

Year-end Report 2017

Nordea Kredit Realkreditaktieselskab

Financial summary

Key financial figures (DKKm)	2017	2016	Change %	2015
Income statement				
Total operating income	2,695	2,583	4	2,267
Total operating expenses	-314	-293	7	-241
Impairment losses on loans and receivables	-143	-138	4	-114
Profit before tax	2,242	2,152	4	1,913
Net profit for the year	1,750	1,679	4	1,464
Balance sheet				
Receivables from credit institutions and central banks	46,220	45,985	1	50,916
Loans and receivables at fair value	393,008	390,028	1	385,583
Debt to credit institutions and central banks	7,636	4,515	69	24,608
Bonds in issue at fair value	405,629	405,197	0	389,568
Equity	22,052	21,980	0	20,301
Total assets	440,201	437,012	1	437,867

Ratios and key figures

Return on equity, %	7.9	7.9	7.5
Cost/income ratio	11.7	11.3	10.6
Total capital ratio, excl Basel I floor ^{1, 2}	32.9	35.3	29.7
Tier 1 capital ratio, excl Basel I floor ^{1, 2}	29.7	31.8	29.7
Tier 1 capital ¹ , DKKm	20,443	20,040	19,971
Risk exposure amount, excl Basel I floor, DKKm	68,898	62,954	67,191
Number of employees (full-time equivalents) ²	111	103	101

¹ Including profit for the year.

² The ratios are reported under the Basel III (CRR/CRD IV) framework.

Improved customer experience

Nordea Kredit worked with Nordea in 2017 to improve the customer experience and services provided. One of the focus areas was to increase the availability for the customers in the form of increased self-service opportunities and to shorten processing time. Further development of the eBolig portal in 2017 also gave customers more digital solutions and possibilities which supports the customer experience.

Nordea Kredit has increased the volumes in the corporate segment as a result of large wins and removed the fees for new household customers joining Nordea Kredit. This initiative will continue throughout 2018.

Comments on the year-end result

(The figures in brackets refer to 2016.)

Nordea Kredit's net profit for the year improved by 4% to DKK 1,750m (DKK 1,679m), and the average lending volumes were stable compared to 2016. Higher guarantee commission expenses and lower volumes being refinanced compared to last year resulted in reduced net fee and commission income. Operating expenses were driven up by digitalisation initiatives as part of the transformational shift at Nordea. Furthermore, net profit for 2017 was somewhat

affected by cost items related to regulatory SIFI requirements. All in all, the net profit for the year was in line with expectations.

Income from administration and reserve fees increased by 8% to DKK 3,407m (DKK 3,165m) following the adjusted pricing for household customers at 1 October 2016. The impact from household customers moving from 1-2-year adjustable-rate mortgage (ARM) loans to other loan types was lower than expected as customers are reacting more slowly than expected to the behavioural intentions of the adjusted pricing structure.

Fee and commission income was down by DKK 69m to DKK 549m mainly due to decreasing refinancing fees caused by fewer series being refinanced in 2017, but also reflecting lower refinancing volumes.

Fee and commission expense increased by 10% to DKK 1,134m (DKK 1,032m) mainly due to fee expenses related to a new liquidity support agreement for 2017 and higher guarantee commissions, reflecting an increase in volumes being covered by the guarantee provided by Nordea Danmark. Furthermore, fee and commission expense is affected by a full year of expenses related to primary dealer agreements that came into effect on 1 July 2016.

Value adjustments was up by DKK 7m to DKK 3m (DKK -4m) mainly due to a positive revaluation of own positions.

Staff costs were unchanged at DKK 92m (DKK 92m). Staff costs were affected by a higher number of FTEs following the SIFI announcement, the annual salary increase and the higher payroll tax rate which increased from 13.6% in 2016 to 14.1% in 2017. In 2016 staff costs were affected by a non-recurring provision. The average number of full-time equivalent employees in 2017 was 106 (100).

Due to increased investments in the eBolg portal and the new loan calculator, which made it easier for customers to manage their loans, administrative expenses increased by DKK 21m to DKK 222m (DKK 201m).

Impairment losses on loans and receivables amounted to DKK 143m (DKK 138m), corresponding to 0.04% (0.04%) of the loan portfolio. Loan losses on individually assessed loans decreased to DKK 121m compared to DKK 161m in 2016 due to the positive trend in housing prices. Loan losses on collectively assessed loans stood at DKK 22m compared to a net reversal of DKK 23m in 2016.

Comments on the balance sheet

Assets

Total assets remained stable at DKK 440bn (DKK 437bn).

Receivables from credit institutions and central banks, mainly consisting of deposits with Nordea Danmark, remained stable at DKK 46bn (DKK 46bn).

Loans and receivables at fair value were positively affected by higher market prices and were up by DKK 3bn to DKK 393bn (DKK 390bn). Total lending at nominal value after loan losses increased slightly to DKK 384bn (DKK 383bn) related to commercial properties. Owner-occupied dwellings remained unchanged, other commercial properties increased by 2.5% and agricultural properties decreased by 3.3%, which was in line with expectations.

Table 1. Lending at nominal value by property category

DKKbn	2017	2016	Change %
Owner-occupied dwellings and holiday homes	259	259	0.0%
Commercial properties	80	77	2.5%
Agricultural properties	45	47	-3.3%
Total	384	383	0.1%

The quality of the loan portfolio is considered satisfactory and accumulated provisions continued to decrease to DKK 248m (DKK 270m), corresponding to 0.06% (0.07%) of the loan portfolio. Provisions for individually assessed loans were down compared to 2016 and accounted for DKK 203m (DKK 246m).

Loss guarantees from Nordea Danmark increased to DKK 106bn (DKK 104bn) at end-2017, covering loans totalling DKK 370bn (DKK 364bn). The share of the loans covered by the loss guarantees has increased to 96% (95%). The loss guarantee is in general a first loss guarantee, reducing the loan losses at Nordea Kredit.

Assets in temporary possession consisted of a total of 24 (25) repossessed properties by the end of 2017 held at a value of DKK 27m (DKK 28m). All the repossessed properties are owner-occupied dwellings.

Liabilities

Debt to credit institutions and central banks amounted to DKK 8bn (DKK 5bn). The increase was due to an increase in the short-term funding from Nordea Danmark including repo transactions.

Bonds in issue at fair value totalled DKK 406bn (DKK 405bn) after offsetting the portfolio of own bonds of DKK 28bn (DKK 25bn).

Equity

Shareholders' equity amounted to DKK 22bn (DKK 22bn) at the end of 2017. Net profit for the year was DKK 1.8bn (DKK 1.7bn).

It is proposed that DKK 1.3bn of the net profit of DKK 1.8bn should be distributed as dividend and the remaining amount of DKK 0.5bn should be transferred to retained earnings in equity. The proposed dividend payment of DKK 1.3bn is equivalent to DKK 76 (DKK 98) per share.

Capital adequacy

At year-end the risk exposure amount of Nordea Kredit was DKK 68.9bn (DKK 63.0bn). The common equity tier 1 ratio was 29.7% (31.8%) and the total capital ratio was 32.9% (35.3%) at end-2017.

The Board of Directors confirms the assumption that Nordea Kredit is a going concern, and the annual financial statements have been prepared based on this assumption.

The individual solvency need (ISN) ratio increased in the first quarter of 2017 to 14.0% from 13.1%. The increase was an outcome of a reassessment made on various pillar 2 items.

The pillar 2 add-ons relate among other things to retail and corporate risk exposure adjustments and governance of the IRB system and modelling. Included is also an add-on for interest rate risk in the banking book and operational risk from inspections relating to IT and key processes.

The Danish FSA's implementation of new impairment rules from 1 January 2018

In order to implement IFRS 9 'Financial Instruments' the Danish FSA has amended the Executive Order on financial reports for credit institutions etc (the Executive Order). The amended Executive Order implements the principles for classification and measurement of financial instruments, including impairment of loans due to credit risk, from IFRS 9 'Financial instruments'. The Executive Order is effective as from the reporting periods beginning on or after 1 January 2018.

The quantitative impact from the new impairment rules is expected to be an increase in the level of DKK 70m before taxes. Total provisions amounted to DKK 248m at the end of 2017 and the increase in total provisions will be accounted for in the income statement in 2018 as the change in impairment rules are a part of the fair value calculation of the loans and thereby considered a change in estimates. The final impact for 2018 is dependent on the exposures on Nordea Kredit's balance sheet as well as Nordea Kredit's macroeconomic forecasts.

Changes to the Board of Directors

The Board of Directors of Nordea Kredit was changed when the previous chairman, Peter Lybecker, retired from the Nordea Group in May 2017. Frank Vang-Jensen was appointed a member of the Board of Directors at an extraordinary general meeting on 30 May 2017. The Board of Directors appointed Frank Vang-Jensen as Chairman at 2 June 2017.

After the change, the Board of Directors consists of Frank Vang-Jensen (Chairman), Nicklas Ilebrand (Vice Chairman), Jørgen Holm, Torben Laustsen, Kim Skov Jensen and Anne Rømer (external member).

Changes to the Executive Management

Kamilla Hammerich Skytte joined the Executive Management on 22 May 2017.

The Executive Management now consists of Chief Executive Officer Peter Smith, Deputy Chief Executive Officer Claus H. Greve and Deputy Chief Executive Officer Kamilla Hammerich Skytte.

Outlook for 2018

Nordea Kredit will continue to focus on the customers and the customer experience through better digital solutions along with relevant and timely advice and improved availability. The property market is expected to continue the positive trends, leading to continued high activity and higher prices of owner-occupied dwellings in most parts of the country. The same trend is also expected for holiday homes in certain areas of the country.

On the corporate market, volumes are expected to increase in line with 2017, but still within the overall strategy of ensuring profitability in all customer relationships.

On the agricultural market, volumes are expected to remain stable or decline slightly due to relatively low investment activity in the agricultural segment.

Nordea Kredit expects the positive market trends together with continued improved services to lead to higher borrowing and thereby somewhat higher interest income. Customers switching to loans with lower administration and reserve fees will, however, offset some of the effect.

Net commission income is expected to increase slightly due to higher activity and due to higher volumes being refinanced in 2018.

Total expenses are expected to decrease mainly driven by lower IT costs. The strong focus on digitalisation will continue, although with somewhat lower costs compared to 2017.

The quality of the loan portfolio is expected to continue to improve. However, 2018 will be affected by higher loan losses due to the implementation of new impairment rules.

The overall expectation is therefore that the profit for 2018 will be in line with 2017.

Further information

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

The Annual Report for 2017 will be published during week 7 (the week starting 12 February) and the report will be available on nordeakredit.dk and nordea.dk.

Copenhagen, 25 January 2018

Peter Smith
Chief Executive Officer

Claus H. Greve
Deputy Chief Executive Officer

Kamilla Hammerich Skytte
Deputy Chief Executive Officer

Income statement

DKKm	2017	2016
Operating income		
Interest income	9,460	10,149
Interest expense	-6,190	-7,157
Net interest income	3,270	2,992
	-	-
Fee and commission income	549	618
Fee and commission expense	-1,134	-1,032
Net interest and fee income	2,685	2,578
Value adjustments	3	-4
Other operating income	7	8
Staff costs and administrative expenses	-314	-293
Depreciation and amortisation of tangible assets	0	0
Impairment losses on loans and receivables	-143	-138
Profit from investment in associated undertaking	4	1
Profit before tax	2,242	2,152
Tax	-492	-473
Net profit for the year	1,750	1,679
Statement of comprehensive income	2017	2016
Net profit for the year	1,750	1,679
Other comprehensive income, net of tax	-	-
Total comprehensive income	1,750	1,679
Attributable to		
Shareholder of Nordea Kredit Realkreditaktieselskab	1,750	1,679
Total	1,750	1,679

Balance sheet

DKKm	31 Dec 2017	31 Dec 2016
Assets		
Cash balance with central banks	300	375
Receivables from credit institutions and central banks	46,220	45,985
Loans and receivables at fair value	393,008	390,028
Investment in associated undertaking	19	15
Tangible assets	0	0
Current tax assets	4	-
Deferred tax assets	1	1
Assets in temporary possession	27	28
Other assets	609	575
Prepaid expenses	13	5
Total assets	440,201	437,012
Liabilities and equity		
Liabilities		
Debt to credit institutions and central banks	7,636	4,515
Bonds in issue at fair value	405,629	405,197
Current tax liabilities	-	13
Other liabilities	2,660	3,072
Deferred income	24	35
Total liabilities	415,949	412,832
Provisions		
Deferred tax liabilities	-	-
Total provisions	-	-
Subordinated debt		
Subordinated debt	2,200	2,200
Equity		
Share capital	1,717	1,717
Other reserves	20	16
Retained earnings	19,003	18,569
Proposed dividends	1,312	1,678
Total equity	22,052	21,980
Total liabilities and equity	440,201	437,012
Contingent liabilities		
Guarantees etc	74	74
Credit commitments	1,761	1,599
Total contingent liabilities	1,835	1,673