

Year-end Report 2019

Nordea Kredit Realkreditaktieselskab

Financial summary

Key financial figures (DKKkm)	2019	2018	Change %	2017
Income statement				
Total operating income	2,687	2,540	6	2,695
Total operating expenses	-306	-286	7	-314
Impairment losses on loans and receivables	-6	-215	-97	-143
Profit before tax	2,373	2,042	16	2,242
Net profit for the year	1,850	1,593	16	1,750
Balance sheet				
Receivables from credit institutions and central banks	67,462	43,440	55	46,220
Loans and receivables at fair value	404,998	394,916	3	393,008
Loans and receivables at nominal value ¹	398,497	387,159	3	383,582
Debt to credit institutions and central banks	5,597	10,841	-48	7,636
Bonds in issue at fair value	440,929	400,817	10	405,629
Equity	22,590	22,333	1	22,052
Total assets	473,277	438,825	8	440,201

Ratios and key figures				
Return on equity, % ²	8.2	7.2		7.9
Cost/income ratio	11.4	11.3		11.7
Write-down ratio, basis points ³	0.1	5.4		3.6
Common equity tier 1 capital ratio, %	24.4	23.9		29.7
Tier 1 capital ratio, %	24.4	23.9		29.7
Total capital ratio, %	27.0	26.5		32.9
Own funds, DKKm	22,803	22,463		22,636
Tier 1 capital, DKKm	20,603	20,263		20,443
Risk exposure amount, DKKm	84,322	84,807		68,898
Number of employees (full-time equivalents) ⁴	119	113		111

¹ After adjustment for provisions for loan losses.

² The return on equity ratio excluding the negative transition effect from the new impairment rules in 2018 was 8.0%.

³ The write-down ratio excluding the negative transition effect from the new impairment rules in 2018 was 0.9 bps.

⁴ End of year.

Green mortgage loans for corporate customers

To support the green transition in Denmark, Nordea Kredit started to offer green mortgage loans to corporate customers in November 2019.

Green mortgage loans are offered to corporate customers that have invested or wish to invest in green properties, facilities that produce renewable energy and organic farming.

The green mortgage loans will be funded by green covered bonds. Nordea Kredit's green covered bonds are issued as part of the Nordea Green Bond Framework which is based on the International Capital Market

Association's Green Bond Principles.

Nordea Kredit follows a well-defined process when selecting and evaluating financing of mortgage loans within the green bond asset categories that qualify as mortgage loans to be included in Nordea Kredit's green bond asset portfolio. Nordea Kredit's Green Bond Committee as well as external partners confirm the assessments made by the staff in relation to the green bond asset categories.

Enhancing the digital customer experience

With a strong focus on the digital customer experience, Nordea Kredit has over the past years introduced a smoother and more transparent process for mortgage customers. In 2019 Nordea Kredit updated the design of one of the best digital solutions in the market – the eBolig portal – and improved the user experience on mobile devices.

The very low interest rates have made it advantageous for homeowners with fixed-rate mortgage loans to remortgage. As a result, Nordea Kredit recorded an all-time high level of remortgaging activity in the second half of 2019. A record-high number of customers remortgaged their mortgage loans online through the eBolig portal.

Nordea Kredit will continue to improve its operational performance through improved customer experience in front line as well as by improving the digital customer journey.

Nordea improved its overall value proposition to its customers by introducing fixed-rate bank mortgage loans for both owner-occupied and cooperative dwellings, supplementing Nordea's portfolio of mortgage products.

To strengthen its availability and relevance towards customers, Nordea's opening hours have been extended for financial advice. Furthermore, existing customers have been contacted with relevant advice on remortgaging opportunities.

Comments on the year-end result

(The figures in brackets refer to 2018).

Profit before tax was up by 7% to DKK 2,373m compared to DKK 2,222m in 2018 (the figure for 2018 is excluding the transition effect of DKK 180m due to the new impairment rules), mainly explained by increased fee and commission income following the very high remortgaging activity in 2019. Including the transition effect due to new impairment rules in 2018, profit before tax increased by 16% to DKK 2,373m (DKK 2,042m).

Interest rates fell in 2019 to an all-time low, resulting in the highest number of remortgages ever at Nordea Kredit. Gross new lending in 2019 increased to DKK 131bn, which was significantly higher than the gross new lending volume of DKK 70bn in 2018. Profit before tax for 2019 exceeded expectations due to the very high remortgaging activity. Total lending at nominal value increased by 3% to DKK 398bn (DKK 387bn). The increase was related to both owner-occupied dwellings and commercial properties. In addition to new lending to customers, the high remortgaging activity had a positive impact on lending volumes as several customers took advantage of the opportunity for top-up lending.

Operating income

Net interest income decreased by 1% to DKK 3,156m (DKK 3,190m) due to lower income from administration and reserve fees caused by the customers' orientation towards fixed-rate loans or adjustable-rate loans with a longer fixing period, making customers less financially dependent on future interest rates and reducing refinancing risk. As expected, this resulted in lower average margins. The decrease in margins was to a large extent offset by increased loan volumes. Furthermore, net interest income was affected by negative interest income from the investment of capital.

Fee and commission income was up by 50% to DKK 815m (DKK 542m), positively affected by higher remortgaging activity following the lower interest rate level in 2019. Refinancing fees decreased as expected following lower refinancing volumes in 2019 compared to 2018.

Fees and commissions paid increased by 11% to DKK 1,301m (DKK 1,177m) mainly due to higher remortgaging activity in 2019.

Staff and administrative expenses

Total staff and administrative expenses were up by 7% to DKK 306m (DKK 286m).

Staff costs increased slightly to DKK 107m (DKK 106m). In 2019 the average number of full-time equivalent employees was 114 (110).

Administrative expenses increased by 11% to DKK 199m (DKK 180m) mainly due to an increase in fees to the authorities.

Impairment losses on loans and receivables

Impairment losses on loans and receivables decreased to DKK 6m (DKK 215m). Excluding the effect from the new impairment rules in 2018 amounting to DKK 180m, impairment losses on loans and receivables were DKK 35m in 2018.

Impairment losses on loans and receivables remained at a very low level, reflecting the strong credit quality in general and the first loss guarantee coverage by Nordea Bank. The first loss guarantees covered 97% (97%) of all loans at Nordea Kredit.

The write-down ratio decreased to 0.1 bps of the loan portfolio (5.4 bps including the transition effect from the new impairment rules in 2018 and 0.9 bps excluding the transition effect).

Tax

Income tax expense was DKK 523m (DKK 449m) and the effective tax rate was 22% (22%).

Net profit for the year

Net profit for the year increased to DKK 1,850m (DKK 1,593m), corresponding to a return on equity in 2019 of 8.2% (7.2%). Net profit for 2018 adjusted for the effect of the new impairment rules was DKK 1,733m, corresponding to a return on equity of 7.8%.

Comments on the balance sheet**Assets**

Total assets increased by 8% to DKK 473bn (DKK 439bn).

Receivables from credit institutions and central banks, mainly consisting of deposits with Nordea Bank,

increased to DKK 67bn (DKK 43bn) following higher customer redemption levels.

Loans and receivables at fair value increased to DKK 405bn (DKK 395bn), while total lending at nominal value after loan losses increased by 3% to DKK 398bn (DKK 387bn). The increase was related to both owner-occupied dwellings and commercial properties. Owner-occupied dwellings increased by 3%, commercial properties increased by 7% and agricultural properties decreased by 5%, which was in line with expectations.

Lending at nominal value by property category

DKKbn	2019	2018	Change %
Owner-occupied dwellings and holiday homes	269	262	3%
Commercial properties	87	81	7%
Agricultural properties	42	44	-5%
Total	398	387	3%

The quality of the loan portfolio is considered satisfactory. The accumulated loan loss provisions decreased to DKK 243m (DKK 323m). Accumulated loan loss provisions regarding stages 2 and 3 amounted to DKK 55m (DKK 83m) and DKK 188m (DKK 240m), respectively.

Loss guarantees from Nordea Bank increased to DKK 115bn (DKK 107bn) at end-2019, covering loans totalling DKK 387bn (DKK 375bn). The share of the loans covered by the loss guarantees was 97% (97%). 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 10 (26) repossessed properties by the end of 2019 with a carrying amount of DKK 12m (DKK 59m). All the repossessed properties are owner-occupied dwellings.

Debt

Debt to credit institutions and central banks amounted to DKK 6bn (DKK 11bn). The decrease was related to lower short-term funding from Nordea Bank.

Bonds in issue at fair value totalled DKK 441bn (DKK 401bn) after offsetting the portfolio of own bonds of DKK 12bn (DKK 24bn).

Equity

Shareholders' equity amounted to DKK 23bn (DKK 22bn) at the end of 2019. Net profit for the year was DKK 1.9bn (DKK 1.6bn).

It is proposed that DKK 1.4bn of the net profit is distributed as dividend. The proposed dividend payment of DKK 1.4bn is equivalent to DKK 81 (DKK 93) per share.

Capital adequacy

At year-end the risk exposure amount (REA) of Nordea Kredit was DKK 84.3bn (DKK 84.8bn). The common equity tier 1 ratio was 24.4% (23.9%) and the total capital ratio was 27.0% (26.5%) at end-2019. The increase in the ratios is mainly driven by the increase in capital due to inclusion of profit after proposed dividend at year end 2019. The main changes in REA consist of a decrease related to exposures calculated according to internal ratings-based (IRB) models and an increase related to the change in exposures calculated according to the standardised approach.

Nordea Kredit complies with the conditions for temporary use of internal models in accordance with the European Central Bank (ECB) ruling of 16 August 2018 for Nordea and approved for Nordea Kredit by the Danish Financial Supervisory Authority (the Danish FSA) in December 2018. As part of the approval, Nordea has committed to a model improvement development plan with applications expected no later than 2020.

Nordea Kredit will issue additional tier 2 capital of approximately DKK 1.5bn (corresponding to EUR 200m) to the parent company Nordea Bank during the first half of 2020 in order to meet future capital and debt buffer requirements with a satisfactory margin. Measured on the end-2019 capital figures the additional tier 2 capital will increase the total capital ratio by 1.8% points to 28.8%.

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.

Changes to the Executive Management

On 6 February 2019 the former Chief Executive Officer Peter Smith left Nordea Kredit. At the same time Deputy Chief Executive Officer Claus H. Greve was appointed as interim Chief Executive Officer. At the board meeting on 27 February 2019 Claus Greve was appointed as Chief Executive Officer. Kamilla Hammerich Skytte continued as Deputy Chief Executive Officer.

The Executive Management consists of Claus H. Greve (Chief Executive Officer) and Kamilla Hammerich Skytte (Deputy Chief Executive Officer).

Changes to the Board of Directors

At the beginning of 2019 the Board of Directors consisted of Nicklas Ilebrand (Chairman), Mads Skovlund Pedersen (Vice Chairman), Jørgen Holm, Kim Skov Jensen, Anita Nedergaard Nielsen, Anne Rømer (external member) and Torben Laustsen. The Board of Directors was expanded when Marte Kopperstad was elected as a member at the Extraordinary General Meeting on 7 May 2019. At end-December 2019 Nicklas Ilebrand and Torben Laustsen informed the Extraordinary General Meeting of their resignations from the Board of Directors. At the same Extraordinary General Meeting Thomas Vedel Kristensen was appointed as a member. At the first board meeting in 2020 the board elected Mads Skovlund Pedersen as Chairman and Anne Rømer as Vice Chairman.

After the changes, the Board of Directors consists of Mads Skovlund Pedersen (Chairman), Anne Rømer (Vice Chairman and external member), Jørgen Holm, Marte Kopperstad, Thomas Vedel Kristensen, Kim Skov Jensen and Anita Nedergaard Nielsen.

Outlook for 2020

Nordea Kredit expects that lending volumes for owner-occupied dwellings and commercial properties will continue to increase in 2020, while lending to the agricultural market is expected to decline slightly. However, as seen in recent years customers switching to loans with lower administration and reserve fees will likely offset the increase in interest income. In total, net interest income is expected to be at the same level as in 2019. However, changes in negative interest income on the investment of capital will also affect net interest income.

Commission income is expected to decrease due to lower remortgaging activity and lower refinancing volumes in 2020. Commission expenses will decrease, and costs will increase following a new agreement with Nordea Bank regarding customer related services. Other cost items are expected to be on the same level.

Loan losses are expected to increase from a very low level in 2019.

On an overall level, profit before tax for 2020 is expected to be lower than in 2019 dependent on the development in interest rates and the remortgaging activity.

Further information

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

The Annual Report for 2019 will be published during week 9 and will be available on www.nordeakredit.dk and www.nordea.dk.

Copenhagen, 6 February 2020

Claus H. Greve
Chief Executive Officer

Kamilla Hammerich Skytte
Deputy Chief Executive Officer

Income statement

DKK m	2019	2018
Operating income		
Interest income	8,601	9,046
Interest expenses	-5,445	-5,856
Net interest income	3,156	3,190
Fee and commission income	815	542
Fee and commissions paid	-1,301	-1,177
Net interest and fee income	2,670	2,555
Value adjustments	13	-18
Other operating income	4	3
Staff and administrative expenses	-306	-286
Depreciation of tangible assets	0	0
Impairment losses on loans and receivables	-6	-215
Profit from investment in associated undertaking	-2	3
Profit before tax	2,373	2,042
Tax	-523	-449
Net profit for the year	1,850	1,593
Statement of comprehensive income	2019	2018
Net profit for the year	1,850	1,593
Other comprehensive income, net of tax	-	-
Total comprehensive income	1,850	1,593
Attributable to		
Shareholder of Nordea Kredit Realkreditaktieselskab	1,850	1,593
Total	1,850	1,593

Balance sheet

DKKm	31 Dec 2019	31 Dec 2018
Assets		
Cash in hand and demand deposits with central banks	50	225
Receivables from credit institutions and central banks	67,462	43,440
Loans and receivables at fair value	404,998	394,916
Loans and receivables at amortised cost	1	1
Investment in associated undertaking	20	22
Tangible assets	0	0
Deferred tax assets	3	1
Assets held temporarily	12	59
Other assets	723	150
Prepaid expenses	8	11
Total assets	473,277	438,825
Debt		
Debt to credit institutions and central banks	5,597	10,841
Bonds in issue at fair value	440,929	400,817
Current tax liabilities	19	15
Other liabilities	1,919	2,600
Deferred income	23	19
Total debt	448,487	414,292
Subordinated debt		
Subordinated debt	2,200	2,200
Equity		
Share capital	1,717	1,717
Other reserves	21	23
Retained earnings	19,464	19,000
Proposed dividend	1,388	1,593
Total equity	22,590	22,333
Total equity and debt	473,277	438,825
Contingent liabilities		
Guarantees etc	75	75
Credit commitments	1,498	1,232
Total contingent liabilities	1,573	1,307