

# Year-end Report 2020

## Nordea Kredit Realkreditaktieselskab

### Financial summary

Key financial figures (DKK m)	2020	2019	Change %	2018
<b>Income statement</b>				
Total operating income	2,739	2,685	2	2,543
Total operating expenses	-608	-306	99	-286
Profit before impairment losses on loans and receivables	2,131	2,379	-10	2,257
Impairment losses on loans and receivables	-491	-6	-	-215
Profit before tax	1,640	2,373	-31	2,042
Net profit for the year	1,279	1,850	-31	1,593
<b>Balance sheet</b>				
Receivables from credit institutions and central banks	49,948	67,462	-26	43,440
Loans and receivables at fair value	417,553	404,998	3	394,916
Loans and receivables at nominal value <sup>1</sup>	409,222	398,497	3	387,159
Debt to credit institutions and central banks	4,998	5,597	-11	10,841
Bonds in issue at fair value	435,055	440,929	-1	400,817
Equity	22,481	22,590	0	22,333
Total assets	467,936	473,277	-1	438,825

<b>Ratios and key figures</b>				
Return on equity, % <sup>2</sup>	5.7	8.2		7.2
Cost/income ratio	22.2	11.4		11.3
Write-down ratio, basis points <sup>3</sup>	11.7	0.1		5.4
Common equity tier 1 capital ratio, %	25.0	24.4		23.9
Tier 1 capital ratio, %	25.0	24.4		23.9
Total capital ratio, %	29.6	27.0		26.5
Own funds, DKK m	24,432	22,803		22,463
Tier 1 capital, DKK m	20,682	20,603		20,263
Risk exposure amount, DKK m	82,626	84,322		84,807
Number of employees (full-time equivalents) <sup>4</sup>	116	119		113

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

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

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

<sup>4</sup> End of year.

### Enhancing the customer experience

In 2020 Nordea Kredit continued its focus on the digital customer experience, delivering a smoother, faster and more transparent process for mortgage customers, including customers' easy access to their loan information on mobile devices via Nordea's mobile banking app.

Throughout the coronavirus pandemic, Nordea Kredit has seen high activity levels, particularly driven by properties with a change of ownership for household customers. Thanks to our dedicated colleagues and digital solutions Nordea Kredit managed to have large groups of colleagues working from home and keep up deliveries almost as usual. At the same time customer contact was successfully handled in digital channels and online meetings, so customers experienced the same good service as usual. The strong efforts to maintain and further improve the customer experience also resulted in an improvement in overall customer satisfaction.

Furthermore, the right mix of products, valuable advice and availability resulted in a positive trend in Nordea Kredit's market share for household properties during 2020.

The focus for Nordea Kredit in 2020 was to increase the use of the eBolig portal and thereby increasing the automation level. Several improvements were launched supporting the customer journey during advisory sessions and increasing the speed when issuing loans. Large parts of the internal process at Nordea and Nordea Kredit for handling home purchases are being digitalised. For the customers it has become easier to remortgage online via the eBolig portal, and in October Nordea launched online automated home loan certificates targeting first-time buyers.

Nordea's focus on the green transition is also clearly seen in Nordea Kredit's lending, where green mortgages amounted to DKK 3.8bn (2019 DKK 0bn) at the end of 2020.

Furthermore, a steady focus on digitalising the document solutions will result in even more documents being sent to the eBoks of household and corporate customers from the beginning of 2021. This journey towards increased digitalisation will continue throughout 2021.

Nordea Bank improved its overall value proposition to household customers and also facilitated the green transition by introducing an attractive low-interest loan (Energisparelån) earmarked for energy improvements in homes and aimed at household customers. This supplements Nordea Kredit's portfolio of mortgage products.

### **New loan product – Frihed30 Fast**

Since 2018 Nordea Kredit has offered experienced homeowners with a limited financing need the opportunity of a 30-year interest-only period within a loan limit of 60%. Initially it was offered in the form of adjustable-rate mortgage loans (Frihed30 Rentetilpasningslån) with refinancing every three or five years.

The Frihed30 Rentetilpasningslån product provides comfort as the interest-only loan does not have to be renegotiated during the term of the loan, and many homeowners have taken advantage of this mortgage opportunity.

In October Nordea Kredit supplemented the homeowners' product range by a 30-year fixed-rate interest-only mortgage loan (Frihed30 Fast). In addition to the 30 years of interest-only payments, this gives the borrower security with a known and fixed interest rate throughout the term of the loan. The Frihed30 Fast product is also available to cooperative housing associations with limited financing needs.

Customers have welcomed the new opportunity, and at the end of 2020 Frihed30 Fast loans for more than DKK 1.8bn had been issued.

## Comments on the year-end result

(The figures in brackets refer to 2019).

### Financial review 2020

The solid growth in lending from the previous year continued in 2020. Total lending increased by 3% to DKK 409bn (DKK 398bn) measured at nominal value. The increase was mainly related to owner-occupied dwellings positively affected by new loans on properties with a change of ownership. The low interest rate levels in the bond market continued in 2020. Remortgaging activity was somewhat lower compared to an all-time high level in 2019, however the activity was high compared to the level in 2017-2018. .

Profit before impairment losses was down by 10% to DKK 2,131m (DKK 2,379m) mainly due to lower commission income from remortgaging and refinancing activity, which was in line with expectations, and an increase in commission expenses related to the first loss guarantee from Nordea Bank. Total commission expenses has decreased due to a new agreement on customer related services provided by Nordea Bank as costs previously included as commission expenses are now presented under administrative expenses. Net interest income was up, positively affected by the increase in lending volume. Impairment losses on loans significantly increased mainly due to the impact from an update of the model for calculating expected credit losses and management judgements as the impact of the coronavirus pandemic on Nordea Kredit's customers remains uncertain. Credit quality remained strong and realised loan losses continued on a low level despite the coronavirus pandemic. Profit before tax was down by 31% to DKK 1,640m compared to DKK 2,373m in 2019.

### Operating income

Net interest income increased by 2% to DKK 3,211m (DKK 3,156m) mainly due to higher income from administration margins driven by higher loan volumes. The increase in interest income following higher loan volumes was partly offset by a decrease in margins following the customers' orientation towards fixed-rate loans or adjustable-rate loans with a longer fixing period. Furthermore, net interest income was positively affected by a slight decrease in negative interest rates on the investment of capital.

Fee and commission income was down by 28% to DKK 584m (DKK 815m), affected by lower remortgaging activity in 2020 compared to the all-time high level in 2019. Refinancing fees decreased as expected following lower refinancing volumes in 2020 compared to 2019.

Fee and commission expenses decreased by 18% to DKK 1,073m (DKK 1,301m) mainly due to the reclassification of costs of DKK 304m for customer-related services provided by Nordea Bank in accordance with a new agreement from 1 January 2020. The costs for 2020 are presented under Administrative expenses. Disregarding this reclassification, commission expenses were up by DKK 76m mainly related to higher fees for the first loss guarantee from Nordea Bank following new pricing effective from 1 July 2020.

### Staff and administrative expenses

Total staff and administrative expenses were up by 99% to DKK 608m (DKK 306m).

Administrative expenses increased by DKK 301m to DKK 500m (DKK 199m) due to the reclassification of costs of DKK 304m regarding the new agreement for customer-related services provided by Nordea Bank. Disregarding the reclassification, administrative expenses decreased by DKK 3m primarily related to lower IT operational costs.

Staff costs increased slightly to DKK 108m (DKK 107m) as the average number of full-time equivalent

employees increased to 116 (114) and due to general salary increases.

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

Impairment losses on loans and receivables increased significantly to DKK 491m (DKK 6m) mainly due to the impact from an update of the model for calculating expected credit losses. Furthermore, Nordea Kredit has considered it prudent and appropriate to recognise management judgements of a total of DKK 143m to cover the risk of losses due to the coronavirus pandemic as well as expected losses on loans in stage 1 covering rating migration not yet identified in the rating/scoring models. Appropriate action will be taken to release management judgements as the respective losses are realised or captured by the model, while maintaining adequate provisioning coverage in a forward-looking manner.

The realised losses on loans and receivables for 2020 remained at a very low level, reflecting consistent strong credit quality supported by the coverage from the first loss guarantee from Nordea Bank.

The write-down ratio increased to 11.7 bps (0.1 bps) of the loan portfolio.

#### **Tax**

Income tax expense was DKK 361m (DKK 523m) and the effective tax rate was 22% (22%).

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

Net profit for the year decreased to DKK 1,279m (DKK 1,850m), corresponding to a return on equity in 2020 of 5.7% (8.2%).

#### **Assets**

Total assets decreased by 1% to DKK 468bn (DKK 473bn).

Receivables from credit institutions and central banks, mainly consisting of deposits with Nordea Bank, decreased to DKK 50bn (DKK 67bn) following lower redemption levels due to lower remortgaging levels at end-2020.

Loans and receivables at fair value increased to DKK 418bn (DKK 405bn), while total lending at nominal value after loan losses increased by 3% to DKK 409bn (DKK 398bn). The increase was related to owner-occupied dwellings. Owner-occupied dwellings increased by 5%, commercial properties were stable and agricultural properties decreased by 6%, which was overall in line with expectations.

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

DKKbn	2020	2019	Change %
Owner-occupied dwellings and holiday homes	283	269	5%
Commercial properties	86	87	0%
Agricultural properties	40	42	-6%
<b>Total</b>	<b>409</b>	<b>398</b>	<b>3%</b>

The quality of the loan portfolio is considered satisfactory. The accumulated loan loss provisions increased to DKK 671m (DKK 243m). Accumulated loan loss provisions regarding stages 1, 2 and 3 amounted to DKK 60m (zero), DKK 257m (DKK 55m) and DKK 354m (DKK 188m), respectively.

The loss guarantees from Nordea Bank are first loss guarantees covering loans totalling DKK 400bn (DKK

387bn). The share of the total loans covered by the loss guarantees was 98% (97%). The loss guarantee is significantly reducing the loan losses at Nordea Kredit.

Assets held temporarily consisted of a total of 6 (10) repossessed properties by the end of 2020 with a carrying amount of DKK 6m (DKK 12m). The repossessed properties consist of 5 owner-occupied dwellings and 1 agricultural property.

#### **Debt**

Debt to credit institutions and central banks amounted to DKK 5bn (DKK 6bn), consisting of short-term funding from Nordea Bank.

Bonds in issue at fair value totalled DKK 435bn (DKK 441bn) after offsetting the portfolio of own bonds of DKK 12bn (DKK 12bn).

#### **Subordinated debt**

Subordinated debt was up by DKK 1.6bn as a new tier 2 loan was issued by the end of March 2020.

#### **Equity**

Shareholders' equity amounted to DKK 22bn (DKK 23bn) at the end of 2020. Net profit for the year was DKK 1.3bn (DKK 1.9bn).

It is proposed that the net profit is distributed as dividend to the parent company Nordea Bank Abp. The proposed dividend payment of DKK 1.3bn is equivalent to DKK 76 (DKK 81) per share.

The proposed dividend payment reflects the strong capital position of Nordea Kredit. Recent recommendations from the European Central Bank (the ECB) and the Danish Financial Supervisory Authority (the Danish FSA) restricting dividend distributions following the coronavirus pandemic apply at the consolidated level for the Nordea Group. Intragroup dividends from subsidiaries to Nordea Bank Abp are not targeted by the recommendation on dividend distributions.

#### **Capital adequacy**

At year-end the risk exposure amount (REA) of Nordea Kredit was DKK 82.6bn (DKK 84.3bn). The common equity tier 1 ratio was 25.0% (24.4%) and the total capital ratio was 29.6% (27.0%) at end-2020. The capital ratios increased due to lower REA and, additionally, the total capital ratio was affected by a new tier 2 loan of DKK 1.6bn issued by the end of March 2020. The decrease in REA was mainly related to credit risk on corporate exposures calculated according to the IRB model and exposures to institutions calculated according to the standardised approach.

Nordea Kredit complies with the conditions for temporary use of internal models in accordance with the ECB ruling of 16 August 2018 for Nordea and approved for Nordea Kredit by the Danish FSA in December 2018. The application for model improvement has been postponed due to the coronavirus pandemic and is expected to be delivered during the first three quarters of 2021.

#### **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 under Investor Information on [www.nordeakredit.dk](http://www.nordeakredit.dk) or under Investor Relations on [www.nordea.com](http://www.nordea.com).

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

At the beginning of 2020 the Board of Directors consisted of Mads Skovlund Pedersen (Chair), Anne Rømer (Vice Chair and external member), Jørgen Holm, Kim Skov Jensen, Anita Nedergaard Nielsen, Marte Kopperstad and Thomas Vedel Kristensen. In August 2020 Jørgen Holm left the Board of Directors due to retirement and was replaced by Torben André Petersen.

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

## **Changes to the Executive Management**

As part of a generational succession in the Executive Management the Board of Directors decided in June 2020 to appoint Deputy Chief Executive Officer Kamilla Hammerich Skytte as Chief Executive Officer. Former Chief Executive Officer Claus H. Greve continued as Deputy Chief Executive Officer.

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

## **Outlook for 2021**

Nordea Kredit expects that lending volumes for both owner-occupied dwellings and commercial properties will increase in 2021, while lending to the agricultural market is expected to decline slightly. In total, net interest income is expected to increase slightly driven by higher volumes. However, changes in negative interest rates on the investment of capital can also affect the trend in net interest income.

Commission income is expected to be positively affected by higher refinancing fees. However, a lower contribution from remortgaging fees means that total commission income is expected to be on the same level as in 2020. Commission expenses will increase due to the full-year impact from the price adjustment to the guarantee agreement with Nordea Bank that came into force at 1 July 2020.

Staff and administrative expenses are expected to be at the same level.

Loan losses are expected to decrease significantly from the very high level in 2020.

On an overall level, profit before tax for 2021 is expected to increase compared to 2020 driven by slightly higher net interest income from lending volume and significantly lower impairment losses that are expected to more than off-set the increase in commission expenses.

## **Further information**

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

The Annual Report for 2020 will be published during week 8 and will be available on [www.nordeakredit.dk](http://www.nordeakredit.dk) and [www.nordea.com](http://www.nordea.com).

Copenhagen, 4 February 2021

Kamilla Hammerich Skytte  
Chief Executive Officer

Claus H. Greve  
Deputy Chief Executive Officer

## Income statement

DKKm	2020	2019
<b>Operating income</b>		
Interest income	7,493	8,601
Interest expenses	-4,282	-5,445
<b>Net interest income</b>	<b>3,211</b>	<b>3,156</b>
Fee and commission income	584	815
Fee and commission expenses	-1,073	-1,301
<b>Net interest and fee income</b>	<b>2,722</b>	<b>2,670</b>
Value adjustments	10	13
Other operating income	6	4
Staff and administrative expenses	-608	-306
Depreciation of tangible assets	0	0
Impairment losses on loans and receivables	-491	-6
Profit from investment in associated undertaking	1	-2
<b>Profit before tax</b>	<b>1,640</b>	<b>2,373</b>
Tax	-361	-523
<b>Net profit for the year</b>	<b>1,279</b>	<b>1,850</b>
<b>Statement of comprehensive income</b>	<b>2020</b>	<b>2019</b>
Net profit for the year	1,279	1,850
Other comprehensive income, net of tax	-	-
<b>Total comprehensive income</b>	<b>1,279</b>	<b>1,850</b>
<b>Attributable to</b>		
Shareholder of Nordea Kredit Realkreditatieselskab	1,279	1,850
<b>Total</b>	<b>1,279</b>	<b>1,850</b>

**Balance sheet**

DKK m

31 Dec 2020 31 Dec 2019

**Assets**

Cash in hand and demand deposits with central banks	50	50
Receivables from credit institutions and central banks	49,948	67,462
Loans and receivables at fair value	417,553	404,998
Loans and receivables at amortised cost	1	1
Investment in associated undertaking	19	20
Tangible assets	0	0
Deferred tax assets	2	3
Assets held temporarily	6	12
Other assets	351	723
Prepaid expenses	6	8
<b>Total assets</b>	<b>467,936</b>	<b>473,277</b>

**Debt**

Debt to credit institutions and central banks	4,998	5,597
Bonds in issue at fair value	435,055	440,929
Current tax liabilities	9	19
Other liabilities	1,624	1,919
Deferred income	19	23
<b>Total debt</b>	<b>441,705</b>	<b>448,487</b>

**Subordinated debt**

Subordinated debt	3,750	2,200
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**Equity**

Share capital	1,717	1,717
Other reserves	21	21
Retained earnings	19,464	19,464
Proposed dividend	1,279	1,388
<b>Total equity</b>	<b>22,481</b>	<b>22,590</b>
<b>Total equity and debt</b>	<b>467,936</b>	<b>473,277</b>

**Contingent liabilities**

Guarantees etc	0	75
Credit commitments	1,508	1,498
<b>Total contingent liabilities</b>	<b>1,508</b>	<b>1,573</b>