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Nordea Kredit Realkreditaktieselskab – Year-end Report January-December 2021 Company announcement no 12, 2022

Nordea Kredit Realkreditaktieselskab today presented the attached Year-end Report January-December 2021 with the following key points:

- 2021 was a busy year in the housing market, resulting in very high activity level at Nordea Kredit. Thanks to the great effort by colleagues in Nordea Kredit and in the customer units of Nordea more than 40.000 customers have been served with mortgage financing.
- Through the past seven quarters Nordea Kredit's retail market share has continuously increased from 16.2% to 17.1% driven by many new homeowners at Nordea Kredit and growing demand for top-up lending.
- Lending at nominal value grew by 7% in 2021 compared to 3% in 2020. Total lending measured at nominal value increased to DKK 436bn (DKK 409bn) by end of 2021 driven by strong trends within both households and corporate customers.
- Nordea Kredit's lending increased in all regions in Denmark, and approximately 16% of all loans are issued in areas with average prices per square metre of less than DKK 8,000.
- Nordea's focus on green transition was clearly reflected in Nordea Kredit's lending portfolio. The green mortgage loan offering to corporate customers reached DKK 11bn (DKK 4bn) at end-2021.
- Net interest income and commission income improved by 4% and 8%, respectively following the high lending activity.
- The transfer pricing method applied for sales and distribution fees provided by Nordea Bank has been updated to be in line with the development of OECD guidelines, leading to increased intragroup fees. This is the main explanation for the decrease in Profit before impairment losses of 37% to DKK 1,338m (DKK 2,131m).
- Impairment losses on loans significantly improved and amounted to a net reversal of DKK 82m (loss of DKK 491m) due to a low level of realised loan losses combined with a reversal of model-calculated provisions, reflecting the strong credit quality of the loan portfolio.
- Profit before tax amounted to DKK 1,419m (DKK 1,640m).

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Year-end Report 2021

Nordea Kredit Realkreditatieselskab

Financial summary

Key financial figures (DKKm)	2021	2020	Change %	2019
Income statement				
Total operating income	2,704	2,739	-1	2,685
Total operating expenses	-1,367	-608	125	-306
Profit before impairment losses on loans and receivables	1,338	2,131	-37	2,379
Impairment losses on loans and receivables	82	-491	-	-6
Profit before tax	1,419	1,640	-13	2,373
Net profit for the year	1,107	1,279	-13	1,850
Balance sheet				
Receivables from credit institutions and central banks	48,523	49,948	-3	67,462
Loans and receivables at fair value	432,280	417,553	4	404,998
Loans and receivables at nominal value ¹	436,116	409,222	7	398,497
Debt to credit institutions and central banks	14,260	4,998	185	5,597
Bonds in issue at fair value	441,234	435,055	1	440,929
Equity	22,311	22,481	-1	22,590
Total assets	481,015	467,936	3	473,277

Ratios and key figures				
Return on equity, %	4.9	5.7		8.2
Cost/income ratio	50.5	22.2		11.4
Write-down ratio, basis points	-1.9	11.7		0.1
Common equity tier 1 capital ratio, %	24.7	25.0		24.4
Tier 1 capital ratio, %	24.7	25.0		24.4
Total capital ratio, %	26.6	29.6		27.0
Own funds, DKKm	22,076	24,432		22,803
Tier 1 capital, DKKm	20,526	20,682		20,603
Risk exposure amount, DKKm	83,099	82,626		84,322
Number of employees (full-time equivalents) ²	118	116		119

¹ After adjustment for provisions for loan losses.

² End of year.

High business momentum

2021 was a busy year in the housing market, resulting in very high activity level at Nordea Kredit. Thanks to the great effort by colleagues in Nordea Kredit and in the customer units of Nordea more than 40.000 customers have been served with mortgage financing.

Through the past seven quarters Nordea Kredit's retail market share continuously increased from 16.2% to 17.1% driven by many new homeowners at Nordea Kredit and growing demand for top-up lending. Nordea Kredit has the same lending policy for all customers regardless of geography. Nordea Kredit's lending increased in all regions in Denmark, and approximately 16% of all loans are issued in areas with average prices per square metre of less than DKK 8,000.

Green mortgage loans

Nordea are committed to sustainable business and development by combining financial performance with environmental and social responsibility as well as sound governance practices.

Nordea's focus on the green transition was clearly reflected in Nordea Kredit's lending portfolio. The green mortgage loan offering to corporate customers reached DKK 11bn at end-2021 (end-2020 DKK 4bn) – equivalent to a market share of approximately 29% for bonds denominated in Danish kroner.

The green mortgage loans are based on the criteria in the Nordea Green Bond Framework and are offered for the funding of:

- Energy efficiency – DKK 6.0bn
- Buildings with energy performance certificate (EPC) ratings A or B – DKK 4.5bn
- Renewable public utilities – DKK 0.6bn
- Organic farms – DKK 0.3bn

Customer and investor feedback has been positive, and the green bonds are priced slightly better than the ordinary CIBOR6 bonds. The bonds funding the green mortgage loans have been classified as most liquid assets.

Nordea is also contributing to the green transition by offering green loans for green corporate projects where mortgage loans are not an option, but where the criteria of the Nordea Green Bond Framework are met. For personal customers, an attractive low-interest loan (Energisparelån) earmarked for energy improvements in homes is available. These bank loans supplement Nordea Kredit's portfolio of mortgage products.

Increased digitalisation

During 2021 the number of customers in scope for automated loan promises increased. The digital solution now caters for first-time buyers, potential customers and customers who need bridge financing as part of their purchase. This, combined with skilled advisers available in both online and physical channels, ensured a high number of home purchases at Nordea Kredit.

Comments on the year-end result

(The figures in brackets refer to 2020).

Financial review 2021

Lending at nominal value grew by 7% in 2021 compared to 3% in 2020. Gross new lending increased by 11% compared to 2020 and amounted to DKK 105bn (DKK95bn). Total lending measured at nominal value increased to DKK 436bn (DKK 409bn) driven by strong trends within both households and corporate customers. The growth in lending was mainly driven by new lending for change of ownership and top-up lending for household customers and by new lending to public utilities and for private rental properties for corporate customers. Net interest income and commission income improved by 4% and 8%, respectively, following the high lending activity.

Despite the positive trend in net interest income and commission income, profit before impairment losses decreased by 37% to DKK 1,338m (DKK 2,131m) due to significant increases in intragroup fees from price adjustments to the first loss guarantee from 1 July 2020 and sales and distribution services from 1 January 2021. The price adjustment to the first loss guarantee in 2020 had full-year effect in 2021. The transfer pricing method applied by Nordea to group internal sales and distribution services delivered to Nordea Kredit was updated to be in line with the development of OECD guidelines on transfer pricing.

Impairment losses on loans and receivables significantly improved and amounted to a net reversal of DKK 82m (loss of DKK 491m) due to a low level of realised loan losses combined with a reversal of model-calculated provisions, reflecting the strong credit quality of the loan portfolio.

Profit before tax amounted to DKK 1,419m (DKK 1,640m).

Operating income

Net interest income increased by 4% to DKK 3,324m (DKK 3,211m) driven by the growth in lending volumes. Average margins were as expected slightly down driven by customers who remortgaged and refinanced F1-F3 loans by either fixed-rate loans or adjustable-rate loans with a longer fixing period. The decline in average margins was to some extent offset by more customers choosing interest-only loans. 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 up by 8% to DKK 629m (DKK 584m), driven by the growth in lending volumes. Furthermore, refinancing fees increased as expected following higher refinancing volumes in 2021 compared to 2020.

Fee and commission expenses increased by 17% to DKK 1,259m (DKK 1,073m) mainly due to higher fees for the first loss guarantee from Nordea Bank following new pricing effective from 1 July 2020. The price adjustment to the first loss guarantee in 2020 had full-year effect in 2021. Property valuation fee expenses increased following the growth in lending volumes.

Staff and administrative expenses

Total staff and administrative expenses increased by DKK 759m to DKK 1,367m (DKK 608m) mainly due to an increase in sales and distribution services fees provided by Nordea Bank. From 1 January 2021 the transfer pricing method applied by Nordea to group internal sales and distribution services delivered to Nordea Kredit was updated.

Staff costs increased by 8% to DKK 116m (DKK 108m) mainly reflecting the high activity level, increased profit sharing and non-recurring items. Furthermore, the average number of full-time equivalent employees increased slightly to 118 (116). A number of temporary assignments were changed to permanent employees during 2021.

Impairment losses on loans and receivables

Impairment losses on loans and receivables significantly improved and amounted to a net reversal of DKK 82m (loss of DKK 491m) due to a low level of realised loan losses combined with a reversal of

model-calculated provisions, reflecting the strong credit quality of the loan portfolio. Loan losses for 2020 were affected by an update of the model for calculating expected credit losses and management judgements covering effects of the coronavirus pandemic as well as expected losses on loans in stage 1 covering rating migration not yet identified in the rating/scoring models.

The management judgement provision related to the coronavirus pandemic increased by DKK 22m to DKK 120m at end-2021 (DKK 98m) to cover for credit losses not captured by the impairment model.

Overall, the loan portfolio of Nordea Kredit is well diversified with robust collateral and with low exposure to industries highly exposed to the coronavirus pandemic. So far Nordea Kredit has not realised loan losses directly linked to the pandemic.

The guarantee coverage from Nordea Bank significantly reduces the risk of impairment losses on loans at Nordea Kredit. The first loss guarantees covered an unchanged share of 98% (98%) of all loans at Nordea Kredit. The write-down ratio of the loan portfolio improved to -1.9 bps (11.7 bps).

Tax

Income tax expense was DKK 312m (DKK 361m) and the effective tax rate was 22% (22%).

Net profit for the year

Net profit for the year amounted to DKK 1,107m (DKK 1,279m), corresponding to a return on equity in 2021 of 4.9% (5.7%).

Assets

Total assets increased by 3% to DKK 481bn (DKK 468bn).

Receivables from credit institutions and central banks, mainly consisting of deposits with Nordea Bank, amounted to DKK 49bn (DKK 50bn).

Loans and receivables at fair value increased to DKK 432bn (DKK 418bn), while total lending at nominal value after loan losses increased by 7% to DKK 436bn (DKK 409bn). The increase was related to both owner-occupied dwellings and commercial properties. Owner-occupied dwellings increased by 8%, commercial properties increased by 7% and agricultural properties decreased by 5%.

Table 1. Lending at nominal value by property category

DKKbn	2021	2020	Change %
Owner-occupied dwellings and holiday homes	306	283	8%
Commercial properties	92	86	7%
Agricultural properties	38	40	-5%
Total	436	409	7%

The quality of the loan portfolio continued to be strong in 2021. The accumulated loan loss provisions decreased to DKK 511m (DKK 671m). Accumulated loan loss provisions regarding stages 1, 2 and 3 amounted to DKK 60m (DKK 60m), DKK 210m (DKK 257m) and DKK 241m (DKK 354m), respectively.

The loss guarantees from Nordea Bank are first loss guarantees covering loans totalling DKK 428bn (DKK 400bn). The share of the total loans covered by the loss guarantees was 98% (98%). The loss guarantee is significantly reducing the credit risk and therefore the loan losses at Nordea Kredit.

Assets held temporarily decreased and consisted of 1 repossessed property (6) by the end of 2021 with a carrying amount of DKK 1m (DKK 6m).

Debt

Debt to credit institutions and central banks amounted to DKK 14bn (DKK 5bn), mainly consisting of short-term funding from Nordea Bank. Furthermore, debt to credit institutions included a senior non-preferred loan. Nordea Kredit raised a senior non-preferred loan of DKK 2.3bn with the parent company Nordea Bank Abp in August 2021. The loan is eligible for the debt buffer requirement.

Bonds in issue at fair value totalled DKK 441bn (DKK 435bn) after offsetting the portfolio of own bonds of DKK 11bn (DKK 12bn).

Subordinated debt

Subordinated debt decreased to DKK 1.6bn (DKK 3.8bn) as a subordinated loan of DKK 2.2bn was repaid at the call date in September 2021.

Equity

Shareholders' equity amounted to DKK 22bn (DKK 22bn) at the end of 2021. Net profit for the year was DKK 1.1bn (DKK 1.3bn).

It is proposed that the net profit of DKK 1.1bn is distributed as dividend to the parent company Nordea Bank Abp. The proposed dividend payment of DKK 1.1bn is equivalent to DKK 64 (DKK 74) per share.

Capital adequacy

At year-end the risk exposure amount (REA) of Nordea Kredit had increased by 1% to DKK 83.1bn (DKK 82.6bn). The common equity tier 1 (CET1) ratio had decreased to 24.7% (25.0%) due to the increase in REA and regulatory adjustments to the CET1 capital. The total capital ratio was down to 26.6% (29.6%) at end-2021 mainly affected by increased REA and the termination of tier 2 capital of DKK 2.2bn. The increase in REA was mainly related to exposures 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 Financial Supervisory Authority (the Danish FSA) in December 2018. Applications for regulatory approvals of redeveloped IRB models were submitted in 2021 and decisions are expected during 2022.

Leverage ratio

At year-end 2021 the leverage ratio was 4.2% (4.4%), thus meeting the minimum requirement of 3%.

Debt buffer

The debt buffer requirement was DKK 8.6bn at end-2021 (DKK 8.4bn). Nordea Kredit met the debt buffer requirement with excess CET1 capital, tier 2 capital and unsecured senior debt.

Individual solvency needs

Under Danish legislation Nordea Kredit must publish its adequate capital base as well as its individual solvency need on a quarterly basis. Information about individual solvency needs is available on www.nordea.com/en/investors/individual-solvency-need.

Changes to the Board of Directors

At the beginning of 2021 the Board of Directors consisted of Mads Skovlund Pedersen (Chair), Anne Rømer (Vice Chair and external member), Anita Ina Nielsen, Marte Kopperstad, Thomas Vedel Kristensen, Torben André Petersen and Kim Skov Jensen.

In October 2021 Kim Skov Jensen left the Board of Directors and was replaced by Anders Frank-Læssøe.

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

Changes to the Executive Management

On 29 April 2021 the former Chief Executive Officer Kamilla Hammerich Skytte left Nordea Kredit. At the same time Deputy Chief Executive Officer Claus H. Greve was appointed as interim Chief Executive Officer. Morten Boni was appointed as Chief Executive Officer on 1 August 2021 and Claus H. Greve as Deputy Chief Executive Officer.

Outlook for 2022

Nordea Kredit expects that lending volumes for both owner-occupied dwellings and commercial properties will increase in 2022, but the increase is expected to be somewhat lower than in 2021. Net interest income is expected to increase driven by higher volumes. Changes in negative interest rates on the investment of capital can also affect net interest income.

Net commission income is expected to be at the same level as in 2021.

Staff and administrative expenses are expected to increase slightly driven by group internal fees for sales and distribution services.

Loan losses are expected to be at a low level due to the strong credit quality of the lending portfolio.

On an overall level, profit before tax for 2022 is expected to be on the same level as in 2021.

Further information

This Year-end Report has not been subject to audit or review by the auditors.

The Annual Report for 2021 will be published during week 8 and will be available on www.nordeakredit.dk and www.nordea.com.

Copenhagen, 3 February 2022

Morten Boni
Chief Executive Officer

Claus H. Greve
Deputy Chief Executive Officer

Income statement

DKKm	2021	2020
Interest income	7,313	7,493
Interest expenses	-3,989	-4,282
Net interest income	3,324	3,211
Fee and commission income	629	584
Fee and commission expenses	-1,259	-1,073
Net interest and fee income	2,694	2,722
Value adjustments	1	10
Other operating income	8	6
Staff and administrative expenses	-1,367	-608
Depreciation of tangible assets	0	0
Impairment losses on loans and receivables	82	-491
Profit from investment in associated undertaking	2	1
Profit before tax	1,419	1,640
Tax	-312	-361
Net profit for the year	1,107	1,279

Statement of comprehensive income	2021	2020
Net profit for the year	1,107	1,279
Other comprehensive income, net of tax	-	-
Total comprehensive income	1,107	1,279

Attributable to		
Shareholder of Nordea Kredit Realkreditaktieselskab	1,107	1,279
Total	1,107	1,279

Balance sheet

DKKkm	31 Dec 2021	31 Dec 2020
Assets		
Cash in hand and demand deposits with central banks	0	50
Receivables from credit institutions and central banks	48,523	49,948
Loans and receivables at fair value	432,280	417,553
Loans and receivables at amortised cost	1	1
Investment in associated undertaking	22	19
Tangible assets	0	0
Deferred tax assets	1	2
Current tax assets	2	-
Assets held temporarily	1	6
Other assets	177	351
Prepaid expenses	8	6
Total assets	481,015	467,936
Debt		
Debt to credit institutions and central banks	14,260	4,998
Bonds in issue at fair value	441,234	435,055
Current tax liabilities	-	9
Other liabilities	1,644	1,624
Deferred income	16	19
Total debt	457,154	441,705
Subordinated debt		
Subordinated debt	1,550	3,750
Equity		
Share capital	1,717	1,717
Other reserves	23	21
Retained earnings	19,464	19,464
Proposed dividend	1,107	1,279
Total equity	22,311	22,481
Total equity and debt	481,015	467,936
Contingent liabilities		
Guarantees etc	0	0
Credit commitments	2,721	1,508
Total contingent liabilities	2,721	1,508