 2019
Interest rate risk, options:		
Market value, positive	146	95
Market value, negative	92	51
Nominal value	2,273	3,070

At the end of 2020 and 2019 there were no spot transactions.

Liquidity coverage ratio (LCR)
The common European LCR requirement for Nordea Kredit is 100% of net liquidity outflows over a 30-calendar day stress period, as specified by the Delegated Act. In addition, Nordea Kredit has a pillar 2 LCR floor requirement of 100%, as specified by the Danish FSA, which is measured relative to 2.5% of Nordea Kredit's total lending at fair value. At 31 December 2020 the LCR requirement that was the binding constraint on the liquidity buffer was the pillar 2 LCR floor requirement, and the LCR relative to the floor was 214% (the LCR requirement as specified by the Delegated Act was 3,550%).

Note 24
Risk and liquidity management *(continued)*

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

Nordea Kredit has as its second line of defence a risk management function (CRO), where operational risk is also monitored. The flow of risk-related information is presented directly to the Board of Directors and initially passes through BRIC. The operational risks are monitored through regular risk assessment procedures and systematic quality and risk-focused management of changes.

Compliance risk
Compliance risk is defined as the risk of failing to comply with applicable laws, regulations, standards, supervisory requirements and related internal rules governing Nordea Kredit's activities.

Managing compliance risks is part of management's responsibilities. The compliance risks are monitored by Nordea Kredit's compliance function. The flow of risk-related information is presented directly to the Board of Directors and initially passes through BRIC. The compliance risks are monitored through compliance assessment procedures.

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	19,464
Net profit for the year	1,279
Total	**20,743**

The Board of Directors proposes that the profit for 2020 is distributed as follows:

DKKm	
Retained earnings	19,464
Other reserves	1
Proposed dividends to the shareholders	1,279
Total	**20,743**

The company's distributable earnings amount to DKK 20,743m. After the proposed distribution of earnings, the company's unrestricted shareholders´ equity amounts to DKK 19,464m.

Statement by the Board of Directors and the Executive Management

The Board of Directors and the Executive Management have discussed and approved the annual report of Nordea Kredit Realkreditaktieselskab for the financial year 2020.

The annual report has been prepared in accordance with the Danish Financial Business Act, including the Danish Financial Supervisory Authority's Executive Order on Financial Reports for Credit Institutions and Investment Firms etc.

It is our opinion that the financial statements give a true and fair view of the company's financial position at 31 December 2020 and of the results of the company's operations for the financial year 1 January-31 December 2020.

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, 23 February 2021

Board of Directors

Mads Skovlund Pedersen
(Chair)

Anne Rømer
(Vice Chair)

Kim Skov Jensen

Torben André Petersen

Anita Ina Nielsen

Marte Kopperstad

Thomas Vedel Kristensen

Executive Management

Kamilla Hammerich Skytte
(Chief Executive Officer)

Claus H. Greve
(Deputy Chief Executive Officer)

Independent auditors' report

To the shareholders of Nordea Kredit Realkreditaktieselskab

Our opinion
In our opinion, the Financial Statements give a true and fair view of the Company's financial position at 31 December 2020 and of the results of the Company's operations for the financial year 1 January to 31 December 2020 in accordance with the Danish Financial Business Act.

Our opinion is consistent with our Auditor's Long-form Report to the Audit Committee and the Board of Directors.

What we have audited
The Financial Statements of Nordea Kredit Realkreditaktieselskab for the financial year 1 January to 31 December 2020 comprise income statement and statement of comprehensive income, balance sheet, statement of changes in equity and notes to the financial statements, including summary of significant accounting policies ("Financial Statements").

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the *Auditor's responsibilities for the audit of the Financial Statements* section of our report.

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

Independence
We are independent of Nordea Kredit Realkreditaktieselskab in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark. We have also fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 were not provided.

Appointment
We were first appointed auditors of Nordea Kredit Realkreditaktieselskab on 27 February 2015 for the financial year 2015. We have been reappointed annually by shareholder resolution for a total period of uninterrupted engagement of six years including the financial year 2020.

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements for 2020. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and receivables at fair value Accounting for loans to customers at fair value is complex and requires subjective judgements over both the timing of the recognition of impairment and the estimation of the size of any such provision for impairment. The Company makes provisions for expected losses both on an individual basis in terms of individual provisions and on a model-based basis. In 2020 the Company has implemented an updated model for calculating the model-based provisions. Loan impairment charges are a key area of focus as Management performs material estimates of whether write-down for impairment should be made and of the size of such impairment charges. As a result of the covid-19 situation Management has recognised a substantial provision for expected losses as based on an accounting estimate (”management judgement”). The consequenses of covid-19 for the costumers are to a material extend not known and as a result hereof there’s an increased uncertainty related to the size of the provision for expected losses on loans. Important areas within impairment of loans to customers relate to: • Identification of credit impaired loans (stage 3) or loans with material weaknesses (stage 2), including completeness of the customer accounts that are included in the impairment calculation. • Customer risk assessment, including internal rating and valuation of collaterals held related to real estate and third-party guarantees. • The model-based impairments in stages 1 and 2, including Management’s assessment of the model variables. • Assumptions and judgements made by Management as the variables in the model underlying the calculation of model-based impairments and individual provisions including management judgements related to the covid-19 situation. The principles for impairments of loans and receivables at fair value are described in note 1 section 2 – Critical accounting estimates and estimation uncertainty, note 11 - Loans and receivables at fair value to the Financial Statements and note 24 - Risk and liquidity management.	Our audit included a combination of testing of relevant internal controls over financial reporting and substantive testing. We assessed and tested relevant internal controls over: • Individually assessed loan impairment calculations (stage 3 and stage 2 with weaknesses) • Valuation of collaterals held • Model-based assessed loan impairment calculations • Internal rating and stage classification We performed detailed testing on a sample of loans to ascertain whether we concur with the risk assessment as expressed by the internal rating and stage classification. We tested the impairment calculation on a sample of impaired loans, including assessment of expected future cash flow, fair value of collaterals (real estate) and various outcome of the financial position of the customer (scenarios). We examined a sample of loans, which had not been identified by Management as impaired. We assessed the appropriateness of the Company’s validation of the updated model implemented in 2020 and relevant parameters in the model-based impairment model. We also assessed and challenged the basis for the accounting estimates related to the provisioning for expected losses as a result of the covid-19 situation.

Statement on Management’s Review

Management is responsible for Management’s Review.

Our opinion on the financial statements does not cover Management’s Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management’s Review and, in doing so, consider whether Management’s Review is materially inconsistent with the Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Moreover, we considered whether Management’s Review includes the disclosures required by the Danish Financial Business Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Business Act. We did not identify any material misstatement in Management's Review.

Management's responsibilities for the Financial Statements

Management is responsible for the preparation of 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.

In preparing the Financial Statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Copenhagen, 23 February 2021

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Business registration no 33 77 12 31

Christian Fredensborg Jakobsen
State Authorised Public Accountant
mne16539

Benny Voss
State Authorised Public Accountant
mne15009

Management and Board of Directors of Nordea Kredit

Board of Directors

Mads Skovlund Pedersen (Chair)
Internal assignments:
Head of Personal Banking, Nordea Denmark
Vice Chairman of Danbolig

External assignments:
Chairman of the Board of Directors of the Danish Employers' Association for the Financial Sector
Member of the Board of Directors of Karl Pedersen og Hustrus Industrifond

Anne Rømer (Vice Chair)
Internal assignments:
None

External assignments:
Independent management consultant

Kim Skov Jensen
Internal assignments:
Managing Director, Head of Markets & Treasury Financial Control, Group Finance, Nordea Bank Abp
Member of the Board of Directors of Fionia Asset Company A/S
Member of the Board of Directors of Nordea Bank Sweden's pension fund

External assignments:
Member of the Board of Directors of Alpint Kraftcenter Danmark

Torben André Petersen (appointed on 24 August 2020)
Internal assignments:
Deputy Head of Business Banking, Nordea Denmark

External assignments:
None

Anita Ina Nielsen
Internal assignments:
Country AML Responsible, Nordea Denmark

External assignments:
None

Marte Kopperstad
Internal assignments:
Head of Products and Business Development, Nordea BankAbp
Member of the Board of Directors of Nordea Hypotek AB (publ), Sweden
Vice Chair of the Board of Directors of Nordea Mortgage Bank Plc, Finland
Member of the Board of Directors of Nordea Direct ASA, Norway
Vice Chair of the Board of Directors of Nordea Eiendomskreditt AS, Norway
Member of the Board of Directors of BITS AS, Norway

External assignments:
None

Thomas Vedel Kristensen
Internal assignments:
Head of Core Technology, Nordea Bank Abp

External assignments:
None

Executive Management of Nordea Kredit

Kamilla Hammerich Skytte (Chief Executive Officer)
Internal assignments:
Member of the Board of Directors of Danbolig A/S

External assignments:
Member of the Board of Directors of the Association of Danish Mortgage Banks

Claus H. Greve (Deputy Chief Executive Officer)
Internal assignments:
None

External assignments:
Member of the Board of Directors of the Association of Danish Mortgage Banks

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