Nordea

Interim Report January-June 2018
Nordea Kredit Realkreditaktieselskab

Business registration number 15134275

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

Nordea Kredit is part of the Nordea Group. Nordea is the largest bank in the Nordic region and among the ten largest financial groups in Europe in terms of total market capitalisation with around 11 million customers.

The Nordea share is listed on the Nasdaq Stockholm, Nasdaq Helsinki and Nasdaq Copenhagen exchanges.

Read more about us on nordea.com.

Contents

Key financial figures

Income statement (DKKm)	Jan-Jun 2018	Jan-Jun 2017	Change %
Operating income			
Net interest income	1,604	1,632	-2
Net fees and commissions paid	-333	-274	22
Value adjustments	-8	11	-
Other income	2	1	-
Total operating income	**1,265**	**1,370**	**-8**
Staff and administrative expenses	-149	-153	-3
Total operating expenses	**-149**	**-153**	**-3**
Profit before impairment losses	**1,116**	**1,217**	**-8**
Impairment losses on loans and receivables	-243	-78	-
Profit before tax	**873**	**1,139**	**-23**
Tax	-192	-251	-24
Net profit for the period	**681**	**888**	**-23**

Business volumes, key items (DKKm)	30 Jun 2018	31 Dec 2017	Change %	30 Jun 2017	Change %
Loans and receivables at fair value	394,643	393,008	0	388,214	2
Loans and receivables at nominal value[1]	385,712	383,582	1	381,150	1
Bonds in issue at fair value	385,674	405,629	-5	395,871	-3
Equity	21,421	22,052	-3	21,190	1
Total assets	439,160	440,201	-0	434,459	1

Ratios and key figures	Jan-Jun 2018	Jan-Jun 2017
Return on equity[2, 3], %	6.3	8.2
Cost/income ratio	11.8	11.2
Common equity tier 1 capital ratio[3]	28.9	29.4
Tier 1 capital ratio[4]	28.9	29.4
Total capital ratio[4]	32.0	32.6
Own funds[4], DKKm	22,566	22,227
Tier 1 capital[4], DKKm	20,366	20,029
Risk exposure amount, DKKm	70,449	68,189
Write-down ratio, basis points[2, 5]	12.3	4.0
Average number of employees (full-time equivalents)	109	103

1 After adjustment for provisions for loan losses.
2 Calculated on a yearly basis.
3 Return on equity excluding the transition effect from the new impairment rules after tax was 7.5%.
4 Excluding profit for the period.
5 Write-down ratio excluding the transition effect from the new impairment rules was 3.2 bps.

Nordea Kredit Realkreditaktieselskab
Board of Directors' report

Enhancing the customer experience

In the first half of 2018, Nordea Kredit continued the work to enhance the digital value proposition further to improve the customer experience.

We are strengthening our market position by introducing new digital services and the new interest-only product called Frihed30 supported by the market-leading eBolig portal. Furthermore, the continued development of eBolig in 2018 will introduce more online solutions and possibilities in terms of increased digital communication and signing. Additional services were introduced with one-to-one service messages in relation to refinancing etc as well as the launch of the Nordea Kredit BoligNyt newsletter.

In addition, the focus is on increasing the level of automation and straight-through processing of cases through eBolig as well as introducing new case types in the digital portal to reduce lead time towards customers. To support our objective of shortening lead time on deliveries, Nordea Kredit has invested increasingly in building up our agile development set-up. This will be expanded further throughout 2018 to reach the best-in-class homeowner vision, initially focusing on an intelligent loan service and instant loan certificates.

Result summary January-June 2018

Interest income from mortgage lending developed in line with expectations. Lending volumes increased compared to the end of 2017 while administration and reserve fees were down. Profit before tax excluding the transition effect following the new impairment rules was down by 8% to DKK 1,053m (DKK 1,139m) (the comparative figures in brackets refer to the first half of 2017) mainly explained by increased commission expenses and lower interest income. Including the transition effect, profit before tax decreased by 23% to DKK 873m (DKK 1,139m). The transition effect from the new impairment rules amounted to DKK 180m. The Danish credit impairment rules was changed due to the implementation of the new international accounting standard IFRS9 "Financial instruments".

Operating income

Net interest income decreased by 2% to DKK 1,604m (DKK 1,632m) due to lower administration and reserve fee income. The customers' reorientation towards loans with principal payments resulted in lower average rates. The decrease in rates was partly offset by increased loan volumes. Furthermore, net interest income was negatively affected by negative interest income from the investment of capital.

Fee and commission income was up by 3% to DKK 249m (DKK 242m) mainly due to increased refinancing fees following more series being refinanced in 2018 and increased loan volumes.

Fee and commissions paid increased by 13% to DKK 582m (DKK 516m) mainly due to fee expenses related to a liquidity support agreement with Nordea Danmark, filial af Nordea Bank AB (publ), Sverige. Furthermore, guarantee commissions increased, reflecting an increase in volumes being covered by the guarantee provided by Nordea Danmark, filial af Nordea Bank AB (publ), Sverige.

Value adjustments amounted to DKK -8m (DKK 11m) mainly due to a negative revaluation of own positions.

Staff and administrative expenses

Total staff and administrative expenses decreased by 3% to DKK 149m (DKK 153m). Excluding non-recurring costs, total staff and administrative expenses decreased by 6% to DKK 144m. The decrease was related to lower administrative expenses following cost savings initiatives. Staff costs were up mainly due to non-recurring transformation costs and a slightly higher number of FTEs.

Impairment losses on loans and receivables

Impairment losses on loans and receivables increased to DKK 243m (DKK 78m) following the implementation of the new impairment rules.

The transition effect from the new impairment rules amounted to DKK 180m. Excluding the transition effect, impairment losses on loans and receivables decreased from DKK 78m in the first half of 2017 to DKK 63m in the first half of 2018 following an improvement in credit quality and high guarantee coverage from Nordea Danmark, filial af Nordea Bank AB (publ), Sverige. The first loss guarantees covered 97% (96% at end-2017) of the loans. The quantitative impact from the new impairment rules was higher than the expected level of DKK 70m in the annual report of 2017 mainly due to management judgement on the collective provisions to cover for credit impairment not captured by the model-based calculations.

The loan loss ratio excluding the transition effect decreased to 3.2 bps (4.0 bps) of the loan portfolio. Including the transition effect, the loan loss ratio increased to 12.3 bps.

Under the new impairment rules, all performing exposures are classified as either stage 1 or 2. Stage 1 if the credit quality of the exposure is unchanged and stage 2 if the credit quality has significantly deteriorated. All exposures are subject to model-calculated provisions. Credit-impaired loans are classified as stage 3. Provisions for stage 3 exposures are to a large extent measured on an individual assessment basis replacing the model-calculated provisions.

Tax

Income tax expense was DKK 192m (DKK 251m) and the effective tax rate was 22% (22%).

Net profit for the period

Net profit for the period, excluding the transition effect after tax, decreased to DKK 821 (DKK 888m), corresponding to a return on equity in the first half of 2018 of 7.5% (8.2%). Including the transition effect, net profit for the period decreased to DKK 681m, corresponding to a return on equity in the first half of 2018 of 6.3% (8.2%).

Comments on the balance sheet

Assets

Total assets decreased slightly to DKK 439bn (DKK 440bn at end-2017).

Receivables from credit institutions and central banks decreased to DKK 43bn (DKK 46bn at end-2017).

Loans and receivables at fair value increased to DKK 395bn (DKK 393bn at end-2017), while total mortgage lending at nominal value after loan losses increased by 1% to DKK 386bn (DKK 384bn at end-2017). The increase was related to both owner-occupied dwellings and other commercial properties due to increased activity with existing customers and an improved market position in the corporate segment, while agriculture decreased somewhat. Gross new lending increased by 25% compared to the first half of 2017.

The arrears rate for owner-occupied dwellings and holiday homes (the 3.5-month arrears rate) for the January 2018 payment date was unchanged at 0.16% (0.16% at end-2017) compared to the arrears rate for the sector at 0.20%. The arrears rate for the March 2018 payment date continued the downward trend and was 0.17%.

Accumulated loan losses increased by DKK 186m to DKK 434m (DKK 248m at end-2017) mainly related to the implementation of the new impairment rules. Accumulated loan losses regarding stages 2 and 3 amounted to DKK 101m and DKK 333m, respectively.

Assets held temporarily remained at a low level and consisted of a total of 20 repossessed properties at the end of June 2018 (24 at end-2017) with a carrying amount of DKK 28m (DKK 27m at end-2017).

Debt

Debt to credit institutions and central banks was up by DKK 19bn to DKK 27bn (DKK 8bn at end-2017), affected by an increased volume of repurchase transactions.

Bonds in issue at fair value were down DKK 20bn to DKK 386bn (DKK 406bn at end-2017) after offsetting the portfolio of own bonds.

Equity

Including the net profit for the period, total equity accounted for DKK 21bn at the end of June 2018 (DKK 22bn at end-2017).

Development in the property market

Owner-occupied dwellings and holiday homes

The housing market has been picking up for some time, and price rises have now rippled through to most parts of Denmark, with a clear majority of Danes living somewhere where prices are rising.

The largest price increases have occurred around the Copenhagen area and Aarhus. Here large urbanization has helped push up demand while supply has been restricted by a scarcity of land.

The solid improvement in the housing market is also reflected in turnover. For single-family houses it is at the highest level for almost ten years, but with considerable geographical differences.

The high level of trading activity is also reflected in the number of houses for sale, which has fallen to the lowest level since 2008.

We see no signs of an overheating of the housing market in Denmark as a whole, but there is cause for concern about price increases for owner-occupied flats in the Copenhagen area, Aarhus and Aalborg as the price 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 incomes.

We expect house prices to rise by 3-3.5% annually in 2018 and 2019. This is a lower growth rate than in the previous years, but still a growth rate that is higher than can be expected in the long run.

Commercial properties

In the first half of 2018, the market for commercial properties continued the positive trend around the largest cities. In the smaller cities and outskirt areas, the transaction level remained lower, and the location and usability determine the demand. A similar trend in the market is expected for the rest of 2018.

The high demand for residential rental properties continued in the first half of 2018, primarily around Copenhagen, Aarhus and the larger cities. The market for well-situated properties is driven by high demand from Danish as well as foreign investors. A similar trend is expected for the rest of 2018.

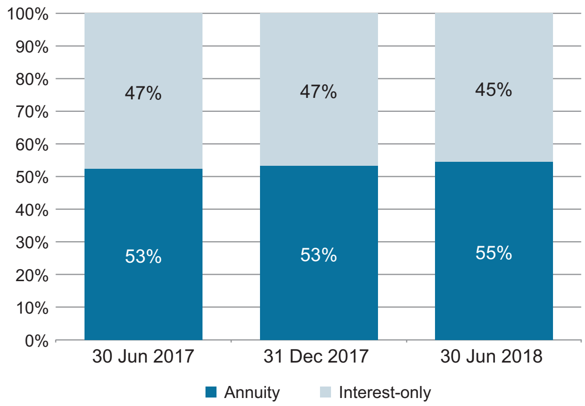
In agriculture, the trend for 2018 is expected to be at the average level but lower compared to 2017 because of falling sales prices for milk and for pig production in particular. Unusually dry and hot weather in May/June can challenge the results for 2018 for crop and livestock production. Crop properties and land are still seeing good trading activity. Overall, the prices of agricultural properties are stable, which is expected to continue for the rest of 2018. However, as a consequence of falling sales prices for milk and pig production, the trading activity of livestock properties can once again come under pressure in some areas.

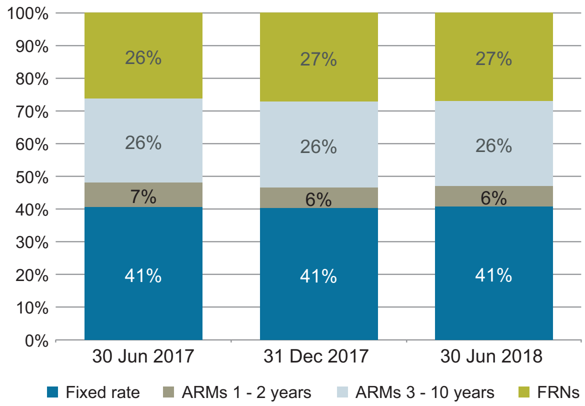
Nordea Kredit's lending

The loan portfolio

At the end of June 2018 total lending at nominal value after loan losses amounted to DKK 386bn (DKK 384bn at end-2017).

Total loan portfolio by loan type





Fixed-rate loans constitute a large and stable share of the portfolio of 41%. The most popular adjustable-rate loans are F5 loans and floating-rate notes (FRNs). FRNs include Kort Rente and Cibor loans.

Interest-only lending is on a downward trend. At end-June 2018 interest-only loans accounted for

45% of the portfolio – 2% points below the level 12 months earlier.

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

The LTV ratio for total lending at Nordea Kredit was unchanged at 60% at the end of the first half of 2018 (60% at end-2017).

The supplementary collateral required on the basis of the LTV ratios for the individual loans was DKK 12bn at the end of June 2018 (DKK 13bn at end-2017).

Bond issuance

Rating

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

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

Funding

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

Bond issuance before redemptions amounted to DKK 102bn nominal in the first half of 2018 (DKK 38bn in the first half of 2017) following more series being refinanced in 2018.

At the end of June 2018, the total nominal value of bonds issued to finance mortgage loans, before offsetting the portfolio of own bonds, amounted to DKK 437bn (DKK 424bn at end-2017). The fair value of the total volume of bonds issued at the end of June 2018 was DKK 386bn (DKK 406bn at end-2017), after offsetting the portfolio of own bonds.

Systemically important financial institution

Nordea Kredit was on 21 June 2018 reappointed as a systemically important financial institution (SIFI) in Denmark. Nordea Kredit was appointed a SIFI for the first time following the legal structure change of the Nordea Group at 2 January 2017. The reappointment was due to Nordea Kredit's significant lending volumes and balance sheet.

Capital adequacy

The tier 1 capital ratio excluding the net profit for the period was 28.9% (29.7% at end-2017) and the total capital ratio excluding the net profit for the period was 32.0% (32.9% at end-2017). The ratios decreased slightly over the period. This was mainly a result of the increased REA related to credit risk on the Retail IRB portfolio.

Capital requirements

REA, own funds and capital ratios are calculated according to the CRD IV/CRR.

According to the CRR, local authorities have the option to phase in the new requirements. This option has been used by the Danish FSA in a number of cases. The capital conservation buffer (CCoB) will be phased in from 2016 to 2019. The buffer is 1.875% in 2018 and 2.5% when fully phased in. The countercyclical capital buffer (CCyB) will be phased in from 2015 to 2019. The Danish Minister for Industry, Business and Financial Affairs has announced that the CCyB will increase from 0% to 0.5% with effect from 31 March 2019. The systemic risk buffer (SRB) requirement for systemically important institutions will be phased in between 2015 and 2019. The buffer for Nordea Kredit is 1.2% in 2018 and 1.5% when fully phased in. In addition to this, there is a pillar II requirement that is set on an individual basis.

In relation to the implementation of IFRS 9 from 1 January 2018, credit institutions were given an option to use a transition rule on balances measured at amortised cost regarding the impact on own funds. Nordea Kredit does not use this option.

Debt buffer requirement

As part of the implementation of the Bank Recovery and Resolution Directive (BRRD) in Denmark, mortgage institutions such as Nordea Kredit must fulfil a debt buffer requirement of 2%

of nominal lending. The requirement is 1.6% from June 2018 and 2.0% when fully implemented in June 2020. The capital requirement is fulfilled using tier 1 or tier 2 capital instruments.

The Danish Financial Business Act was amended in May 2018 regarding the minimum requirement for the debt buffer. However, the main principle for mortgage institutions with a parent company inside the EU was 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.

Individual solvency needs

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

Liquidity coverage ratio (LCR)

The common European LCR requirement has been effective from October 2015. For Nordea Kredit, the LCR requirement is 100%, as specified by the Delegated Act. In addition, Nordea Kredit has an 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 the end of June 2018 the LCR requirement that was the binding constraint on the liquidity buffer was the pillar I requirement as specified by the Delegated Act, and the LCR was 126%.

Supervisory diamond

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

At the end of June 2018 Nordea Kredit complied with all the benchmarks in the supervisory diamond for mortgage institutions except for lending growth in the segment cooperative dwellings and residential rental properties. The lending volumes in this segment are relatively small compared to the total lending balance. Lending volumes are closely monitored by the established credit processes at Nordea Kredit. Lending growth to this segment was 15.46% at 30 June 2018 and is expected to be below the recommended 15% by the end of 2018.

The supervisory diamond

	30 June 2018	Limit
1. Lending growth		
• Owner-occupied dwellings and holiday homes	0%	15%
• Cooperative dwellings and residential rental properties	15%	15%
• Agriculture	-2%	15%
• Other	-1%	15%
2. Borrower's interest rate risk[1]	16%	25%
3. Interest-only lending[2]	8%	10%
4. Short-term funding[3]		
• Annually	21%	25%
• Quarterly	10%	12.5%
5. Large exposures[4]	30%	100%

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

Improved compliance set-up

Nordea Kredit has established an independent compliance function, which identifies and monitors the compliance risks of Nordea Kredit. A major part of the activities within the compliance function is to provide advice to the business on compliance risk-related matters. The compliance function applies the same reporting principles and processes as the Nordea Group's compliance organisation.

Risks and uncertainties

See Note 7 for information about risks and uncertainties.

Income statement

DKKm	Note	Jan-Jun 2018	Jan-Jun 2017	Full year 2017
Interest income		4,380	4,791	9,460
Interest expense		-2,776	-3,159	-6,190
Net interest income	2	**1,604**	**1,632**	**3,270**
Fee and commission income		249	242	549
Fees and commissions paid		-582	-516	-1,134
Net interest and fee income		**1,271**	**1,358**	**2,685**
Value adjustments	3	-8	11	3
Other operating income		3	1	7
Staff and administrative expenses		-149	-153	-314
Depreciation of tangible assets		0	0	0
Impairment losses on loans and receivables	4	-243	-78	-143
Profit from equity investment in associated undertaking		-1	0	4
Profit before tax		**873**	**1,139**	**2,242**
Tax		-192	-251	-492
Net profit for the period		**681**	**888**	**1,750**

Statement of comprehensive income

DKKm	Jan-Jun 2018	Jan-Jun 2017	Full year 2017
Net profit for the period	**681**	**888**	**1,750**
Other comprehensive income, net of tax	-	-	-
Total comprehensive income	**681**	**888**	**1,750**

Balance sheet

DKKm	Note	30 Jun 2018	31 Dec 2017	30 Jun 2017
Assets				
Cash in hand and demand deposits with central banks		300	300	300
Receivables from credit institutions and central banks		43,368	46,220	45,507
Loans and receivables at fair value	5	394,643	393,008	388,214
Investment in associated undertaking		18	19	16
Tangible assets		0	0	0
Current tax assets		-	4	-
Deferred tax assets		1	1	1
Assets held temporarily		28	27	22
Other assets		773	609	373
Prepaid expenses		29	13	26
Total assets		**439,160**	**440,201**	**434,459**
Debt				
Debt to credit institutions and central banks		27,477	7,636	12,567
Bonds in issue at fair value		385,674	405,629	395,871
Current tax liabilities		75	-	161
Other liabilities		2,288	2,660	2,426
Prepaid income		25	24	44
Total debts		**415,539**	**415,949**	**411,069**
Subordinated debt				
Subordinated debt		2,200	2,200	2,200
Equity				
Share capital		1,717	1,717	1,717
Other reserves		19	20	16
Retained earnings		19,685	19,003	19,457
Proposed dividend		-	1,312	-
Total equity		**21,421**	**22,052**	**21,190**
Total liabilities and equity		**439,160**	**440,201**	**434,459**
Contingent liabilities				
Guarantees etc		75	74	74
Credit commitments		1,278	1,761	2,619
Total contingent liabilities		**1,353**	**1,835**	**2,693**

Statement of changes in equity

DKKm	Share capital	Other reserves[1]	Retained earnings	Proposed dividend	Total
Balance at 1 Jan 2018	1,717	20	19,003	1,312	22,052
Net profit for the period	-	-1	682	-	681
Other comprehensive income	-	-	-	-	-
Dividends paid	-	-	-	-1,312	-1,312
Proposed dividend	-	-	-	-	-
Balance at 30 Jun 2018	**1,717**	**19**	**19,685**	**-**	**21,421**
Balance at 1 Jan 2017	1,717	16	18,569	1,678	21,980
Net profit for the period	-	4	1,746	-	1,750
Other comprehensive income	-	-	-	-	-
Dividends paid	-	-	-	-1,678	-1,678
Proposed dividend	-	-	-1,312	1,312	-
Balance at 31 Dec 2017	**1,717**	**20**	**19,003**	**1,312**	**22,052**
Balance at 1 Jan 2017	1,717	16	18,569	1,678	21,980
Net profit for the period	-	-	888	-	888
Other comprehensive income	-	-	-	-	-
Dividends paid	-	-	-	-1,678	-1,678
Proposed dividend	-	-	-	-	-
Balance at 30 Jun 2017	**1,717**	**16**	**19,457**	**-**	**21,190**

1 Reserve for net revaluation according to the equity method.

Notes to the financial statements

Note 1
Accounting policies

Basis of presentation
The interim report of Nordea Kredit 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 (the Executive Order), as well as the Nasdaq OMX Nordic rules for issuers of bonds.

The accounting policies and methods of computation are the same as for the annual report for 2017 except for changes following the implementation of IFRS 9 mentioned below under "Changed accounting estimate". For more information see Note 1 in the annual report for 2017.

The financial statements have not been reviewed or audited.

Changed accounting estimate
Nordea Kredit implemented the amendments to the Executive Order at 1 January 2018. The Executive Order adopted changes in IFRS 9 regarding classification, measurement and impairment.

The classification and measurement requirements in the Executive Order state that financial assets and liabilities should be classified as and measured at 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).

Based on the analyses of the business model and the SPPI review, no changes were identified. Mortgage loans and the related bonds issued are according to the Executive Order classified at fair value through profit and loss.

The fair value of mortgage loans is measured based on the underlying market and credit risks. The market risk is based on the fair value of the bonds issued. The credit risk is measured based on the impairment rules for loans at amortised costs with relevant fair value adjustments. Following the amendments to the Executive Order, the measurement of credit risk was changed from an incurred loss model to an expected loss model.

The expected credit loss (ECL) is 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.

The ECL is measured based on a distribution of loans and receivables into three groups depending on the stage of credit deterioration:

- Stage 1 ECL includes loans and receivables where management has assessed that there has been an 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 ECL 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 ECL includes credit-impaired loans and receivables.

All exposures in stages 1 and 2 are subject to model-calculated provisions. For stage 3 exposures the measurement of the impairment loss is made on either an individual basis or by using the model also used for stages 1 and 2.

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.

The quantitative impact from the new impairment rules was an increase of DKK 180m before taxes at 1 January 2018. The increase in total provisions was recognised in the income statement as a change of estimates in the first half of 2018 as the change in impairment rules is a part of the fair value calculation of the mortgage loans.

Notes to the financial statements

Note 2
Net interest income

DKKm	Jan-Jun 2018	Jan-Jun 2017	Full year 2017
Interest income			
Receivables from credit institutions and central banks[1]	-124	-108	-227
Loans and receivables at fair value	2,810	3,185	6,266
Administration and reserve fees receivable	1,687	1,709	3,407
Other interest income	7	5	14
Total interest income	**4,380**	**4,791**	**9,460**
Interest expense			
Debt to credit institutions and central banks[2]	17	9	25
Bonds in issue at fair value	-2,780	-3,155	-6,188
Subordinated debt	-13	-13	-27
Total interest expense	**-2,776**	**-3,159**	**-6,190**
Net interest income	**1,604**	**1,632**	**3,270**
[1] Of which negative interest income	-124	-108	-227
[2] Of which positive interest expense	17	11	27

Note 3
Value adjustments

DKKm	Jan-Jun 2018	Jan-Jun 2017	Full year 2017
Mortgage loans	-964	-164	1,372
Foreign exchange gains/losses	0	0	0
Interest rate derivatives	-42	-56	-79
Bonds in issue[1]	998	231	-1,290
Total	**-8**	**11**	**3**

[1] Including value adjustments on own positions.

Note 4
Impairment losses on loans and receivables

DKKm	Jan-Jun 2018
Transition effect from new impairment rules	**-180**
Impairment losses, stage 2	
New and increased impairment charges	-27
Reversals of impairment charges	18
Impairment losses on loans and receivables, non-credit impaired	**-9**
Stage 3, credit impaired	
Realised loan losses	-66
Decrease in impairment charges to cover realised loan losses	64
Recoveries on previous realised loan losses	6
New and increased impairment charges	-358
Reversals of impairment charges	300
Impairment losses on loans and receivables, credit impaired	**-54**
Impairment losses on loans and receivables	**-243**

DKKm	Jan-Jun 2017	Full year 2017
Realised loan losses	-111	-200
Decrease in impairment charges to cover realised loan losses	104	185
Recoveries on previous realised loan losses	6	11
New and increased impairment charges	-152	-295
Reversals of impairment charges	75	156
Impairment losses on loans and receivables	**-78**	**-143**

Note 5
Loans and receivables at fair value

DKKm	30 Jun 2018	31 Dec 2017	30 Jun 2017
Mortgage loans, nominal value			
Value at beginning of period	383,830	383,363	383,363
New loans (gross new lending)	32,448	70,000	26,038
Foreign exchange revaluations	11	22	4
Redemptions and prepayments	-26,163	-59,672	-24,394
Net new lending for the period	6,296	10,350	1,648
Scheduled principal payments	-3,980	-9,883	-3,606
Mortgage loan portfolio at end of period	**386,146**	**383,830**	**381,405**
Mortgage loans, fair value			
Nominal value	386,146	383,830	381,405
Adjustment for interest rate risk etc	8,741	9,198	6,864
Adjustment for credit risk	-434	-248	-255
Mortgage loan portfolio	394,453	392,780	388,014
Mortgage arrears and execution levied against debtors' properties	190	228	200
Loans and receivables at fair value	**394,643**	**393,008**	**388,214**

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

DKKm	Stage 1	Stage 2	Stage 3	Total
Balance at 1 Jan 2018[1]	-	92	336	428
New and increased impairment charges	-	27	355	382
Reversals of impairment charges	-	-18	-299	-317
Write-off through decrease in allowance account	-	-	-57	-57
Other changes[2]	-	-	-2	-2
Closing balance at 30 June 2018	**-**	**101**	**333**	**434**

1 The balance at 1 Jan 2018 includes individual and collective impairment charges of DKK 248m at 31 Dec 2017 and the transition effect from the new impairment rules DKK 180m, in total DKK 428m.
2 Relates to transfer of impairment charges on loans to Assets held temporarily.

Note 6
Capital adequacy

DKKm	30 Jun 2018	31 Dec[1] 2017	30 Jun 2017
Calculation of own funds			
Equity	20,740	22,052	20,302
Proposed/actual dividend	-	-1,312	-
Common equity tier 1 capital before regulatory adjustments	**20,740**	**20,740**	**20,302**
IRB provisions shortfall (-)	-374	-324	-299
Other items, net	-	27	26
Total regulatory adjustments to common equity tier 1 capital	-374	-297	-273
Common equity tier 1 capital (net after deduction)	**20,366**	**20,443**	**20,029**
Tier 1 capital (net after deduction)	**20,366**	**20,443**	**20,029**
Tier 2 capital before regulatory adjustments	2,200	2,200	2,200
IRB provisions excess (+) / shortfall (-)	-	25	28
Other items, net	-	-32	-30
Total regulatory adjustments to tier 2 capital	**-**	**-7**	**-2**
Tier 2 capital	**2,200**	**2,193**	**2,198**
Own funds (net after deduction)	**22,566**	**22,636**	**22,227**

1 Including profit for the year.

Note 6
Capital adequacy *(continued)*

Minimum capital requirement and risk exposure amount (REA)

DKKm	30 Jun 2018 Minimum capital requirement	30 Jun 2018 REA	31 Dec 2017 Minimum capital requirement	31 Dec 2017 REA	30 Jun 2017 Minimum capital requirement	30 Jun 2017 REA
Credit risk	**5,255**	**65,687**	**5,202**	**65,024**	**4,980**	**62,251**
- of which counterparty credit risk	44	555	29	360	24	302
IRB	4,653	58,156	4,590	57,372	4,430	55,380
- sovereign	3	38	6	68	1	15
- corporate	2,255	28,176	2,257	28,218	2,098	26,230
- advanced	2,255	28,176	2,257	28,218	2,098	26,230
- institutions	1	7	1	7	0	1
- retail	2,339	29,241	2,293	28,665	2,315	28,938
- secured by immovable property collateral	2,249	28,112	2,193	27,411	2,175	27,188
- other retail	90	1,129	100	1,254	140	1,750
- other	55	694	33	414	16	196
Standardised	602	7,531	612	7,652	550	6,871
- central governments or central banks	0	3	0	3	0	3
- institutions	600	7,501	610	7,621	548	6,843
- equity	2	27	2	28	2	25
Market risk	**-**	**-**	**-**	**-**	**-**	**-**
Operational risk	**327**	**4,091**	**310**	**3,874**	**310**	**3,874**
- standardised	327	4,091	310	3,874	310	3,874
Additional risk exposure amount due to Article 3 of the CRR	54	671	-	-	165	2,064
Subtotal	**5,636**	**70,449**	**5,512**	**68,898**	**5,455**	**68,189**
Adjustment for transition rules						
Additional capital requirement according to transition rules	-	-	8,885	111,065	8,255	103,190
Total	**5,636**	**70,449**	**14,397**	**179,963**	**13,710**	**171,379**

Note 6
Capital adequacy *(continued)*

Minimum capital requirement and capital buffers

Per cent, 30 Jun 2018	Minimum capital requirements	Capital buffers					Total
		CCoB	CCyB	SII	SRB	Capital buffers total	
Common equity tier 1 capital	4.5	1.9	0.0	-	1.2	3.1	7.6
Tier 1 capital	6.0	1.9	0.0	-	1.2	3.1	9.1
Own funds	8.0	1.9	0.0	-	1.2	3.1	11.1

DKKm, 30 Jun 2018							
Common equity tier 1 capital	3,170	1,321	6	-	845	2,172	5,342
Tier 1 capital	4,227	1,321	6	-	845	2,172	6,399
Own funds	5,636	1,321	6	-	845	2,172	7,808

Common equity tier 1 available to meet capital buffers

Percentage points of REA	30 Jun 2018	31 Dec[1] 2017	30 Jun 2017
Common equity tier 1 capital	22.9	23.7	23.4

1 Including profit for the year.

Capital ratios

Capital ratios (%)	30 Jun 2018	31 Dec[1] 2017	30 Jun 2017
Common equity tier 1 capital ratio	28.9	29.7	29.4
Tier 1 capital ratio	28.9	29.7	29.4
Total capital ratio	32.0	32.9	32.6

1 Including profit for the year.

Leverage ratio	30 Jun 2018	31 Dec[1] 2017	30 Jun 2017
Tier 1 capital, transitional definition, DKKm	20,366	20,443	20,029
Leverage ratio exposure, DKKm	439,302	440,635	435,001
Leverage ratio	4.6	4.6	4.6

1 Including profit for the year.

Note 7
Risks and uncertainties

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

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

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

Note 8
The Danish Financial Supervisory Authority's ratio system

	Jan-Jun 2018	Jan-Jun 2017	Full year 2017
Total capital ratio	32.0	32.6	32.9
Tier 1 capital ratio	28.9	29.4	29.7
Pre-tax return on equity, %	4.0	5.3	10.2
Post-tax return on equity, %	3.1	4.1	7.9
Income/cost ratio	3.2	5.9	5.9
Foreign exchange exposure as % of tier 1 capital	0.9	0.2	0.6
Impairment ratio for the period	0.1	0.1	0.0
Lending growth for the period, %	0.6	-0.5	0.1
Loans/equity	18.0	18.3	17.4
Return on assets, %	0.2	0.2	0.4

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

Glossary

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

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

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

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

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

Risk exposure amount
Total assets and off-balance sheet items valued on the basis of the credit and market risks, as well as operational risks 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. The common equity tier 1 capital ratio is calculated as common equity tier 1 capital as a percentage of risk exposure amount.

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

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

Statement by the Board of Directors and the Executive Management

The Board of Directors and the Executive Management have discussed and approved the interim report of Nordea Kredit Realkreditaktieselskab for the half-year ending 30 June 2018.

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

It is our opinion that the financial statements give a true and fair view of the company's financial position at 30 June 2018 and of the results of the company's operations for the half-year ending 30 June 2018.

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

Copenhagen, 19 July 2018

Board of Directors

Frank Vang-Jensen (Chairman)	Nicklas Ilebrand (Vice Chairman)	Kim Skov Jensen
Torben Laustsen	Jørgen Holm	Anne Rømer

Executive Management

Peter Smith (Chief Executive Officer)	Claus H. Greve (Deputy Chief Executive Officer)	Kamilla Hammerich Skytte (Deputy Chief Executive Officer)

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