

# Year-end Report 2018

## Nordea Kredit Realkreditaktieselskab

### Financial summary

Key financial figures (DKKm)	2018	2017	Change %	2016
<b>Income statement</b>				
Total operating income	2,540	2,695	-6	2,583
Total operating expenses	-286	-314	-9	-293
Impairment losses on loans and receivables	-215	-143	50	-138
Profit before tax	2,042	2,242	-9	2,152
Net profit for the year	1,593	1,750	-9	1,679
<b>Balance sheet</b>				
Receivables from credit institutions and central banks	43,440	46,220	-6	45,985
Loans and receivables at fair value	394,916	393,008	0	390,028
Loans and receivables at nominal value <sup>1</sup>	387,159	383,582	1	383,093
Debt to credit institutions and central banks	10,841	7,636	42	4,515
Bonds in issue at fair value	400,817	405,629	-1	405,197
Equity	22,333	22,052	1	21,980
Total assets	438,825	440,201	0	437,012

<b>Ratios and key figures</b>				
Return on equity, %	7.2	7.9		7.9
Cost/income ratio	11.3	11.7		11.3
Write-down ratio, basis points <sup>2</sup>	5.4	3.6		3.5
Common equity tier 1 capital ratio, %	23.9	29.7		31.8
Tier 1 capital ratio, %	23.9	29.7		31.8
Total capital ratio, %	26.5	32.9		35.3
Own funds, DKKm	22,463	22,636		22,192
Tier 1 capital, DKKm	20,263	20,443		20,040
Risk exposure amount, DKKm	84,807	68,898		62,954
Number of employees (full-time equivalents) <sup>3</sup>	113	111		103

<sup>1</sup> After adjustment for provisions for loan losses.

<sup>2</sup> Write-down ratio excluding the transition effect from the new impairment rules was 0.9 bps.

<sup>3</sup> End of year.

### Enhancing the customer experience

In 2018, Nordea Kredit continued the work to enhance the digital value proposition further to improve the customer experience. Nordea Kredit is strengthening its market position by introducing new digital services supported by the market-leading eBoling portal.

Nordea improved its overall value proposition to its customers by introducing the new bank mortgage product named BoligPuls, supplementing Nordea Kredit's portfolio of mortgage products. Furthermore, Nordea Kredit also introduced the new interest-only product called Frihed30.

The continued development of eBolig introduced more online solutions and possibilities in terms of increased digital communication and signing. Furthermore, a new digital "What can I afford?" feature was introduced in November, paving the way for digital loan certificates in 2019. 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, 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 in building up an agile development set-up to reach the best-in-class homeowner vision, initially focusing on a smooth loan service and instant loan certificates.

Nordea Kredit continued to strengthen collaboration with the danbolig chain of estate agents in 2018, to improve customer experience in connection with the valuation of customers' properties.

### **Comments on the year-end result**

(The figures in brackets refer to 2017).

Nordea Kredit's focus on income-generating activities combined with strong cost control, which reduced total costs by 9%, and the low level of credit losses resulted in a performance for 2018 in line with expectations.

Profit before tax excluding the transition effect following the new impairment rules was down by 1% to DKK 2,222m (DKK 2,242m) mainly explained by lower interest income and increased commission expenses. Including the transition effect, profit before tax decreased by 9% to DKK 2,042m (DKK 2,242m). The transition effect from the new impairment rules amounted to DKK 180m. The Danish credit impairment rules were changed due to the implementation of the new international accounting standard IFRS 9 "Financial instruments".

### **Operating income**

Net interest income decreased by 2% to DKK 3,190m (DKK 3,270m) due to lower income from administration and reserve fees caused by the customers' reorientation towards loans with principal payments. This resulted as expected in lower average rates. The decrease in rates was partly offset by slightly increased loan volumes. Furthermore, net interest income was affected by negative interest income from the investment of capital.

Fee and commission income was down by 1% to DKK 542m (DKK 549m) mainly related to lower remortgaging activity as interest rates did not fluctuate as much as in 2017. Furthermore, as the only Danish mortgage institution Nordea Kredit offered a fee-free transfer of mortgage loans for new customers in 2018. Refinancing fees were up as expected following the large Cita and Cibor series that were refinanced in 2018.

Fees and commissions paid increased by 4% to DKK 1,177m (DKK 1,134m) mainly due to higher guarantee commissions, reflecting increased volumes being covered by the guarantee provided by Nordea Bank.

Value adjustments amounted to DKK -18m (DKK 3m) due to a negative revaluation of own positions.

### **Staff and administrative expenses**

Total staff and administrative expenses were down by 9% to DKK 286m (DKK 314m).

Staff costs increased by 15% to DKK 106m (DKK 92m). Excluding non-recurring costs, staff costs increased by 11% to DKK 102m. Staff costs were up mainly due to non-recurring transformation costs, a higher number of FTEs and the annual salary increase. The average number of full-time equivalent employees was 110 (106).

Administrative expenses decreased by 19% to DKK 180m (DKK 222m), generally reflecting the focus on cost-saving measures. IT expenses were down despite the pressure on costs coming from the strong focus on digitalisation that continued in 2018.

#### **Impairment losses on loans and receivables**

Impairment losses on loans and receivables increased to DKK 215m (DKK 143m) 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 143m in 2017 to DKK 35m in 2018, reflecting the high credit quality and the guarantee coverage from Nordea Bank. The quantitative impact from the new impairment rules was higher than the expected level of DKK 70m mentioned in the annual report for 2017 mainly due to a management judgement on the collective provisions to cover for credit impairment not captured by the model-based calculations.

The agricultural sector was affected by the drought during the summer, depending on the location and line of production. The drought reduced the output from the harvest for the farmers and resulted in increased corn prices. The higher corn prices put pressure on farmers with livestock production. Milk sales prices are reasonable while pork sales prices are at the lowest level for several years. The drought did not result in significant impairment losses for Nordea Kredit in 2018, however, trends in the agricultural sector are followed closely.

The write-down ratio excluding the transition effect improved and amounted to 0.9 bps (3.6 bps) of the loan portfolio. Including the transition effect, the write-down ratio increased to 5.4 bps.

#### **Tax**

Income tax expense was DKK 449m (DKK 492m) and the effective tax rate was 22% (22%).

#### **Net profit for the year**

Net profit after tax for the year, excluding the transition effect, was slightly down to DKK 1,733m (DKK 1,750m), corresponding to a return on equity in 2018 of 7.8% (7.9%). Including the transition effect, net profit for the year decreased to DKK 1,593m, corresponding to a return on equity in 2018 of 7.2% (7.9%).

### **Comments on the balance sheet**

#### **Assets**

Total assets remained stable at DKK 439bn (DKK 440bn).

Receivables from credit institutions and central banks, mainly consisting of deposits with Nordea Bank, decreased to DKK 43bn (DKK 46bn).

Loans and receivables at fair value increased to DKK 395bn (DKK 393bn), while total lending at nominal value after loan losses increased by 1% to DKK 387bn (DKK 384bn). The increase was related to both owner-

occupied dwellings and commercial properties. Owner-occupied dwellings increased by 1%, commercial properties increased by 2% and agricultural properties decreased by 2%, which was in line with expectations.

**Table 1. Lending at nominal value by property category**

DKKbn	2018	2017	Change %
Owner-occupied dwellings and holiday homes	262	259	1%
Commercial properties	81	80	2%
Agricultural properties	44	45	-2%
<b>Total</b>	<b>387</b>	<b>384</b>	<b>1%</b>

The quality of the loan portfolio is considered satisfactory. The accumulated loan loss provisions increased to DKK 323m (DKK 248m), mainly related to the implementation of the new impairment rules. Accumulated loan loss provisions regarding stages 2 and 3 amounted to DKK 83m and DKK 240m, respectively.

Loss guarantees from Nordea Bank increased to DKK 107bn (DKK 106bn) at end-2018, covering loans totalling DKK 375bn (DKK 370bn). The share of the loans covered by the loss guarantees increased to 97% (96%). The loss guarantee is in general a first loss guarantee, reducing the loan losses at Nordea Kredit.

Assets held temporarily consisted of a total of 26 (24) repossessed properties by the end of 2018 with a carrying amount of DKK 59m (DKK 27m). All the repossessed properties are owner-occupied dwellings.

#### **Debt**

Debt to credit institutions and central banks amounted to DKK 11bn (DKK 8bn). The rise was due to an increase in the short-term funding from Nordea Bank including repo transactions.

Bonds in issue at fair value totalled DKK 401bn (DKK 406bn) after offsetting the portfolio of own bonds of DKK 24bn (DKK 28bn).

#### **Equity**

Shareholders' equity amounted to DKK 22bn (DKK 22bn) at the end of 2018. Net profit for the year was DKK 1.6bn (DKK 1.8bn).

It is proposed that the net profit of DKK 1.6bn is distributed as dividend. The proposed dividend payment of DKK 1.6bn is equivalent to DKK 93 (DKK 76) per share.

#### **Capital adequacy**

When Nordea moved the domicile of its parent company to Finland on 1 October 2018, the overall supervisory responsibility for Nordea moved to the European Central Bank (ECB). As part of the ECB decision to grant Nordea temporary tolerance for continued use of the internal ratings-based (IRB) models for calculation of risk exposure amounts (REA), Nordea was required to migrate some pillar 2 add-ons into pillar 1 REA.

In December 2018 the Danish FSA approved that Nordea Kredit can continue to calculate its capital requirement in accordance with the IRB approach if Nordea Kredit complies with the conditions in accordance with the ECB ruling of 16 August 2018 for Nordea. As part of the approval for temporary use of internal models, Nordea has committed to a model improvement development plan with applications expected no later than 2020.

At year-end the REA of Nordea Kredit was DKK 84.8bn (DKK 68.9bn). The common equity tier 1 ratio was 23.9% (29.7%) and the total capital ratio was 26.5% (32.9%) at end-2018. The increase in REA and the decrease in both capital ratios are mainly due to the migration of pillar 2 add-ons into pillar 1 REA, with no material change in own funds or the underlying risk of Nordea Kredit's exposures.

### **Changes to the Executive Management**

At 6 February 2019 deputy Chief Executive Officer Claus H. Greve was appointed interim Chief Executive Officer until the recruitment of a new Chief Executive Officer has been finalized. At the same time the present Chief Executive Officer Peter Smith leaves Nordea Kredit.

The Executive Management then consist of Claus H. Greve (Interim CEO) and Kamilla Hammerich Skytte (Deputy CEO).

### **Changes to the Board of Directors**

The Board of Directors of Nordea Kredit was expanded when Anita Nedergaard Nielsen was appointed a member of the Board of Directors at an extraordinary general meeting on 22 November 2018. Frank Vang-Jensen left the Board of Directors at the end of November 2018. The Board of Directors appointed Nicklas Ilebrand as Chairman on 1 December 2018. Mads Skovlund Pedersen was appointed a member of the Board of Directors at an extraordinary general meeting on 10 December 2018.

After the changes, the Board of Directors consists of Nicklas Ilebrand (Chairman), Mads Skovlund Pedersen (Vice Chairman), Jørgen Holm, Torben Laustsen, Kim Skov Jensen, Anita Nedergaard Nielsen and Anne Rømer (external member).

### **Outlook for 2019**

Nordea Kredit will continue to improve the customer experience through better digital solutions along with relevant and timely advice and improved availability for the customers. Nordea Kredit expects that the market for flats will show modest price growth in 2019 with a growth rate close to zero in Copenhagen, Aarhus and Aalborg, while the market for houses is expected to see a higher price growth rate. Together with the continued improvement of customer services, this is expected to lead to higher borrowing and consequently somewhat higher interest income. However, customers switching to loans with lower administration and reserve fees is expected to offset some of the increase in interest income.

On the corporate market, volumes are expected to increase in line with 2018, but still within the overall strategy of ensuring profitability in all customer relationships. On the agricultural market, volumes are expected to decline slightly due to the economic outlook for the agricultural sector.

Net commission income is expected to increase a little due to higher activity

Total expenses are expected to decrease slightly compared to 2018.

Based on the macroeconomic outlook and the high quality of the loan portfolio, loan losses are expected to remain on a low level.

On an overall level the profit for 2019 is expected to be in line with 2018.

### **Further information**

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

The Annual Report for 2018 will be published during week 8 (the week starting 18 February) and the report will be available on [nordeakredit.dk](http://nordeakredit.dk) and [nordea.dk](http://nordea.dk).

Copenhagen, 6 February 2019

Claus H. Greve  
Interim Chief Executive Officer

Kamilla Hammerich Skytte  
Deputy Chief Executive Officer

## Income statement

DKKm	2018	2017
<b>Operating income</b>		
Interest income	8,636	9,460
Interest expense	-5,446	-6,190
<b>Net interest income</b>	<b>3,190</b>	<b>3,270</b>
Fee and commission income	542	549
Fee and commission expense	-1,177	-1,134
<b>Net interest and fee income</b>	<b>2,555</b>	<b>2,685</b>
Value adjustments	-18	3
Other operating income	3	7
Staff costs and administrative expenses	-286	-314
Depreciation and amortisation of tangible assets	0	0
Impairment losses on loans and receivables	-215	-143
Profit from investment in associated undertaking	3	4
<b>Profit before tax</b>	<b>2,042</b>	<b>2,242</b>
Tax	-449	-492
<b>Net profit for the year</b>	<b>1,593</b>	<b>1,750</b>
<b>Statement of comprehensive income</b>	<b>2018</b>	<b>2017</b>
Net profit for the year	1,593	1,750
Other comprehensive income, net of tax	-	-
<b>Total comprehensive income</b>	<b>1,593</b>	<b>1,750</b>
<b>Attributable to</b>		
Shareholder of Nordea Kredit Realkreditaktieselskab	1,593	1,750
<b>Total</b>	<b>1,593</b>	<b>1,750</b>

## Balance sheet

DKKm	31 Dec 2018	31 Dec 2017
<b>Assets</b>		
Cash balance with central banks	225	300
Receivables from credit institutions and central banks	43,440	46,220
Loans and receivables at fair value	394,916	393,008
Loans and receivables at amortised cost	1	-
Investment in associated undertaking	22	19
Tangible assets	-	0
Current tax assets	-	4
Deferred tax assets	1	1
Assets in temporary possession	59	27
Other assets	150	609
Prepaid expenses	11	13
<b>Total assets</b>	<b>438,825</b>	<b>440,201</b>
<b>Liabilities and equity</b>		
<b>Liabilities</b>		
Debt to credit institutions and central banks	10,841	7,636
Bonds in issue at fair value	400,817	405,629
Current tax liabilities	15	-
Other liabilities	2,600	2,660
Deferred income	19	24
<b>Total liabilities</b>	<b>414,292</b>	<b>415,949</b>
<b>Provisions</b>		
Deferred tax liabilities	-	-
<b>Total provisions</b>	<b>-</b>	<b>-</b>
<b>Subordinated debt</b>		
Subordinated debt	2,200	2,200
<b>Equity</b>		
Share capital	1,717	1,717
Other reserves	23	20
Retained earnings	19,000	19,003
Proposed dividends	1,593	1,312
<b>Total equity</b>	<b>22,333</b>	<b>22,052</b>
<b>Total liabilities and equity</b>	<b>438,825</b>	<b>440,201</b>
<b>Contingent liabilities</b>		
Guarantees etc	75	74
Credit commitments	1,232	1,761
<b>Total contingent liabilities</b>	<b>1,307</b>	<b>1,835</b>