

Year-end Report 2016

Nordea Kredit Realkreditaktieselskab

Financial summary

Key financial figures (DKKm)	2016	2015	Change %	2014
Income statement				
Total operating income	2,583	2,267	14	2,340
Total operating expenses	293	241	22	201
Net loan losses	138	114	21	366
Profit before tax	2,152	1,913	12	1,775
Net profit for the year	1,679	1,464	15	1,340
Balance sheet				
Loans to credit institutions and central banks	46,360	50,916	-9	70,462
Loans and receivables at fair value	390,028	385,583	1	381,056
Deposits by credit institutions and central banks	4,515	24,608	-82	42,250
Bonds in issue at fair value	405,197	389,568	4	387,106
Equity	21,980	20,301	8	18,838
Total assets	437,012	437,867	0	451,927

Ratios and key figures (%)

Return on equity after tax	7.9	7.5		7.4
Cost/income ratio	11.3	10.6		8.6
Total capital ratio, excl Basel I floor ^{1,2}	35.3	29.7		28.6
Tier 1 capital ratio, excl Basel I floor ^{1,2}	31.8	29.7		28.6
Tier 1 capital ¹ , DKKm	20,040	19,971		18,600
Risk exposure amount, excl Basel I floor, DKKm	62,954	67,191		64,927
Number of employees (full-time equivalents) ²	103	101		114

¹ Including profit for the year.

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

Comments on the year-end result

(The figures in brackets refer to 2015.)

In 2016 customers benefited from a very low interest rate level and for some loans interest rates ended up being negative. For Nordea Kredit the profit after tax increased by 15% to DKK 1,679m (DKK 1,464m).

The improved result in 2016 was mainly related to a higher result from items at fair value as 2015 was negatively affected by a non-recurring cost of DKK 234m due to the implementation of a hedge covering the negative interest on certain bond series that was passed on to borrowers. Without the effect of the implementation of the hedge, the profit for the year increased by 2% compared to 2015.

2016 was positively affected by adjusted pricing and average lending growth, which led to higher administration and reserve fees. Lower business activity from remortgaging and lower refinancing volumes reduced net fee and commission income, which along with increased operating expenses affected the profit negatively. All in all the profit for the year was in line with expectations.

Income from administration and reserve fees increased by 6% to DKK 3,165m (DKK 2,979m) due to adjusted pricing for both household and corporate customers and increased average lending.

In June Nordea Kredit announced an increase in administration and reserve fees for household customers with effect from 1 October 2016. The new fee structure will continue to ensure that loans with fixed interest rates and instalments will have the lowest fees, while interest-only loans and loans with adjustable interest rates will be more expensive, reflecting the risk and the costs related to the different types of loans. Customers can thereby, to some extent, mitigate the increased administration and reserve fees by switching to loans with instalments and fixed interest rates or loans with long-term refinancing, which is in line with the recommendations given by the Danish Financial Supervisory Authority's.

Fee and commission income was down by DKK 151m to DKK 618m due to lower remortgaging activity and decreasing refinancing fees as lower volumes were being refinanced. Some of the effects were a result of customers switching to loans with fixed interest rates or long-term refinancing.

Fee and commission expense increased to DKK 1,032m (DKK 992m). Fee and commission expense was affected by the new primary dealer agreements concluded by Nordea Kredit to ensure continued high liquidity in the issued bonds, and thereby lower interest rates. Guarantee commissions etc, covering the 25% loss guarantee and the fee for the distribution of loans and credit rating etc paid to Nordea Bank Danmark, increased due to higher volumes being covered by the 25% loss guarantee. The decrease in brokerage fees etc caused by lower remortgaging activity offset some of the increase in fee and commission expense.

Net result from items at fair value amounted to DKK -4m at the end of 2016 (DKK -309m). 2015 was affected by a non-recurring cost of DKK 234m due to the implementation of an interest rate floor for certain bond series. The hedge has since the implementation worked as intended.

Staff cost increased to DKK 92m (DKK 90m). The average number of full-time employees was in 2016 down to 100 compared to 110 in 2015. The reduction in costs was, however, more than offset by a non-recurring provision of DKK 4m for the former CEO.

Administrative expenses increased by DKK 50m to DKK 201m. The higher expenses were driven by a full-year payment to the new Danish Resolution Fund and the growing digitalisation through the eBolog portal where customers can remortgage their loans themselves. Furthermore, expenses related to increasing compliance activities.

Net loan losses amounted to DKK 138m (DKK 114m), corresponding to 0.04% (0.03%) of the loan portfolio. Loan losses on individually assessed loans decreased to DKK 161m compared to DKK 207m in 2015 due to the positive trend in housing prices around the major cities. Provisions for collectively assessed loans continued to decline by DKK 23m, though not as much as in 2015 (DKK 93m).

Comments on the balance sheet

Assets

Total assets remained stable at DKK 437bn (DKK 438bn).

Loans to credit institutions and central banks, mainly consisting of deposits with Nordea Bank Danmark, decreased to DKK 46bn (DKK 51bn).

Loans and receivables at fair value were positively affected by higher market prices and were up by DKK 4bn to DKK 390bn (DKK 386bn). Total lending at nominal value after loan losses remained stable at DKK 383bn (DKK 384bn), but with changes within the property categories. Owner-occupied dwellings increased by 1%, but this was offset by a decrease in agricultural and commercial properties.

Table 1. Lending at nominal value by property category

DKKbn	2016	2015	Change %
Owner-occupied dwellings and holiday homes	259	256	1%
Commercial properties	124	128	-3%
- of which agricultural properties	47	48	-2%
Total	383	384	0%

The quality of the loan portfolio is considered satisfactory and accumulated provisions continued to decrease to DKK 270m (DKK 328m), corresponding to 0.07% (0.08%) of the loan portfolio. Provisions for collectively assessed loans accounted for DKK 23m (DKK 46m).

Loss guarantees from Nordea Bank Danmark increased to DKK 104bn (DKK 100bn) at end-2016, covering loans totalling DKK 364bn (DKK 358bn). The loss guarantee is in general a 25% first loss guarantee, reducing the loan losses at Nordea Kredit.

Assets in temporary possession consisted of a total of 25 (35) repossessed properties by the end of 2016 held at a value of DKK 28m (DKK 34m). All of the repossessed properties are owner-occupied dwellings.

Liabilities

Deposits by credit institutions and central banks amounted to DKK 5bn (DKK 25bn). The decrease was driven by fewer repo transactions and the prepayment of an interest only loan of DKK 12bn to Nordea Bank Danmark that was no longer needed due to reduced liquidity requirements.

Bonds in issue at fair value totalled DKK 405bn (DKK 390bn) after offsetting the portfolio of own bonds of DKK 25bn (DKK 40bn).

Equity

Including the net profit for the year, equity increased to DKK 22bn at the end of 2016 (DKK 20bn).

The capital structure of Nordea Kredit was improved through the issuance of a new subordinated loan of DKK 2.2bn and Nordea Kredit is therefore expected to distribute the profit for the year as dividend. The capital base excluding profit was increased to DKK 22bn at year-end compared to DKK 20bn in 2015.

SIFI status

As expected, Nordea Kredit was appointed as a systemically important financial institution (SIFI) in Denmark on 2 January 2017 after the merger of Nordea Bank Danmark A/S and Nordea Bank AB(publ). The designation was due to Nordea Kredit's significant lending volumes and balance sheet. Nordea Kredit has previously been required to comply with several SIFI requirements due to Nordea Bank Danmark's SIFI status. The transition to SIFI status is therefore expected to be smooth.

Changes to the Board of Directors

Due to Nordea Kredit being appointed as a SIFI, the Board of Directors was expanded with Torben Laustsen, Nicklas Ilebrand and Anne Rømer from 1 January 2017. The Board of Directors has also formed a Risk Committee, a Nomination Committee and a Remuneration Committee. Anne Rømer is an external board member and has experience with accounting and auditing and was therefore also appointed Head of the Audit Board Committee. Jette Petersen left the Board of Directors on 1 January 2017. The Risk Committee will be headed by Kim Skov Jensen while the whole board will constitute both the Nomination Committee and the Remuneration Committee.

After the change the Board of Directors consists of Peter Lybecker (Chairman), Nicklas Ilebrand (Deputy Chairman), Torben Laustsen, Kim Skov Jensen, Jørgen Holm Jensen and Anne Rømer.

Changes to the Executive Management

Peter Smith took over the position as Chief Executive Officer of Nordea Kredit from Charlotte Gullak Christensen on 12 December 2016.

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

Outlook for 2017

The property market is expected to continue the positive trends, leading to sustained high activity and with higher prices of owner-occupied dwellings also outside the major urban areas. The same trend is also expected for holiday homes in certain parts of the country. The increase in prices is also likely to lead to higher borrowing activity as more customers will use the opportunity to borrow against the equity in their homes.

On the corporate market, volumes are expected to be stable, which is in line with the overall strategy of ensuring profitability in all customer relationships.

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

Based on expectations for the market and the increase in administration and reserve fees, which will have full effect in 2017, interest income is expected to increase. At the same time customers are expected to continue to switch to loans with longer refinancing periods, reducing net fee and commission income.

Nordea Kredit expects to continue the development of the eBolig portal in 2017, adding more digitalised solutions and making it easier to apply for a loan and improving the customer experience.

Further information

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

The Annual Report for 2016 will be published during week 7 (the week starting 13 February) and the report will be available on nordeakredit.dk and nordea.dk.

Copenhagen, 26 January 2017

Peter Smith
Chief Executive Officer

Claus H. Greve
Deputy Chief Executive Officer

Income statement

DKKm	2016	2015
Interest income	10,149	10,693
Interest expense	7,157	7,902
Net interest income	2,992	2,791
Dividend income	-	-
Fee and commission income	618	769
Fee and commission expense	1,032	992
Net interest and fee income	2,578	2,568
Net result from items at fair value	-4	-309
Other operating income	8	8
Staff costs and administrative expenses	293	241
Depreciation, amortisation and impairment charges of tangible and intangible assets	0	0
Other operating expenses	-	-
Net loan losses	138	114
Profit from investment in associated undertaking	1	1
Profit before tax	2,152	1,913
Tax	473	449
Net profit for the year	1,679	1,464

Statement of comprehensive income

Net profit for the year	1,679	1,464
Other comprehensive income, net of tax	-	-
Total comprehensive income	1,679	1,464
Attributable to		
Shareholder of Nordea Kredit Realkreditaktieselskab	1,679	1,464
Total	1,679	1,464

Balance sheet

DKKm	2016	2015
Assets		
Cash balance and demand deposits with central banks	375	609
Loans to credit institutions and central banks	45,985	50,916
Loans and receivables at fair value	390,028	385,583
Loans and receivables at amortised cost	-	-
Bonds at fair value	-	-
Investment in associated undertaking	15	15
Intangible assets	-	-
Other tangible assets	0	0
Current tax assets	-	-
Deferred tax assets	1	0
Assets in temporary possession	28	34
Other assets	575	706
Prepaid expenses	5	4
Total assets	437,012	437,867
Liabilities and equity		
Liabilities		
Deposits by credit institutions and central banks	4,515	24,608
Bonds in issue at fair value	405,197	389,568
Current tax liabilities	13	29
Other liabilities	3,072	3,341
Deferred income	35	20
Total liabilities	412,832	417,566
Provisions		
Deferred tax liabilities	-	-
Total provisions	-	-
Subordinated liabilities	2,200	-
Equity		
Share capital	1,717	1,717
Other reserves	16	15
Retained earnings	18,569	18,569
Proposed dividends	1,678	-
Total equity	21,980	20,301
Total liabilities and equity	437,012	437,867