Annual Report 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 Helsinki, Nasdaq Copenhagen and Nasdaq Stockholm exchanges. Read more about us on nordea.com.

Contents

Key financial figures

Income statement, key items (DKKm)	2018	2017	Change %	2016	2015
Total operating income	2,540	2,695	-6	2,583	2,267
Total operating expenses	-286	-314	-9	-293	-241
Impairment losses on loans and receivables	-215	-143	50	-138	-114
Profit before tax	2,042	2,242	-9	2,152	1,913
Net profit for the year	1,593	1,750	-9	1,679	1,464

Balance sheet, key items (DKKm)	2018	2017	Change %	2016	2015
Receivables from credit institutions and central banks	43,440	46,220	-6	45,985	50,916
Loans and receivables at fair value	394,916	393,008	0	390,028	385,583
Loans and receivables at nominal value[1]	387,159	383,582	1	383,093	383,773
Debt to credit institutions and central banks	10,841	7,636	42	4,515	24,608
Bonds in issue at fair value	400,817	405,629	-1	405,197	389,568
Equity	22,333	22,052	1	21,980	20,301
Total assets	438,825	440,201	0	437,012	437,867

Ratios and key figures	2018	2017		2016	2015
Return on equity, %	7.2	7.9		7.9	7.5
Cost/income ratio	11.3	11.7		11.3	10.6
Write-down ratio, basis points[2]	5.4	3.6		3.5	3.0
Common equity tier 1 capital ratio, %	23.9	29.7		31.8	29.7
Tier 1 capital ratio, %	23.9	29.7		31.8	29.7
Total capital ratio, %	26.5	32.9		35.3	29.7
Own funds, DKKm	22,463	22,636		22,192	19,971
Tier 1 capital, DKKm	20,263	20,443		20,040	19,971
Risk exposure amount, DKKm	84,807	68,898		62,954	67,191
Number of employees (full-time equivalents)[3]	113	111		103	101

[1] After adjustment for provisions for loan losses.
[2] The write-down ratio excluding the transition effect from the new impairment rules was 0.9 bps.
[3] 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 2017.

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 eBolig 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 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

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 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 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%
Total	**387**	**384**	**1%**

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 the IRB model related to the 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 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.

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.

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 were in effect by January 2018. The two benchmarks for interest-only lending and short-term funding will have effect from 2020.

At the end of December 2018 Nordea Kredit complied with all the benchmarks in the supervisory diamond for mortgage institutions.

Table 2. The supervisory diamond

	2018	Limit
1. Lending growth		
• Owner-occupied dwellings and holiday homes	1%	15%
• Residential rental properties	4%	15%
• Agriculture	-2%	15%
• Other	1%	15%
2. Borrower's interest rate risk[1]	16%	25%
3. Interest-only lending[2]	8%	10%[5]
4. Short-term funding[3]		
• Annually	19%	25%[5]
• Quarterly, max 2018	10%	12.5%[5]
5. Large exposures[4]	31%	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.
[5] In effect from 2020.

New legislation

Capital regulation
On 14 March 2018 the European Commission submitted a proposal to the European Council to amend the Capital Requirements Regulation (CRR) with regard to minimum loss coverage for new non-performing exposures (NPEs). On 18 December 2018 co-legislators reached a provisional agreement which resulted in a final compromise text. The prioritisation of the remaining regulatory process indicates that an entry into force may take place early in 2019.

During 2018 it was decided to increase the countercyclical buffer rate. The Danish Minister for Industry, Business and Financial Affairs decided in Q1 2018 to increase the buffer from 0% to 0.5% with effect from 31 March 2019 and in Q3 2018 further to 1.0% with effect from 30 September 2019.

The capital conservation buffer (CCoB) will be phased in from 2016 to 2019. The buffer was 1.875% in 2018. In addition to this, the systemic risk buffer (SRB) requirement for systemically important institutions will be phased in between 2015 and 2019. Nordea Kredit has been reappointed as a systemically important financial institution (SIFI) and thereby subject to a 1.5% SRB requirement when fully phased in. The buffer in 2018 was 1.2%.

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 15 June 2018 and 2.0% when fully implemented in June 2020. The capital requirement can be fulfilled using tier 1, tier 2 and tier 3 capital 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.

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 will be implemented in 2022 and includes revisions to credit risk, operational risk, credit valuation adjustment (CVA) risk and leverage ratio and introduces a new output floor. In addition, revisions to market risk (the so-called Fundamental Review of the Trading Book) were initially agreed in 2016, with a revision published on 14 January 2019, and will be implemented together with the Basel IV package in 2022.

On credit risk, the package includes revisions to both the internal ratings-based (IRB) approach, where restrictions to the use of IRB for certain exposures are implemented, as well as to the standardised approach. For operational risk, the three approaches currently existing will be removed and replaced with one standardised approach to be used by all banks. On CVA risk, the internally modelled approach is removed and the standardised approach is revised. The package also includes the implementation of a minimum leverage ratio requirement of 3% to be met with tier 1 capital with an additional leverage ratio buffer requirement for global systemically important banks (G-SIBs).

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 risk, market risk and operational risk. The floor will be phased in, starting with 50% from 2022, to be fully implemented at 72.5% from 1 January 2027.

Before being applicable to Nordea, the Basel IV package must 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. In May 2018, the European Commission made a "Call for Advice" to the European Banking Authority (EBA) on the impact of an implementation of the Basel IV package into EU regulations to which the EBA will reply by 30 June 2019.

The property market

The economy

The global economy entered 2018 on a positive note, but is currently facing several obstacles. The trade dispute between the US and mainly China has escalated and has already had a noticeable impact on global growth. Any further escalation will weaken international trade and may ultimately affect Denmark's exports and imports.

Furthermore, the Brexit negotiations are proving to be more difficult than expected, and there is a risk that the EU and the UK cannot reach an agreement. In that case, Danish exporters could risk facing tariffs on their UK exports, and the uncertainty will most likely be a major drag to economic growth in all of Europe.

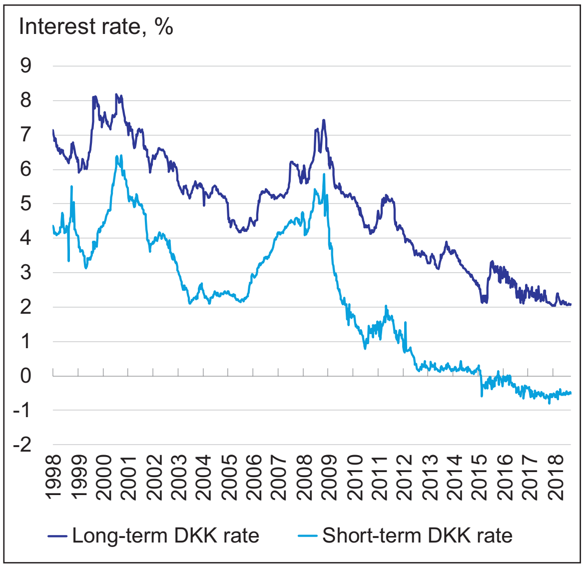
Additionally, at the same time most major central banks are preparing or have already started their exits from exceptionally loose monetary policies. Together with continued uncertainty, this can underpin growth in the major economies and act as a brake on the global economy. Still, growth is expected to hold up relatively well in 2019.

In Denmark, the economy is currently in an economic boom phase and is experiencing one of the longest periods of continuous growth. Employment is rising rapidly, and unemployment is at the lowest level for more than nine years. There is a solid foundation for the upswing to continue, with growth in private consumption and investment as its main driving forces.

Households are generally optimistic, but have not unduly raised their consumption, which is quite different to the pattern seen prior to the last crisis. Increasing household consumption has been tightly aligned with rising incomes, and the propensity to consume – the share of a household's disposable income spent on consumption – is currently much lower than in the 2000s. Back then households were spending more money than they earned. Today the situation has reversed. Households have become much more inclined to save their money, and credit growth to households is largely non-existent.

The biggest risk for the Danish economy is the risk of overheating. In contrast to many other European countries, Danish government finances are healthy and sustainable. The Danish economy has entered the sixth year of the upswing as measured by employment growth, and it appears to be increasingly difficult to find labour for further economic growth without notable wage growth.

Figure 1. Mortgage interest rates



Property prices and market activity

Owner-occupied dwellings

Since 2012, the market for flats in the largest cities in Denmark has been growing fast, while the market for single-family houses has been growing at a more modest pace. In 2018, this pattern changed and more subdued price growth for flats than for houses is now evident. This trend is set to continue in 2019. Therefore, the double-digit growth rates in prices of flats are believed to have ended now, and the market for houses is expected to be the primary price driver in 2019.

The new situation in the market for flats is also reflected in declining sales activity and in an increase in the number of flats for sale – though both are still at decent levels. This could indicate that price increases for owner-occupied flats in the large cities and especially Copenhagen have peaked for the time being. Copenhagen was also the first city to show signs of dampening during the cyclical reversal in the mid-2000s.

Generally, modest growth in the market for flats is expected in the time ahead, though rising interest rates and new property valuations and taxation – which will especially affect very expensive flats – could cause some turbulence in the coming years.

In Copenhagen, Aarhus and Aalborg a growth rate close to zero is expected, which must be seen in light of the already high level of prices and the restrictions introduced at the beginning of 2018 on borrowers' choice of loan type. The markets for flats in these three cities make up less than 7% of the total owner-occupied housing market in Denmark, so most Danish homeowners can look forward to decent price increases.

Rising house prices reflect rising incomes, general economic growth and very low interest rates. These are all factors which are expected to continue in the coming years, and while there are signs of rising interest rates, overall housing market growth should not be derailed.

The biggest risk in the Danish housing market is clearly that interest rates face severe upward pressure.

Commercial properties

The transaction level for rental properties is decreasing. The transaction level for retail and investment properties is also decreasing, but this depends on the segment. For example the market for office and logistics properties is still very good.

The market for residential rental properties is also under pressure. In Copenhagen and other major cities a considerable supply of newly built housing puts pressure on rental prices, and investors in residential rental properties are consequently more reluctant to invest.

In agriculture, the results for 2018 are expected to be lower than in previous years due to falling sales prices for livestock production and a low harvest volume following the drought in 2018. The outbreak of African swine fever in wild boar in Belgium has affected the meat market in the EU and sales prices. Mink production is also under pressure as fur prices have been below the production price.

The outlook for 2019 seems reasonable for milk production but still not satisfactory for pig production. Furthermore, African swine fever has come closer to Denmark. An outbreak of African swine fever in Denmark will have a negative effect on prices and demand for Danish pork. African swine fever therefore gives rise to some uncertainty.

In 2018, trading activity for land and crop properties was good and prices were stable. Both well-capitalised neighbour farmers and external investors saw secure capitalisation and reasonable returns by investing in land. The turnover of especially livestock properties was influenced by the low harvest volume and low sales prices. The supply of properties for sale is expected to rise, and trading activity of livestock properties is expected to come under pressure.

Nordea Kredit's lending

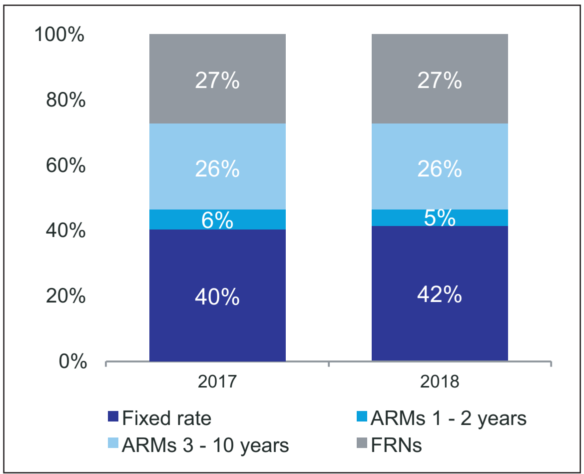
The loan portfolio

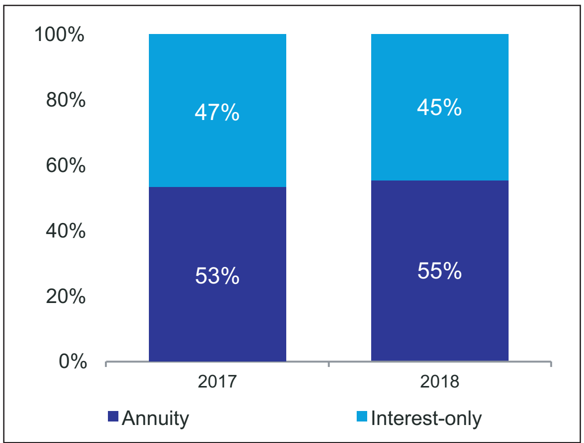
Total lending at nominal value after loan losses amounted to DKK 387bn by end-2018 (DKK 384bn).

Fixed-rate loans constitute a large and increasing share of the portfolio. By end-2018 42% of the portfolio was fixed-rate loans. The second-most popular loan type in 2018 was F5 loans followed by floating-rate products for corporate customers (Cibor) and personal customers ("Kort Rente").

Interest-only loans continue to decrease. At end-2018 interest-only loans amounted to 45% of total lending, a decrease of 2% points compared to end-2017.

Figure 2. Total loan portfolio by loan type





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

The loan to value (LTV) ratio for total lending at Nordea Kredit was down by 1.6% points to 58.6% (60.2%) at end-2018.

Due to an overall continued positive trend in house prices, the LTV ratio for owner-occupied dwellings decreased by 2.1% points to 63.5% (65.6%). Rising property prices also caused the LTV ratio for rental properties to decrease by 1.8% points to 52.3% and the LTV ratio for commercial properties to decline by 1.0% point to 47.2%.

The supplementary collateral required based on the LTV ratios for the individual loans was DKK 11bn at end-2018 (DKK 13bn).

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 on www.nordeakredit.dk, Investor information.

Bond issuance

Rating

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

Bond issuance before redemptions amounted to DKK 145bn nominal in 2018 (DKK 130bn), all financed by means of covered bonds. The increase mainly related to refinancing.

At end-2018 the total outstanding nominal value of bonds, before offsetting the portfolio of own bonds, amounted to DKK 417bn (DKK 424bn). Of this amount, mortgage bonds accounted for DKK 4bn (DKK 9bn) and covered mortgage bonds accounted for DKK 413bn (DKK 415bn). At end-2018 the fair value of the total outstanding volume of bonds was DKK 401bn (DKK 406bn) after offsetting the portfolio of own bonds.

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 5% at end-2018, while adjustable-rate mortgages with longer interest reset periods (F3-F5) amounted to 26% of the portfolio. Adjustable-rate mortgage loans for DKK 16.6bn, DKK 10.2bn and DKK 12.8bn were refinanced as of January 2018, April 2018 and October 2018, respectively.

Floating-rate loans based on Cibor and Cita fixings ("Cibor6" and "Kort Rente" loan products) are currently refinanced as of July.

The refinancing as of July 2018 amounted to DKK 36.8bn. Floating-rate loans accounted at end-2018 for 27% of the total loan portfolio of Nordea Kredit.

Refinancing auctions during 2018 resulted in low interest rates for customers. The interest rate for adjustable-rate mortgage loans with refinancing in January 2019 was fixed at -0.14% for a 30-year annuity loan with reset every three years (F3).

Risk and capital management

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 effective risk, liquidity and capital management principles and controls are in place at Nordea Kredit.

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 Chief Executive Officer (CEO) of Nordea Kredit. The CRO has the overall functional 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 Risk Management and Group Finance & Treasury.

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 deputy-CEO 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, responsibilities of the CCO and forms part of Nordea Kredit's internal control framework. The Compliance Function utilises the functional framework within Group Risk & Compliance, Group Compliance.

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 and the individual solvency need (ISN) 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 2018 in accordance with the Capital Requirements Regulation (CRR), which is based on the Basel III framework issued by the Basel Committee on Banking Supervision. The report is available on www.nordea.com.

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 authorities 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 based on mandates and instructions from 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 risks
Nordea Kredit is exposed to credit risk on borrowers. The credit risk materialises if the borrowers are not able to fulfil their payment obligations or the value of the property that has been used as collateral for their loans falls below what is sufficient to cover their mortgage loans.

As a consequence of Nordea Kredit's mortgage loans being offered in return for collateral in the form of property, the credit risk also depends on the general price trends on the property market. In connection to this there is a risk that economic developments affect one or more customer segments or industries in such a way that it increases the number of customers in arrears and loss reservations as well as eventual losses.

To mitigate the credit risk, loss guarantees are provided by Nordea Bank covering the 25% first loss of the principal of mortgage loans disbursed.

Measurement of loans and receivables at fair value due to changes in underlying credit risk
The Danish FSA has amended the Executive Order on financial reports for credit institutions etc in order to implement IFRS 9 "Financial instruments". The amended Executive Order changes the principles for measuring loans and receivables at fair value due to changes in the underlying credit risk. The impairment requirements are based on an expected loss model as opposed to the incurred loss model applied before the amendment of the Executive Order.

The assets to be tested for changes in underlying credit risk are divided into three groups depending on the stage of credit deterioration. Stage 1 includes assets 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. Stage 2 includes assets where there has been a significant increase in credit risk and stage 3 includes credit-impaired assets. All assets are assessed individually for staging. Significant assets in stage 3 are tested for impairment either on an individual basis or by using a statistical model. Assets in stage 1 and stage 2 are tested for impairment by using a statistical model. Impairment testing applies three forward-looking and weighted scenarios.

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

Calculation of provisions regarding changes in underlying credit risk
A change in the underlying 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 taken into account). 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 underlying credit risk is executed quarterly. One important driver for provisions is the trigger for transferring assets from stage 1 to stage 2. For assets recognised from 1 January 2018 changes to the lifetime probability of default (PD) 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 as a net amount of the portfolio. In stages 2 and 3, the provisions equal the lifetime expected loss. The output is complemented with an expert-based analysis process to ensure adequate provisioning.

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.

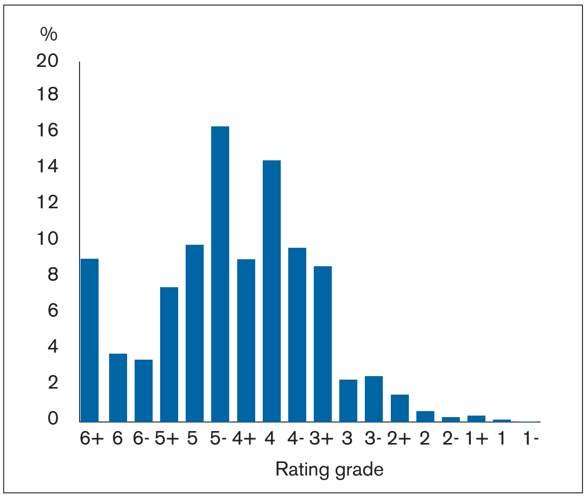
The provisioning for credit-impaired exposures is either calculated individually or by the statistical model.

Forbearance
Forbearance is negotiated terms or restructuring due to the borrower experiencing or 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 amortisation profile or reduced administration and reserve fee due to financial stress. Forbearance is undertaken on a selective and individual basis and followed by impairment testing. Loan loss provisions are recognised if necessary.

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.

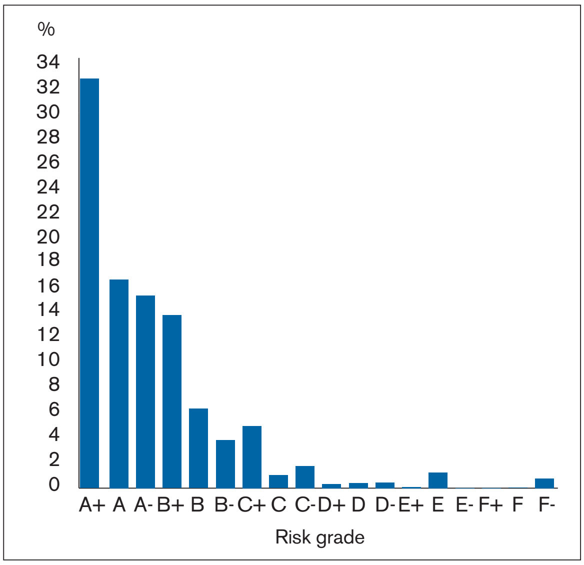
83% (87%) of the corporate exposure (Figure 3) was rated 4- or higher and 97% (97%) of the retail exposure (Figure 4) was rated C- or higher, which indicates a probability of default of 1% or lower. Defaulted loans are not included in the rating/scoring distributions.

Figure 3. Rating distribution of loans to corporate customers[1]



[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.

Figure 4. Risk scoring of loans to personal as well as small and medium-sized corporate customers[2]



[2]Scoring grades A+ to F- are non-defaulted. The best score is A+.

Market and liquidity risks

Nordea Kredit is exposed to interest rate risk from its investment of liquidity and capital. As lending activities are match-funded in terms of both interest rates and liquidity, only limited interest rate and liquidity risks arise relating to mortgage lending and the associated bond issuance.

Nordea Kredit's primary liquidity risks are short-term liquidity risk, refinancing risk and the risk of increased supplementary collateral requirements as outlined in the Internal Liquidity Adequacy Assessment Process (ILAAP).

Short-term liquidity risk means the risk that Nordea Kredit is unable to meet its short-term liquidity obligations in accordance with LCR requirements. In addition, an annual ILAAP is performed.

As mortgage loans to a certain extent are financed by bonds with a shorter maturity than the loans granted, Nordea Kredit is dependent on being able to refinance such loans by issuing new adjustable-rate mortgage bonds. Market developments can constitute a liquidity risk in connection with the refinancing auctions. The refinancing risk is thus the risk that one or more refinancing auctions fail.

Furthermore, there is a risk that Nordea Kredit can be met with increased supplementary collateral requirements as a consequence of decreasing property prices that lead to loan to value overruns or as a consequence of rating agencies increasing their requirement for supplementary collateral in order to maintain the current rating of Nordea Kredit's bonds.

The matched-funded bond issuance undertaken by Nordea Kredit applies the specific balance principle to both capital centres. To mitigate the short-term liquidity risk and refinancing risk, Nordea Kredit has a liquidity facility agreement with Nordea Bank. Lastly, Nordea Kredit has a modest currency risk exposure related to the incoming payments of administration and reserve fees from customers with loans denominated in euros, which are exchanged to Danish kroner on an ongoing basis.

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 the capital base, or DKK 225m (DKK 226m). For the securities portfolio, the interest rate risk on capital investments must not exceed 8% of the capital base, or DKK 1,797m (DKK 1,811m).

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

DKKm	31 Dec 2018	31 Dec 2017
Interest rate risk[1]		
Capital investments (IR sensitivity)	27	15
Specific balance principle (IR stress loss)	4	5

[1] The interest rate risk expresses the expected loss on fixed-income positions from a general increase in interest rates of 1% point.

Currency risk

At end-2018 the currency risk amounted to DKK 0.3m (DKK 0.1m) with effect on profit before tax and equity and relates solely to exposures in euros. Financial market risks are described in Note 24.

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 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 31 December 2018, the LCR requirement that was the binding constraint on the liquidity buffer was the floor requirement, and the LCR relative to the floor was 245% (LCR relative to the floor 343%).

Operational and compliance risks
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. Regarding own funds requirements for operational risk, this also covers legal risk and compliance risk. Operational risk is inherent in all activities within the organisation, in outsourced activities and in all interactions with external parties.

Compliance risk is defined as the risk of failing to comply with external regulations and internal rules governing Nordea Kredit's activities which could result in material, financial or reputational loss to Nordea Kredit, regulatory remarks or sanctions.

Managing operational and compliance risks is part of management's responsibilities. The operational risks are monitored through regular risk assessment procedures and systematic quality and risk-focused management of changes. The compliance risks are monitored by the Compliance function.

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.

Group Risk & Compliance is the second line of defence. The flow of risk-related information from the business areas and the group functions to the Board of Directors passes through BRIC. Reporting from Group Compliance is presented directly to the Board of Directors as well as discussed in the Board Audit Committee.

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 listed companies. 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 established a compliance function, which is responsible for independently monitoring, providing advice and assurance, and reporting of compliance risks. Compliance Risk is defined as the risk of failure to comply with internal and external regulations.

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 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 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.

Corporate social responsibility

Nordea issues a sustainability report for 2018. The report includes Nordea Kredit. The sustainability report is available under sustainability on www.nordea.com. The disclosures are not covered by the statutory audit.

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).

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 finalised. At the same time the former Chief Executive Officer Peter Smith left Nordea Kredit.

The Executive Management now consists of Claus H. Greve (interim CEO) and Kamilla Hammerich Skytte (Deputy CEO).

Further information regarding members of the Board of Directors and the Executive Management is available on page 58.

Balanced gender composition

The Nordea Group Board of Directors has approved a policy to promote gender balance when selecting members of boards of directors of subsidiaries of Nordea Bank Abp. The Board of Directors of Nordea Kredit has endorsed this policy and the target was to have a gender balance of 40/60 in 2018. According to the Danish Business Authority's guidance, the gender balance of 40/60 is met if two out of seven members of the board of directors are of another gender. The target for gender balance was met in November 2018.

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. To see new developments, the latest report and more, please visit www.nordea.com/en/responsibility/stories.

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 will
- 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 offers competitive remuneration packages.

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 – purpose and eligibility
The remuneration structure within Nordea comprises fixed remuneration and variable remuneration.

The fixed remuneration comprises the following components:

- Fixed Base Salary remunerates employees for full satisfactory performance. The individual salary is based on job complexity, responsibility, performance and local market conditions.
- Allowance is a predetermined fixed remuneration component. Fixed Base Salary is, however, the cornerstone for 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.

The variable remuneration comprises the following components:

- Executive Incentive Programme (EIP) is offered to recruit, motivate and retain selected managers 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, including Nordea Group goals, business area/group function goals (if relevant) and unit/individual goals.
- Variable Salary Part (VSP) may be offered to selected managers and specialists to reward strong performance and as a means to recruit, motivate and retain strongly performing employees within the Nordea Group. A VSP must include financial and non-financial goals based on Nordea Group KPIs decided annually by the CEO.
- Profit Sharing is offered groupwide to all Nordea employees except for employees eligible for other variable remuneration components. Profit Sharing is offered irrespective of position and salary and aims to stimulate customer centricity and value creation for shareholders.

Subsequent events

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

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 will likely 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.

Financial statements – contents

Income statement

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

Statement of comprehensive income

DKKm	2018	2017
Net profit for the year	1,593	1,750
Other comprehensive income, net of tax	-	-
Total comprehensive income	**1,593**	**1,750**
Attributable to		
Shareholder of Nordea Kredit Realkreditaktieselskab	1,593	1,750
Total	**1,593**	**1,750**

Balance sheet

DKKm	Note	31 Dec 2018	31 Dec 2017
Assets			
Cash in hand and demand deposits with central banks		225	300
Receivables from credit institutions and central banks	10	43,440	46,220
Loans and receivables at fair value	11	394,916	393,008
Loans and receivables at amortised cost		1	-
Investment in associated undertaking	12	22	19
Tangible assets		-	0
Current tax assets	8	-	4
Deferred tax assets	8	1	1
Assets held temporarily	13	59	27
Other assets	14	150	609
Prepaid expenses		11	13
Total assets		**438,825**	**440,201**
Debt			
Debt to credit institutions and central banks	15	10,841	7,636
Bonds in issue at fair value	16	400,817	405,629
Current tax liabilities	8	15	-
Other liabilities	17	2,600	2,660
Deferred income		19	24
Total debt		**414,292**	**415,949**
Subordinated debt			
Subordinated debt	18	2,200	2,200
Equity			
Share capital		1,717	1,717
Other reserves		23	20
Retained earnings		19,000	19,003
Proposed dividend		1,593	1,312
Total equity		**22,333**	**22,052**
Total equity and debt		**438,825**	**440,201**
Contingent liabilities			
Guarantees etc		75	74
Credit commitments		1,232	1,761
Total contingent liabilities		**1,307**	**1,835**

Statement of changes in equity

DKKm	Share capital[1]	Other reserves[2]	Retained earnings	Proposed dividend	Total
Balance at 1 Jan 2018	1,717	20	19,003	1,312	22,052
Net profit for the year	-	3	1,590	-	1,593
Other comprehensive income, net of tax	-	-	-	-	-
Dividends paid	-	-	-	-1,312	-1,312
Proposed dividend	-	-	-1,593	1,593	-
Balance at 31 Dec 2018	**1,717**	**23**	**19,000**	**1,593**	**22,333**

DKKm	Share capital[1]	Other reserves[2]	Retained earnings	Proposed dividend	Total
Balance at 1 Jan 2017	1,717	16	18,569	1,678	21,980
Net profit for the year	-	4	1,746	-	1,750
Other comprehensive income, net of tax	-	-	-	-	-
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**

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.

The annual report for Nordea Bank Abp is available on www.nordea.com.

5-year overview

Income statement (DKKm)	2018	2017	2016	2015[3]	2014[3]
Net interest income	3,190	3,270	2,992	2,791	2,679
Net interest and fee income	2,555	2,685	2,578	2,568	2,380
Value adjustments	-18	3	-4	-309	-40
Other operating income	3	7	8	8	0
Staff and administrative expenses	-286	-314	-293	-241	-201
Depreciation of tangible assets	0	0	0	0	0
Impairment losses on loans and receivables	-215	-143	-138	-114	-366
Profit from equity investment in associated undertaking	3	4	1	1	2
Profit before tax	**2,042**	**2,242**	**2,152**	**1,913**	**1,775**
Tax	-449	-492	-473	-449	-435
Net profit for the year	**1,593**	**1,750**	**1,679**	**1,464**	**1,340**

Balance sheet (DKKm)	2018	2017	2016	2015	2014
Receivables from credit institutions and central banks	43,440	46,220	45,985	50,916	70,462
Loans and receivables at fair value	394,916	393,008	390,028	385,583	381,056
Loans and receivables at nominal value[1]	387,159	383,582	383,093	383,773	371,734
Other assets	469	973	999	1,368	409
Total assets	**438,825**	**440,201**	**437,012**	**437,867**	**451,927**
Debt to credit institutions and central banks	10,841	7,636	4,515	24,608	42,250
Bonds in issue at fair value	400,817	405,629	405,197	389,568	387,106
Other liabilities	4,834	4,884	5,320	3,390	3,733
Equity	22,333	22,052	21,980	20,301	18,838
Total equity and debt	**438,825**	**440,201**	**437,012**	**437,867**	**451,927**

Ratios and key figures	2018	2017	2016	2015	2014
Return on equity, %	7.2	7.9	7.9	7.5	7.4
Cost/income ratio	11.3	11.7	11.3	10.6	8.6
Write-down ratio, basis points	5.4	3.6	3.5	3.0	9.6
Loans/equity ratio	17.7	17.4	17.7	19.0	20.2
Lending growth for the year, %	1.0	0.1	-0.2	3.2	3.6
Common equity tier 1 capital ratio, %	23.9	29.7	31.8	29.7	28.6
Tier 1 capital ratio, %	23.9	29.7	31.8	29.7	28.6
Total capital ratio, %	26.5	32.9	35.3	29.7	28.6
Own funds, DKKbn	22.5	22.6	22.2	20.0	18.6
Tier 1 capital, DKKbn	20.3	20.4	20.0	20.0	18.6
Risk exposure amount, DKKbn	84.8	68.9	63.0	67.2	64.9
Number of employees (full-time equivalents)[2]	113	111	103	101	114
Average number of employees	110	106	100	110	125

[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 and other operating income.

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), as well as the Nasdaq OMX Nordic rules for issuers of bonds.

The accounting policies and methods of computation are the same as last year except for changes following the implementation of IFRS 9 mentioned below under "Changed accounting estimate".

2. 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 loans and receivables 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 cost 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 loss 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 credit risk is 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. Customers with forbearance measures and customers with payments more than 30 days past due are always 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.

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 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 loans and receivables. The increase in the total provisions affected the profit after tax negatively by DKK 140m.

3. 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 the fair value of the credit risk on loans and receivables at fair value.

Fair value measurement of certain financial instruments

Nordea Kredit's accounting policy for determining the fair value of financial instruments is described in section 7 "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 the fair value of the credit risk on loans and receivables at fair value

Nordea Kredit's accounting policy for measurement of the fair value of the credit risk on loans and receivables at fair value is described in section 10 "Loans and receivables at fair value".

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

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

Judgement is exercised in the choice of modelling approaches covering other 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. 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.

4. 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".

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 are recognised at a point of time. Other fee and commission income is generally transaction based and recognised in the period when the services are performed.

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
The fair value of the credit risk on loans and receivables at fair value on the balance sheet is reported as "Impairment losses on loans and receivables". Nordea Kredit's accounting policies for the calculation of fair value of the credit risk on loans and receivables at fair value can be found in section 10 "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.

5. 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 9 "Financial instruments".

6. 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".

7. 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 is described in section 10
- 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.

8. 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.

9. 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). However mortgage loans and the related bonds issued are according to the Executive Order classified at fair value through profit and loss.

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.

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 bankruptcy, and if the intent is to settle the items net or realise the asset and settle the liability simultaneously.

10. 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 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 cost with relevant fair value adjustments.

Loans and receivables at fair value are recognised gross with an offsetting allowance for the change in the fair value of 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 fair value due to 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 the changes in 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 the fair value of the 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 the Risk and capital management section. 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 the fair value of the 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.

The fair value of the credit risk is 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%.

  - 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".

11. 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 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.

12. 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.

13. 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.

14. 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.

15. 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 (DFSA) 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 to 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 to 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	2018	2017
Interest income		
Receivables from credit institutions and central banks[1]	-258	-227
Loans and receivables at fair value	5,518	6,266
Administration and reserve fees receivable	3,363	3,407
Other interest income	13	14
Total interest income	**8,636**	**9,460**
Interest expense		
Debt to credit institutions and central banks[2]	36	25
Bonds in issue at fair value	-5,457	-6,188
Subordinated debt	-25	-27
Total interest expense	**-5,446**	**-6,190**
Net interest income	**3,190**	**3,270**

[1] Of which negative interest income	-258	-227
[2] Of which positive interest expense	38	27

Note 3
Net fee and commission income

DKKm	2018	2017
Loan processing fees	95	120
Brokerage	60	75
Refinancing fees and pay-out fees	349	314
Other fee and commission income	38	40
Fee and commission income	**542**	**549**
Guarantee commissions etc payable to Nordea Bank	-990	-956
Brokerage payable to Nordea Bank	-54	-65
Other fee and commission expenses	-133	-113
Fees and commissions paid	**-1,177**	**-1,134**
Net fee and commission income	**-635**	**-585**

Note 4
Value adjustments

DKKm	2018	2017
Mortgage loans	-2,437	1,372
Foreign exchange gains/losses	0	0
Interest rate derivatives	-53	-79
Bonds in issue[1]	2,472	-1,290
Total	**-18**	**3**

[1] Including value adjustments on own positions.

Note 5
Staff and administrative expenses

DKKm	2018	2017
Salaries and remuneration (specification below)	-78	-70
Pension costs (specification below)	-8	-7
Social insurance contributions	-20	-15
Other administrative expenses	-180	-222
Total	**-286**	**-314**
Average number of employees	110	106

Salaries and remuneration		
To the Board of Directors:		
- Board and Audit Committee fee	0	0
To the Executive Management:		
- Fixed salary and benefits	-5	-4
- Performance-related compensation	-1	-1
To employees that have significant influence on Nordea Kredit's risk profile:		
- Fixed salary and benefits	-5	-
- Performance-related compensation	0	-
Total	**-11**	**-5**
To other employees	-67	-65
Total	**-78**	**-70**

Pension costs		
Defined contribution plans:		
- Executive Management	0	0
- Employees that have significant influence on Nordea Kredit's risk profile	0	-
- Other employees	-8	-7
Total	**-8**	**-7**

Compensation including pension		
Board of Directors[1]	0	0
Executive Management[2]	-6	-5
Employees that have significant influence on Nordea Kredit's risk profile[3]	-5	-
Total	**-11**	**-5**

[1] The Board of Directors included seven individuals in 2018.

[2] The Executive Management included three individuals in 2018. The Chief Executive Officer participates in the incentive programme EIP (Executive Incentive Programme). The other members of the Executive Management participate in the Variable Salary Part (VSP). The programmes are described in the Board of Directors' report.

[3] Other employees that had significant influence on Nordea Kredit´s risk profile in 2018 included 8 individuals (0).

Nordea's Executive Incentive Programme ("EIP") aims to strengthen Nordea's capability to retain and recruit the best talents. The aim is further to stimulate the managers and key employees whose efforts have direct impact on Nordea's result, profitability and long-term value growth. The EIP rewards performance meeting agreed 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 EIP shall not exceed the fixed salary. The EIP shall be paid in the form of cash and be subject to Total Shareholder Returns (TSR) indexation, deferral, forfeiture clauses and retention as per relevant remuneration regulations. The main part of EIP 2018 is paid no earlier than autumn 2022. Participation in the programme is offered to the Chief Executive Officer. The allocation of the EIP 2018 is decided during spring 2019, and a reservation of DKK 1m is made in 2018. 80% of the allocated amount will be subject to TSR indexation.

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 the Board of Directors and the Executive Management is disclosed in accordance with section 77d (4) of the Danish Financial Business Act.

DKKm	2018
Board of Directors[2]	
Nicklas Ilebrand	-
Mads Skovlund Pedersen[3]	-
Kim Skov Jensen	-
Jørgen Holm	-
Torben Laustsen	-
Anita Nedergaard Nielsen[4]	-
Frank Vang Jensen[5]	-
Anne Rømer (external member)	0.3

DKKm	2018
Executive Management	
Peter Smith	2.5
Claus H. Greve	1.7
Kamilla Hammerich Skytte	1.8

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 the Nordea Bank Abp Group.

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 member of the Board of Directors, Anne Rømer, is the only member of the board who receives remuneration as board member. Remuneration relates to Board and Audit Committee fee.
3 Mads Skovlund Pedersen was appointed member of the Board of Directors in Nordea Kredit at 10 December 2018.
4 Anita Nedergaard Nielsen was appointed member of the Board of Directors in Nordea Kredit at 22 November 2018.
5 Frank Vang-Jensen left the Board of Directors in Nordea Kredit at 30 November 2018.

Note 6
Impairment losses on loans and receivables

DKKm	2018[1]
Transition effect from new impairment rules	**-180**
Stage 2	
New and increased impairment charges	-29
Reversals of impairment charges	37
Impairment losses on loans and receivables, non-credit impaired	**8**
Stage 3, credit impaired	
Realised loan losses	-157
Decrease in impairment charges to cover realised loan losses	145
Recoveries on previous realised loan losses	11
New and increased impairment charges	-393
Reversals of impairment charges	351
Impairment losses on loans and receivables, credit impaired	**-43**
Impairment losses on loans and receivables	**-215**

DKKm	2017[2]
Realised loan losses	-200
Decrease in impairment charges to cover realised loan losses	185
Recoveries on previous realised loan losses	11
New and increased impairment charges	-295
Reversals of impairment charges	156
Impairment losses on loans and receivables	**-143**

1 Based on the Executive Order applicable from 1 January 2018.
2 Based on the Executive Order applicable before 1 January 2018.

Note 7
Profit from equity investment in associated undertaking

DKKm	2018	2017
Profit from equity investment in associated undertaking	3	4
Total	**3**	**4**

Note 8
Tax

Income tax expense

DKKm	2018	2017
Current tax	-449	-492
Deferred tax	0	0
Adjustment relating to prior years	-	-
Total	**-449**	**-492**

Profit before tax	2,042	2,242
Tax calculated at a tax rate of 22.0%	-449	-492
Non-deductible expenses	0	0
Adjustment relating to prior years	-	-
Tax charge	**-449**	**-492**
Average effective tax rate	22.0%	22.0%

Deferred tax

	Deferred tax assets		Deferred tax liabilities	
DKKm	2018	2017	2018	2017
Deferred tax related to:				
Provision	1	1	-	-
Total	**1**	**1**	**-**	**-**

DKKm	2018	2017
Movements in deferred tax assets/liabilities, net are as follows:		
Amount at beginning of year (net)	0	0
Deferred tax in the income statement	0	0
Amount at end of year (net)	**0**	**0**
Current tax assets	**-**	**4**
Current tax liabilities	**15**	**-**

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 2018, the net taxes receivable from the Danish Central Tax Administration by the companies and branches included in the joint taxation amounted to DKK 406m (net taxes receivable DKK 473m). 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 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 2018	31 Dec 2017
Loans etc		
Executive Management	6	8
Board of Directors	21	11

Interest income on these loans to members of Nordea Kredit's Executive Management and Board of Directors amounts to DKK 0.5m (DKK 0.3m).

Loans to members of Nordea Kredit's Executive Management and Board of Directors consist of mortgage loans on terms based on market conditions. At the end of 2018 interest on the mortgage loans was payable at the rate of 0.1% to 2.5% pa. Loans to related parties of the Executive Management and 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 2018 the loans amounted to DKK 13m (DKK 3m) with interest rates of 0.1% to 2.0%.

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 2018	31 Dec 2017
Receivables from credit institutions	43,440	40,652
Receivables with notice from central banks	-	5,568
Total[1]	**43,440**	**46,220**
Of which genuine purchase and resale transactions	41,669	38,135

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

Note 11
Loans and receivables at fair value

DKKm	31 Dec 2018	31 Dec 2017
Mortgage loans, nominal value		
Value at beginning of year	383,830	383,363
New loans (gross new lending)	69,539	70,000
Foreign exchange revaluations	29	22
Redemptions and prepayments	-57,277	-59,672
Net new lending for the year	12,291	10,350
Scheduled principal payments	-8,639	-9,883
Mortgage loan portfolio at end of year	**387,482**	**383,830**
Mortgage loans, fair value		
Nominal value	387,482	383,830
Adjustment for interest rate risk etc	7,595	9,198
Adjustment for credit risk (see below)	-323	-248
Mortgage loan portfolio	394,754	392,780
Mortgage arrears and execution levied against debtors' properties (see below)	162	228
Loans and receivables at fair value	**394,916**	**393,008**

DKKm	Stage 1	Stage 2	Stage 3	Total
Movements of allowance accounts for credit risk value changes[1]				
Balance at 1 January 2018[2]	-	92	336	428
New impairment changes	-	10	69	79
Increased impairment charges	-	18	317	335
Reversals of impairment charges	-	-37	-348	-385
Write-off through decrease in allowance account	-	0	-130	-130
Other changes[3]	-	0	-4	-4
Balance at 31 December 2018	**-**	**83**	**240**	**323**

[1] Based on the Executive Order applicable from 1 January 2018.
[2] The balance includes individual and collective impairment charges of DKK 248m at 31 December 2017 and the transition effect from the new impairment rules of DKK 180m, in total DKK 428m.
[3] Relates to transfer of impairment charges on loans to Assets held temporarily.

Loans and receivables at fair value with no adjustment for credit risk due to the value of the mortgaged property and the first loss guarantee from Nordea Bank amount to DKK 6bn.

Collateral for loans and receivables at fair value consists of mortgaged properties and first loss guarantees from Nordea Bank. The value of the collateral for credit-impaired loans is estimated to amount to more than 95% of the gross carrying amount at 31 December 2018.

DKKm	Individually assessed	Collectively assessed	Total
Provisions for loans[1]			
Balance at 1 January 2017	246	24	270
Movements during the year:			
- New provisions and value adjustments	257	27	284
- Reversals of provisions made in previous financial years	-145	-6	-151
- Previous provisions now written off	-152	-	-152
- Other disposals[2]	-3	-	-3
Balance at 31 December 2017	**203**	**45**	**248**

[1] Based on the Executive Order applicable before 1 January 2018.
[2] Other disposals relate to transfer of provisions for loans to Assets held temporarily or to Other assets.

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

DKKbn, 31 Dec 2018	Stage 1	Stage 2	Stage 3	Total
Rating/scoring grade for loans and receivables measured at fair value (gross carrying amount)				
6+ / A+	93	0	0	93
6 / A	42	0	0	42
6- / A-	40	0	0	41
5+ / B+	28	0	0	28
5 / B	29	2	0	31
5- / B-	18	4	0	22
4+ / C+	6	3	0	9
4 / C	3	2	0	5
4- / C-	0	2	0	2
3+ / D+	0	0	0	1
3 / D	0	0	0	1
3- / D-	0	2	0	3
2+ / E+	47	0	0	47
2 / E	34	0	0	34
2- / E-	18	0	0	19
1+ / F+	3	2	0	5
1 / F	2	3	0	5
1- / F-	0	0	0	0
0+ / 0 / 0-	0	0	9	9
Unrated customers	0	0	0	0
Total	**363**	**21**	**10**	**395**

DKKm	31 Dec 2018	31 Dec 2017
Mortgage arrears[1]		
Mortgage arrears before provisions	89	143
Execution levied against debtors' properties before provisions	73	85
Total mortgage arrears and execution levied against debtors' properties	**162**	**228**
Mortgage arrears mid-January following year	60	116

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

DKKm	31 Dec 2018	31 Dec 2017
Age distribution of mortgage loans in arrears before provisions		
More than 3 months and up to 6 months	712	978
More than 6 months and up to 1 year	203	435
More than 1 year	130	604
Total	**1,045**	**2,017**

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

(%)	31 Dec 2018	31 Dec 2017
Mortgage loan portfolio by property category (nominal value)		
Owner-occupied dwellings	64	64
Holiday homes	3	3
Subsidised housing	0	0
Private rental property	10	9
Commercial property	1	1
Office and retail property	8	8
Agricultural property etc	12	12
Property for social, cultural and educational purposes	0	1
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 2018	31 Dec 2017
Acquisition value at beginning of year	1	1
Sales during the year	-	0
Acquisition value at end of year	**1**	**1**
Revaluation at beginning of year	18	14
Revaluation during the year	3	4
Total revaluation at end of year	**21**	**18**
Total	**22**	**19**

The associated undertaking aggregated balance sheet and income statement can for the latest available annual report for 2017 be summarised as follows:

DKKm	31 Dec 2018	31 Dec 2017
Total assets	167	158
Total liabilities	68	73
Operating income	86	82
Operating profit/loss	16	5

DKKm, 31 Dec 2018	Registration number	Domicile	Carrying amount	Voting power of holding %
e-nettet A/S	21270776	Copenhagen	22	18

Note 13
Assets held temporarily

DKKm	31 Dec 2018	31 Dec 2017
Repossessed properties	59	27
Total	**59**	**27**

Note 14
Other assets

DKKm	31 Dec 2018	31 Dec 2017
Interest receivable on mortgage loans etc[1]	109	574
Interest receivable on bonds etc	7	13
Other	34	22
Total	**150**	**609**

[1] Included in the calculation of the statutory balance between mortgage loans and bonds in issue.

Note 15
Debt to credit institutions and central banks

DKKm	31 Dec 2018	31 Dec 2017
Other banks	10,841	7,636
Total[1]	**10,841**	**7,636**
Of which sale and repurchase transactions	5,723	5,725

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

Note 16
Bonds in issue at fair value

DKKm	31 Dec 2018	31 Dec 2017
Bonds in issue at beginning of year (nominal value)	423,579	423,017
Bonds issued during the year	145,297	130,045
Exchange differences	31	22
Scheduled payments and notified prepayments	-33,798	-45,964
Redemptions and other prepayments	-117,786	-83,541
Bonds in issue at end of year (nominal value)	**417,323**	**423,579**
Adjustment at fair value	7,203	9,735
Own bonds at fair value offset	-23,709	-27,685
Bonds in issue at end of year at fair value	**400,817**	**405,629**
Of which pre-issued (nominal value)	5,600	5,550
Drawn for redemption at next payment date (nominal value)	6,928	9,926

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 403bn (DKK 406bn). 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 decreased in 2018 by approximately DKK 0.4bn (increase of approximately DKK 0.6bn) due to changes in own credit risk. The cumulative change since designation was a decrease of approximately DKK 4.1bn (decrease of approximately DKK 3.7bn). 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 2018	31 Dec 2017
Interest payable on bonds in issue	1,909	2,376
Other interest and commissions payable	80	144
Other	611	140
Total	**2,600**	**2,660**

Note 18
Subordinated debt

DKKm	31 Dec 2018	31 Dec 2017
Other subordinated debt	2,200	2,200
Total	**2,200**	**2,200**
Interest	-25	-27
Cost of increase in and repayments of subordinated debt	-	-
Total	**-25**	**-27**

At 31 December 2018 one loan – with terms specified below – was 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

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

Transitional own funds

DKKm, 31 Dec 2018		(A) amount at disclosure date	(C) amounts subject to pre-Regulation (EU) no 575/2013 treatment or prescribed residual amount of Regulation (EU) no 575/2013
Common equity tier 1 capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	1,717	-
	of which: Share capital	1,717	-
2	Retained earnings	19,000	-
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	23	-
5	Minority interests (amount allowed in consolidated CET1)	-	-
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-	-
6	**Common equity tier 1 (CET1) capital before regulatory adjustments**	**20,740**	**-**
Common equity tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-70	-
8	Intangible assets (net of related tax liability) (negative amount)	-	-
12	Negative amounts resulting from the calculation of expected loss amounts	-407	-
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount)	-	-
25b	Foreseeable tax charges relating to CET1 items (negative amount)	-	-
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-	-
28	**Total regulatory adjustments to common equity tier 1 (CET1)**	**-477**	**-**
29	**Common equity tier 1 (CET1) capital**	**20,263**	**-**
Additional tier 1 (AT1) capital: instruments			
36	Additional tier 1 (AT1) capital before regulatory adjustments	-	-
Additional tier 1 (AT1) capital: regulatory adjustments			
41a	Residual amounts deducted from additional tier 1 capital with regard to deduction from common equity tier 1 capital during the transition period pursuant to Article 472 of Regulation (EU) no 575/2013	-	-
45	**Tier 1 capital (T1 = CET1 + AT1)**	**20,263**	**-**
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	2,200	-
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase-out from T2	-	-
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-	-
49	of which: instruments issued by subsidiaries subject to phase-out	-	-
50	Credit risk adjustments	-	-
51	**Tier 2 (T2) capital before regulatory adjustments**	**2,200**	**-**
Tier 2 (T2) capital: regulatory adjustments			
56a	Residual amounts deducted from tier 2 capital with regard to deduction from common equity tier 1 capital during the transition period pursuant to Article 472 of Regulation (EU) no 575/2013	-	-
	of which shortfall	-	-
57	**Total regulatory adjustments to tier 2 (T2) capital**	**-**	**-**
58	**Tier 2 (T2) capital**	**2,200**	**-**
59	**Total capital (TC = T1 + T2)**	**22,463**	**-**
60	**Total risk-weighted assets**	**84,807**	**-**

Note 19
Capital adequacy *(continued)*

DKKm, 31 Dec 2018		(A) amount at disclosure date	(C) amounts subject to pre-Regulation (EU) no 575/2013 treatment or prescribed residual amount of Regulation (EU) no 575/2013
Capital ratios and buffers			
61	Common equity tier 1 (as a percentage of risk exposure amount)	23.9%	-
62	Tier 1 (as a percentage of risk exposure amount)	23.9%	-
63	Total capital (as a percentage of risk exposure amount)	26.5%	-
64	Institution-specific buffer requirement (CET1 requirement in accordance with Article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	3.1%	-
65	of which: capital conservation buffer requirements	1.9%	-
66	of which: countercyclical buffer requirement	0.0%	-
67	of which: systemic risk buffer requirement	1.2%	-
67a	of which: global systemically important institution (G-SII) or other systemically important institution (O-SII) buffer	-	-
68	Common equity tier 1 available to meet buffers (as a percentage of risk exposure amount)	19.4%	-
Amounts below the thresholds for deduction (before risk weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	2	-
73	Direct and indirect holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-	-
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	1	-
Applicable caps on the inclusion of provisions in tier 2			
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-	-
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	433	-
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)			
82	Current cap on AT1 instruments subject to phase-out arrangements	-	-
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	-
84	Current cap on T2 instruments subject to phase-out arrangements	-	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	-

Note 19
Capital adequacy *(continued)*

Summary of items included in own funds

DKKm	31 Dec[3] 2018	31 Dec 2017
Calculation of own funds		
Equity in the consolidated situation	20,740	22,052
Proposed/actual dividend	-	-1,312
Common equity tier 1 capital before regulatory adjustments	**20,740**	**20,740**
IRB provisions shortfall (-)[1]	-407	-324
Other items, net	-70	27
Total regulatory adjustments to common equity tier 1 capital	-477	-297
Common equity tier 1 capital (net after deduction)	**20,263**	**20,443**
Tier 1 capital (net after deduction)	**20,263**	**20,443**
Tier 2 capital before regulatory adjustments	2,200	2,200
IRB provisions excess (+) / shortfall (-)	-	25
Other items, net	-	-32
Total regulatory adjustments to tier 2 capital	**0**	**-7**
Tier 2 capital	**2,200**	**2,193**
Own funds (net after deduction)[2]	**22,463**	**22,636**

1 Total shortfall in 2018 were 100% deducted in common equity tier 1. For 2017 the shortfall was 90% in common equity tier 1 and 10% in tier 2 capital.

2 Own funds adjusted for IRB provisions, ie adjusted own funds equal DKKm 22,870 by 31 December 2018.

3 Equity in the consolidated situation DKKm 20,740 and profit for the period DKKm 1,593 equals total equity end of 2018 of DKKm 22,333.

Note 19
Capital adequacy *(continued)*

Minimum capital requirements and risk exposure amount (REA)

DKKm	31 Dec 2018 Minimum capital requirement	31 Dec 2018 REA	31 Dec 2017 Minimum capital requirement	31 Dec 2017 REA
Credit risk	**6,402**	**80,023**	**5,202**	**65,024**
- of which counterparty credit risk	16	196	29	360
IRB	5,771	72,131	4,590	57,372
- sovereign	-	-	6	68
- corporate	2,677	33,461	2,257	28,218
- advanced	2,677	33,461	2,257	28,218
- foundation	-	-	-	-
- institutions	0	4	1	7
- retail	3,086	38,577	2,293	28,665
- secured by immovable property collateral	3,013	37,667	2,193	27,411
- other retail	73	910	100	1,254
- other	8	89	33	414
- corporate	0	1	-	-
Standardised	631	7,892	612	7,652
- central governments or central banks	0	3	0	3
- regional governments or local authorities	-	-	-	-
- institutions	615	7,690	610	7,621
- corporate	0	0	-	-
- secured by mortgages on immovable properties	14	175	-	-
- in default	0	1	-	-
- equity	2	22	2	28
Market risk	**-**	**-**	**-**	**-**
Operational risk	**327**	**4,091**	**310**	**3,874**
Standardised			310	3,874
Additional risk exposure amount related to Swedish RW floor due to Article 3 CRR	2	22	-	-
Additional risk exposure amount due to Article 3 CRR	54	671	-	-
Sub-total	**6,785**	**84,807**	**5,512**	**68,898**
Adjustment for Basel I floor				
Additional capital requirement according to Basel I floor	-	-	8,885	111,065
Total	**6,785**	**84,807**	**14,397**	**179,963**

Note 19
Capital adequacy *(continued)*

Minimum capital requirement and capital buffers

31 Dec 2018 (%)	Minimum capital requirements	Capital buffers CCoB	CCyB	SII	SRB	Capital buffers total[1]	Total
Common equity tier 1 capital	4.5	1.875	0.0	0.0	1.2	3.1	7.6
Tier 1 capital	6	1.875	0.0	0.0	1.2	3.1	9.1
Own funds	8	1.875	0.0	0.0	1.2	3.1	11.1

31 Dec 2018 (DKKm)							
Common equity tier 1 capital	3,816	1,590	6	-	1,018	2,614	6,430
Tier 1 capital	5,088	1,590	6	-	1,018	2,614	7,702
Own funds	6,785	1,590	6	-	1,018	2,614	9,399

[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 2018	31 Dec[1] 2017
Common equity tier 1 capital	17.9	23.7

[1] Including profit for the year.

Capital ratios, excl Basel I floor (%)	31 Dec 2018	31 Dec 2017
Common equity tier 1 capital ratio	23.9	29.7
Tier 1 capital ratio	23.9	29.7
Total capital ratio	26.5	32.9

Capital ratios, incl Basel I floor (%)	31 Dec 2018	31 Dec 2017
Common equity tier 1 capital ratio	-	11.5
Tier 1 capital ratio	-	11.5
Total capital ratio	-	12.7

Leverage ratio[1]

	31 Dec 2018	31 Dec 2017
Tier 1 capital, transitional definition, DKKm	20,263	20,443
Leverage ratio exposure, DKKm	438,960	440,635
Leverage ratio	4.6	4.6

[1] Including profit for the year.

Note 19
Capital adequacy *(continued)*

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

31 Dec 2018	On-balance exposure, DKKm	Off-balance exposure, DKKm	Exposure value (EAD), DKKm[1]	of which EAD for off-balance, DKKm	Exposure-weighted average risk weight
Corporate, advanced IRB:	117,652	696	90,428	505	37
of which					
- rating grades 6	14,082	34	14,153	25	8
- rating grades 5	34,505	145	29,348	105	32
- rating grades 4	42,570	224	28,924	162	40
- rating grades 3	17,154	76	11,779	56	48
- rating grades 2	3,141	3	2,051	2	79
- rating grades 1	641		417		101
- unrated	652	214	441	155	48
- defaulted	4,907	0	3,315		103
Institutions, foundation IRB:	7	-	3	-	119
of which					
- rating grades 5	2	-	-	-	
- unrated	5	-	3	-	119
Retail, of which secured by real estate:	265,120	609	265,516	396	14
of which					
- scoring grades A	169,615	293	169,806	191	9
- scoring grades B	63,055	196	63,182	128	12
- scoring grades C	20,586	69	20,631	45	19
- scoring grades D	3,126	42	3,153	27	40
- scoring grades E	3,570	2	3,571	1	67
- scoring grades F	2,168	5	2,172	3	105
- not scored	4	2	5	1	33
- defaulted	2,996	0	2,996	0	152
Retail, of which other retail:	11,823	-	3,892	-	23
of which					
- scoring grades A	2,788	-	2,787	-	11
- scoring grades B	1,337	-	768	-	19
- scoring grades C	3,198	-	99	-	36
- scoring grades D	1,213	-	27	-	55
- scoring grades E	1,339	-	46	-	61
- scoring grades F	781	-	58	-	95
- not scored	2	-		-	
- defaulted	1,165	-	107	-	304
Other non credit-obligation assets:	89	-	89	-	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 2018, DKKm	Note	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Total
Receivables from credit institutions and central banks	9	1,771	41,669	-	-	-	43,440
Loans and receivables at fair value	10	89	2,479	8,317	48,833	335,198	394,916
Debt to credit institutions and central banks	14	-	10,841	-	-	-	10,841
Bonds in issue at fair value	15	-	15,150	61,747	157,741	166,179	400,817

31 Dec 2017, DKKm	Note	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Total
Receivables from credit institutions and central banks	9	2,517	43,703	-	-	-	46,220
Loans and receivables at fair value	10	143	2,373	8,139	48,277	334,076	393,008
Debt to credit institutions and central banks	14	-	7,636	-	-	-	7,636
Bonds in issue at fair value	15	-	26,580	76,009	143,564	159,476	405,629

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 debt securities in issue 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 2018	31 Dec 2017
Operating items		
Interest income:		
Interest on receivables from credit institutions	-221	-182
Interest expense:		
Interest on debt to credit institutions	62	25
Fee and commission income:		
Other fee and commission income	4	-
Fees and commissions paid:		
Guarantee commissions etc	-990	-956
Brokerage	-54	-65
Value adjustments:		
Interest rate derivatives	-53	-79
Staff and administrative expenses:		
IT expenses	-67	-103
Other administrative expenses	-60	-48
Rent	-11	-8
Internal audit	-1	-3
Assets		
Receivables from credit institutions	43,440	40,652
Interest receivable from credit institutions	3	15
Loans and receivables at fair value	-	1,178
Other assets	72	129
- of which derivatives	72	129
Debt		
Debt to credit institutions	10,841	7,636
Bonds in issue at fair value	17,298	23,717
Other liabilities	-	27
Interest payable	6	14
IT expenses payable	6	4
Guarantee commissions payable	80	144
Subordinated debt	2,200	2,200
Guarantees		
Nordea Bank provides on an ongoing basis guarantees to cover the first loss of the principal of mortgage loans disbursed	107,085	105,581
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	9,702	12,566
Liquidity support agreement with Nordea Bank	35,260	48,658

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.

In 2018 there were no unusual related-party transactions.

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.

Note 21
Related-party transactions *(continued)*

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 Group 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

	2018	2017	2016	2015	2014
Total capital ratio, %	26.5	32.9	35.3	29.7	28.6
Tier 1 capital ratio, %	23.9	29.7	31.8	29.7	28.6
Pre-tax return on equity, %	9.2	10.2	10.2	9.8	9.8
Post-tax return on equity, %	7.2	7.9	7.9	7.5	7.4
Income/cost ratio	5.10	5.90	6.00	6.39	4.13
Foreign exchange exposure as % of tier 1 capital	1.1	0.6	0.1	0.2	0.7
Loans/equity ratio	17.7	17.4	17.7	19.0	20.2
Lending growth for the year, %	1.0	0.1	-0.2	3.2	3.6
Impairment ratio for the year, %	0.1	0.0	0.1	0.1	0.1
Return on assets, %	0.4	0.4	0.4	0.3	0.3

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 2018				
Income from lending		3,351	27	3,378
Interest, net		-190	-6	-196
Administrative expenses, net		-873	-52	-925
Provisions for loan losses		-226	11	-215
Tax		-454	5	-449
Total		**1,608**	**-15**	**1,593**
Balance sheet, 31 Dec 2018				
Assets				
Mortgage loans		391,001	3,946	394,947
Other assets		65,436	2,319	67,755
Total assets	**1**	**456,437**	**6,265**	**462,702**
Liabilities and equity				
Bonds in issue	2	421,826	4,806	426,632
Other liabilities		13,581	156	13,737
Equity	3	21,030	1,303	22,333
Total liabilities and equity		**456,437**	**6,265**	**462,702**

Note 1 Balance sheet, series financial statements

Balance sheet total, Nordea Kredit's annual financial statements	438,825
Own bonds, not offset in series financial statements	23,709
Interest receivable on own bonds	168
Balance sheet total, series financial statements	**462,702**

Note 2 Bonds in issue, series financial statements

Bonds in issue, Nordea Kredit's annual financial statements	400,817
Own bonds, not offset in series financial statements	23,709
Deferred income	2,106
Bonds in issue, series financial statements	**426,632**

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's annual report for 2018.

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

Note 24
Risk disclosures

Market risk[1]

DKKm	31 Dec 2018	31 Dec 2017
Derivatives		
Currency forwards:		
Market value, positive	-	-
Market value, negative	-	-
Nominal value	-	-
Interest rate risk, options:		
Market value, positive	63	111
Market value, negative	29	35
Nominal value	7,655	17,416

At the end of 2018 and 2017 there were no spot transactions.

DKKm, 31 Dec 2018	Total risk	Max	Min
Interest rate risk	31	34	5
Currency risk	0	0	0
Total	**0**	**0**	**0**

DKKm, 31 Dec 2017	Total risk	Max	Min
Interest rate risk	20	31	2
Currency risk	0	0	0
Total	**20**	**31**	**2**

[1] Market risk is described in the Board of Directors' report under Market and liquidity risks, page 14.

Note 24
Risk disclosures *(continued)*

Credit risk[2]

DKKm	31 Dec 2018	31 Dec 2017
Maximum exposure to credit risk		
Receivables from credit institutions and central banks	43,665	46,520
Loans and receivables at fair value	394,916	393,008
- of which owner-occupied dwellings and holiday homes	267,521	265,877
- of which commercial properties	127,395	127,131
Loans and receivables at amortised cost	1	-
Bonds at fair value	-	-
Investment in associated undertaking	22	19
Other asset items	221	654
Guarantees etc	75	74
Loan commitments	1,232	1,761
Security received		
The maximum credit risk on loans to credit institutions is secured by own bonds in connection with purchase and resale transactions	41,669	38,135

The security underlying loans at fair value is the physical collateral represented by the mortgaged properties in accordance with Danish mortgage legislation. The security position (LTV) of the loan portfolio is described in detail in the Board of Directors' report, page 10.

In addition, Nordea Bank provides on an ongoing basis loss guarantees covering the first loss of the principal of mortgage loans disbursed	107,085	105,581
In connection with the disbursement of loans, Nordea Bank additionally provides statutory guarantees relating to registration with the Land Registry	9,702	12,566

There are also statutory limits on the size of commitments with a single customer or a group of mutually related customers, implying that a commitment, after deduction of particularly secure claims, cannot exceed 25% of the capital base.

[2] Credit risk is described and illustrated in the section on Risk and capital management in the Board of Directors' report, page 12. See also Note 1, section 10 and Note 11.

Liquidity risk

Liquidity support agreement with Nordea Bank	35,260	48,658

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 and other reserves	19,023
Net profit for the year	1,590
Transferred to Other reserves	3
Total	**20,616**

The Board of Directors proposes that the profit for 2018 is distributed as follows:

DKKm	
Proposed dividends to the shareholder	1,593
Retained earnings	19,000
Other reserves	23
Total	**20,616**

The company's distributable earnings amount to DKK 20,593m. After the proposed distribution of earnings, the company's unrestricted shareholders' equity amounts to DKK 19,000m.

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 2018.

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, 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 31 December 2018 and of the results of the company's operations for the financial year 1 January-31 December 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.

We propose to the Annual General Meeting that the annual report should be adopted.

Copenhagen, 19 February 2019

Board of Directors

Nicklas Ilebrand (Chairman)	Mads Skovlund Pedersen (Vice Chairman)	Kim Skov Jensen
Jørgen Holm	Torben Laustsen	Anita Nedergaard Nielsen
Anne Rømer		

Executive Management

Claus H. Greve (Interim Chief Executive Officer)	Kamilla Hammerich Skytte (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 2018 and of the results of the Company's operations for the financial year 1 January to 31 December 2018 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 2018 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 4 years including the financial year 2018.

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 2018. 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 principles for impairments of loans and receivables at fair value are described in note 1, section 2 – Changed accounting estimate, section 3 – Critical judgements and estimation uncertainty and note 10 - Loans and receivables at fair value to the Financial Statements. The Company makes provisions for expected losses both on an individual basis in terms of individual loans and on a model-based basis. 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 including the variables in the model underlying the calculation of individual and model-based impairment provisions.	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 also assessed the appropriateness of the Company's validation of the model and relevant parameters in the model-based impairment model including the changed method for accounting estimates introduced in 2018.

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, 19 February 2019

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Business registration no 33 77 12 31

Erik Stener Jørgensen
State Authorised Public Accountant
MNE no 9947

Benny Voss
State Authorised Public Accountant
MNE no 15009

Management

Board of Directors of Nordea Kredit

Nicklas Ilebrand (Chairman)
Member of the Board of Directors of Nordea Eiendomskreditt AS.
Chairman of the Board of Directors of Nordea Hypotek AB.
Member of the Board of Directors of Nordea Kiinnitysluottopankki Plc.
Member of the Board of Directors of Asiakastieto Group Ovi.

Mads Skovlund Pedersen (Vice Chairman)
Member of the Board of Directors of Danbolig A/S.
Member of the Board of Directors of Velliv, Pension & Livsforsikring A/S.

Kim Skov Jensen
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.

Jørgen Holm
None.

Torben Laustsen
Chairman of the Board of Directors of Danbolig A/S.
Chairman of the Board of Directors of Ejendomsselskabet Vestre Stationsvej 7, Odense A/S.
Deputy Chairman of the Board of Directors of the Danish Foundation for Entrepreneurship.
Member of the Board of Directors of Karl Pedersens og Hustru Industrifond.
Member of the Board of Directors of Nordea Bank-fonden.
Member of the Board of Directors of Nordea-fonden.
Member of the Board of Directors of Rasmus Nielsen Holding ApS.
CEO of Sombrero Holding ApS.

Anita Nedergaard Nielsen
None.

Anne Rømer[1]
Member of the Board of Directors of DFDS Logistics Contracts AB.
Member of the Board of Directors of DFDS Logistics Partners AB.
Member of the Board of Directors of DFDS Logistics OY, Kotka, Finland.

[1] Anne Rømer, CFO, DFDS Logistics is considered by the board as the independent member of the audit committee with expertise in accounting and/or audit pursuant to the requirements of the Executive Order on audit committees of companies and groups that are supervised by the Danish FSA.

Executive Management of Nordea Kredit

Claus H. Greve (Interim Chief Executive Officer)
None.

Kamilla Hammerich Skytte (Deputy Chief Executive Officer)
Member of the Board of Directors of Danbolig A/S.
Member of the Board of Directors of the Association of Danish Mortgage Banks.

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