

Nordea

Interim Report January-June 2020
Nordea Kredit Realkreditaktieselskab

Business registration number 15134275

Nordea Kredit is part of the Nordea Group. Nordea is a Nordic universal bank. We are helping our customers realise their dreams and aspirations – and we have done that for 200 years. We want to make a real difference for our customers and the communities where we operate – by being a strong and personal financial partner. The Nordea share is listed on the Nasdaq Helsinki, Nasdaq Copenhagen and Nasdaq Stockholm exchanges. Read more about us on nordea.com.

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Key financial figures

Income statement (DKKm)	Jan-Jun 2020	Jan-Jun 2019	Change %
Operating income			
Net interest income	1,595	1,576	1
Net fees and commissions paid	-163	-349	-53
Value adjustments	7	5	42
Other income	4	-3	-
Total operating income	1,443	1,229	17
Staff and administrative expenses	-293	-145	102
Total operating expenses	-293	-145	102
Profit before impairment losses	1,150	1,084	6
Impairment losses on loans and receivables	-400	-4	-
Profit before tax	750	1,080	-30
Tax	-164	-238	-31
Net profit for the period	586	842	-30

Business volumes, key items (DKKm)	30 Jun 2020	31 Dec 2019	Change %	30 Jun 2019	Change %
Loans and receivables at fair value	410,037	404,998	1	401,598	2
Loans and receivables at nominal value ¹	403,846	398,497	1	390,422	3
Bonds in issue at fair value	421,845	440,929	-4	408,567	3
Equity	21,788	22,590	-4	21,582	1
Total assets	455,346	473,277	-4	455,230	0

Ratios and key figures	Jan-Jun 2020	Jan-Jun 2019
Return on equity, % ²	5.3	7.6
Cost/income ratio	20.3	11.8
Common equity tier 1 capital ratio ³	25.0	23.2
Tier 1 capital ratio ³	25.0	23.2
Total capital ratio ³	29.5	25.7
Own funds, DKKm ³	24,429	22,365
Tier 1 capital, DKKm ³	20,679	20,165
Risk exposure amount, DKKm	82,740	87,014
Write-down ratio, basis points ²	19.5	0.2
Average number of employees (full-time equivalents)	116	114

¹ After adjustment for provisions for loan losses.

² Calculated on a yearly basis.

³ Excluding profit for the period.

Nordea Kredit Realkreditaktieselskab

Board of Directors' report

Nordea Kredit Realkreditaktieselskab is a wholly owned subsidiary of Nordea Bank Abp.

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.

Enhancing the customer experience

Nordea Kredit maintained its strong focus on the digital customer experience. During the first half of 2020, the next steps were taken and access to the eBolig portal was made available via Nordea's mobile banking app, giving customers easy access to their loan information on mobile devices.

During the COVID-19 pandemic, Nordea Kredit continued to see high activity levels, particularly driven by properties with a change of ownership. Many employees worked from home while others worked in almost empty offices, putting cooperation and social interaction to the test. Employees adapted successfully to the situation using flexible digital solutions and with a high degree of openness to change. Nordea Kredit was therefore able to maintain business as usual in very difficult and unprecedented circumstances.

Thanks to our dedicated colleagues and digital solutions Nordea Kredit managed to serve customers virtually and deliver the same high service levels and quality as before the pandemic. The strong efforts by the staff to maintain and further improve the customer experience also resulted in an improvement in overall customer satisfaction. The focus for Nordea Kredit for the second half of 2020 is to increase the cases which can be handled in the eBolig portal, thus further increasing the automation level.

Nordea improved its overall value proposition to the homeowner segment by introducing a new attractive non-collateralised loan for household customers focusing on increasing the energy efficiency of their homes (Energisparelån). This loan supplements Nordea's current portfolio of mortgage products and is especially relevant for projects at a value of up to DKK 150,000.

Nordea improved its customer satisfaction in a

new survey by market research firm EPSI while the industry in general witnessed a fall. The good result is also attributable to the overall strong handling of the COVID-19 crisis, as well as the ability to meet customer requests for new loans or remortgaging.

In 2020, several corporate customers have shown growing interest in green loans both in relation to new lending and changing or refinancing existing traditional loans. Issuance of more green loans is therefore expected in the wake of the COVID-19 pandemic.

Result summary January-June 2020

Overall net interest and fee income for the first half of 2020 was in line with expectations as outlined in the annual report for 2019.

Net interest income was up by 1% compared to the first half of 2019. Lending volumes increased by 1% compared to the end of 2019 mainly driven by new lending for owner-occupied dwellings and holiday homes.

Commission income improved by 7% compared to the first half of 2019 following higher remortgaging activity and a generally high activity level despite the COVID-19 pandemic.

Profit before impairment losses increased by 6% compared to the first half of 2019.

Impairment losses amounted to DKK 400m compared to DKK 4m in the first half of 2019 affected by management judgements. Impairment losses for the second half of 2020 are expected to be at a significantly lower level.

Profit before tax was down by 30% to DKK 750m (DKK 1,080m) (the comparative figures in brackets refer to the first half of 2019) due to increased loan loss provisions. Profit after tax was down by 30% to DKK 586m.

Operating income

Net interest income increased by 1% to DKK 1,595m (DKK 1,576m) mainly affected by the growth in lending volumes. Average margins were slightly down as expected driven by customers who remortgaged and refinanced

F1-F3 loans by either fixed-rate loans or adjustable-rate loans with a longer fixing period. This makes customers less financially dependent on interest rates and reduces refinancing risk.

Fee and commission income was up by 7% to DKK 291m (DKK 271m) driven by higher remortgaging activity compared to the first half of 2019, but down from an exceptionally high level in the second half of 2019. Refinancing fees decreased as expected following lower refinancing volumes in 2020 compared to the first half of 2019.

Fees and commissions paid decreased by DKK 166m to DKK 454m (DKK 620m) mainly due to the reclassification of costs of DKK 152m for customer-related services provided by Nordea Bank in accordance with a new agreement from 1 January 2020. The costs for the first half of 2020 are presented under Administrative expenses. Disregarding this reclassification, commission expenses were down by DKK 14m mainly related to lower fees for liquidity support facilities with Nordea Bank.

Staff and administrative expenses

Total staff and administrative expenses increased by DKK 148m to DKK 293m (DKK 145m) due to the reclassification of costs of DKK 152m in 2020 regarding the new agreement for customer-related services provided by Nordea Bank. Disregarding the reclassification, staff and administrative expenses decreased by DKK 4m primarily related to fees to the authorities. Staff costs increased slightly compared to last year as the average number of full-time equivalent employees increased to 116 (114).

Impairment losses on loans and receivables

Impairment losses on loans and receivables increased significantly to DKK 400m (DKK 4m) due to new management judgements on impairment losses of DKK 386m to cover effects of the COVID-19 pandemic and identified development needs in the provisioning model.

Nordea Kredit has considered it prudent and appropriate to complement the outcome of the individual and modelled provisions with management judgements. The management judgements cover for the substantial uncertainty in the macro-economic development to account

for expected loan losses following future expected rating downgrades not yet captured by the provisioning model and further to cover for identified development needs in the provisioning model.

Nordea Kredit has received a reprimand from Finanstilsynet dated 3 July, 2020 for not adequately recognize the macro-economic outlook following COVID-19 in the loan loss provisions for the first quarter 2020. A reassessment of loan loss provisions was performed for the first quarter based on an adverse macro-economic scenario which further resulted in a management judgement by end of June.

Overall, the loan portfolio of Nordea Kredit is well diversified with robust collateral and with low exposures to industries such as hotels, restaurants, mink farmers etc highly exposed by COVID-19.

Nordea is committed to supporting customers affected by the coronavirus crisis and has offered payment holidays. Due to the special Danish match-funding principles for mortgage companies, this offer has been made by Nordea Bank.

The guarantee coverage from Nordea Bank significantly reduces the risk of impairment losses on loans at Nordea Kredit. The first loss guarantees covered 98% (97% at end-2019) of all loans at Nordea Kredit.

The write-down ratio increased to 19.5 bps (0.2 bps) of the loan portfolio.

Tax

Income tax expense was DKK 164m (DKK 238m) and the effective tax rate was 22% (22%).

Net profit for the period

Net profit for the period decreased to DKK 586m (DKK 842m), corresponding to a return on equity in the first half of 2020 of 5.3% annually (7.6% annually).

Comments on the balance sheet

Assets

Total assets decreased to DKK 455,346m (DKK 473,277m at end-2019).

Receivables from credit institutions and central banks decreased to DKK 44,957m (DKK 67,462m at end-2019) due to a decrease in excess liquidity from lending activities.

Loans and receivables at fair value increased to DKK 410,037m (DKK 404,998m at end-2019), while total mortgage lending at nominal value after loan losses increased by 1% to DKK 403,846m (DKK 398,497m at end-2019). The increase was mainly related to owner-occupied dwellings, which were up by DKK 5,329m. Commercial properties were up by DKK 1,318m while agriculture decreased by DKK 1,299m. Gross new lending increased by 9% compared to the first half of 2019.

The arrears rate for owner-occupied dwellings and holiday homes (the 3.5-month arrears rate) for the December 2019 payment date increased to 0.17% (0.15% at the September 2019 payment date) compared to the arrears rate for the sector of 0.24%. The arrears rate for the March 2020 payment date was 0.17%.

Accumulated loan loss provisions increased by DKK 365m to DKK 608m (DKK 243m at end-2019) following the recognition of management judgements at 30 June 2020. Accumulated loan loss provisions regarding stages 1, 2 and 3 amounted to DKK 43m (zero at end-2019), DKK 268m (DKK 55m at end-2019) and DKK 297m (DKK 188m at end-2019), respectively.

Assets held temporarily remained at a low level and consisted of a total of 6 repossessed properties at the end of June 2020 (10 at end-2019) with a carrying amount of DKK 2m (DKK 12m at end-2019).

Debt

Debt to credit institutions and central banks was up by DKK 633m to DKK 6,230m (DKK 5,597m at end-2019), mainly due to increased short-term funding from Nordea Bank.

Bonds in issue at fair value were down DKK 19,084m to DKK 421,845m (DKK 440,929m at

end-2019) after offsetting the portfolio of own bonds.

Subordinated debt

Subordinated debt was up by DKK 1,550m as a new tier 2 loan was issued by the end of March 2020.

Equity

Including the net profit for the period, total equity amounted to DKK 21,788m at the end of June 2020 compared to DKK 22,590m at end-2019 and DKK 21,582m at the end of June 2019.

The property market

Owner-occupied dwellings and holiday homes

The housing market is affected by the coronavirus crisis. In the period following the shutdown on 11 March, trading activity dropped noticeably, while prices of houses and flats fell slightly. The market for holiday homes fared better and trading activity was high throughout the period. The continued low interest rates, the applicable travel restrictions and the still relatively low prices of holiday homes in most parts of the country are believed to be the reasons.

However, the housing market has welcomed the gradual reopening of Denmark, and trading activity is currently high within all types of homes. Part of the increase may be due to the backlog caused by the first shutdown of Denmark, and there is consequently a risk that trading activity will fall again in the near future.

In the period from mid-March, when the shutdown took place, and until the end of June, the supply of houses for sale decreased, which is contrary to the normal seasonal fluctuations. The decline was particularly significant in the market for holiday homes. This is because some sellers are holding back and not putting their homes up for sale at a time when the virus is still creating great uncertainty. Other sellers may fear that house prices will fall in the future, with long selling times and larger discounts.

Earlier projections have indicated price drops of approximately 5% in 2020 following the coronavirus crisis. However, given the more subdued performance in the second quarter the outlook

for house prices is currently more uncertain than usual.

Commercial properties

Residential rental properties

A significant decline in transaction volume was seen in 2019, especially in the first half of the year and for a major part caused by the uncertainty surrounding section 5(2) of the Danish housing regulation act.

This uncertainty continued into 2020 and although the amendment of the act was passed in June 2020, transaction volumes remained low also in the second quarter.

The market is not expected to be significantly affected by the situation surrounding COVID-19.

Office and retail properties

COVID-19 has adversely affected the turnover of office and retail properties in 2020. Price declines are expected primarily outside the major cities and most notably for non-food stores and offices.

Hotels and restaurants have been closed for some months and suffered greatly under COVID-19. Further access to capacity in major cities by completing ongoing projects will put downward pressure on property prices for this segment for an extended period.

Warehouses

There has been a large decline in the number of trades due to COVID-19. Going forward, warehouses are not expected to be significantly affected by the situation surrounding COVID-19.

Agricultural properties

Agricultural earnings improved significantly in 2019, mainly due to higher pig prices, but also higher earnings in crop production as a result of better growing conditions for crops in 2019.

For 2020, relatively good results for agriculture as a whole are expected. However, the COVID-19 crisis recently led to some market uncertainty, especially for pork but also for milk.

General trading activity for agricultural properties was at a relatively high level in 2019, and this is expected to continue in 2020 due to satisfactory earnings and low interest rates. However, trading in properties for milk production remains

challenging as a result of a rather large supply of properties and earnings under pressure. This is even more evident in the case of mink farms, but they constitute a very small part of the total agricultural sector.

Nordea Kredit's lending

The loan portfolio

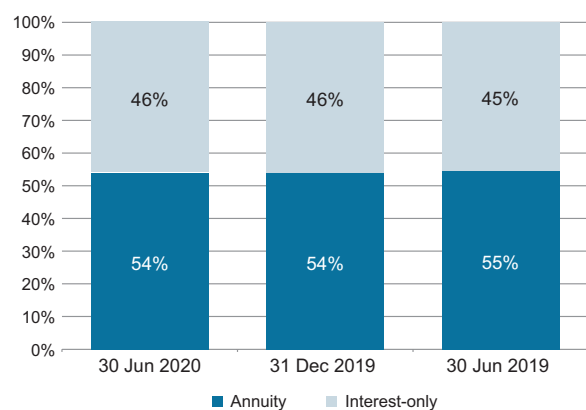
At the end of June 2020 total lending at nominal value after loan losses amounted to DKK 403,846m (DKK 398,497m at end-2019).

The high activity in the second half of 2019 continued into 2020, though at a slower pace. As the COVID-19 pandemic became more apparent in Denmark during March and April, activity slowed down somewhat.

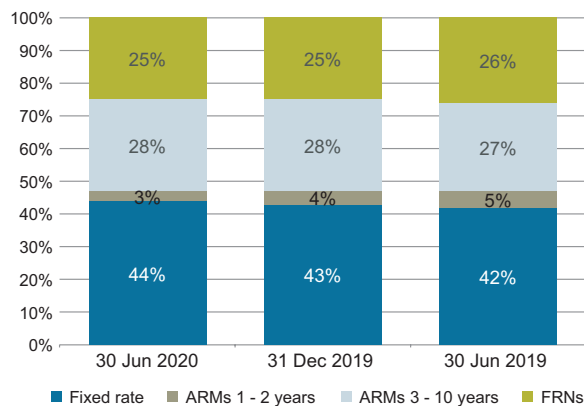
A sudden increase in long-term interest rates in mid-March gave customers willing to accept a higher interest rate the opportunity to reduce their debt by remortgaging. Interest rates dropped back quickly, though, and only a few customers managed to take advantage of this opportunity.

The total number of loan offers for change of ownership for owner-occupied dwellings and holiday homes by mortgage institutions in March-May 2020 was 7% below the same period in 2019. However, Nordea Kredit issued 5% more loan offers for change of ownership in March-May compared to the same period last year, thus increasing its market share.

Total loan portfolio by loan type



Total loan portfolio by loan type



Due to historically low 30-year interest rates, fixed-rate loans have become increasingly popular in recent years. In the first half of 2020 fixed-rate loans were the most popular loan type among household as well as corporate customers. At end-June 2020 44% of Nordea Kredit's portfolio was fixed-rate loans.

The most popular adjustable-rate mortgages (ARMs) among household customers are F5 loans while corporate customers prefer Cibor loans. Floating-rate notes (FRNs) include Kort Rente and Cibor loans.

At end-June 2020 interest-only loans accounted for 46% of the portfolio – 1% point above the level 12 months earlier. Frihed30 loans, the 30-year interest-only loan offered to customers with loan to value (LTV) ratios below 60%, have become more popular over the period and now account for 11.2% of interest-only loans for residential properties.

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

The LTV ratio for total lending at Nordea Kredit was 57.6% at the end of June 2020 (58.4% at end-2019).

The LTV ratio for owner-occupied dwellings decreased by 0.8% point to 62.3% in the first half of 2020, while the LTV ratio for rental properties decreased by 1.6% points to 50.6%. The LTV ratio for other commercial properties decreased by 1.0% point to 45.7%.

The continued downward trend in LTV ratios was closely linked to the trend in house prices.

However, effects on house prices and LTV ratios from the COVID-19 pandemic are not included in the LTV ratios at end-June. Any impact from the COVID-19 pandemic on house prices will affect LTV ratios in the second half of 2020.

A drop in prices of owner-occupied dwellings and holiday homes by 5% would, all else equal, increase the LTV ratio for these properties to 65.6%, equivalent to the level at end-December 2017. A drop in house prices by 10% would increase the LTV ratio to 69.2%, equivalent to the level at end-June 2016.

The supplementary collateral required on the basis of the LTV ratios for the individual loans was DKK 7,704m at the end of June 2020 (DKK 8,539m at end-2019).

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 under Investor Information on www.nordeakredit.dk.

Bond issuance

Rating

The mortgage bonds issued by Nordea Kredit are rated by the rating agency Standard & Poor's.

The bonds are issued through capital centre 1 and capital centre 2 and have all been assigned the highest rating of AAA.

Funding

Nordea Kredit adheres to the specific balance principle and exclusively match-funds its lending by the issuance of bonds. In general, the bonds issued are highly marketable and the refinancing auctions demonstrated satisfactory demand.

Bond issuance before redemptions amounted to DKK 57,230m nominal in the first half of 2020 (DKK 90,716m in the first half of 2019) mainly following fewer series being refinanced in 2020.

At the end of June 2020 the total nominal value of bonds issued to finance mortgage loans, before offsetting the portfolio of own bonds, decreased to DKK 419,770m (DKK 446,343m at end-2019) as remortgaging was at a high level at end-2019.

The unfolding of the COVID-19 pandemic during March triggered extreme global market conditions, where liquidity and funding were severely stressed. The Danish covered bond market did not escape the global market turbulence leading to Danish covered bond credit spreads widening at a faster daily pace than during the financial crisis. Nordea Kredit and other Danish mortgage institutions were able to issue covered bonds every single day during this period, confirming the trust in and the robustness of the Danish market, while other nearby covered bond markets were more challenged by the market turmoil. The market turbulence could be seen as a live stress test and the Danish covered bond market passed the test.

Capital adequacy

The tier 1 capital ratio excluding the net profit for the period was 25.0% (24.4% at end-2019). The tier 1 capital ratio increased due to an decrease in the risk exposure amount (REA) of DKK 1,582m to DKK 82,740m (DKK 84,322m end of 2019). The decrease in REA was mainly related to IRB, Corporates.

The total capital ratio excluding the net profit for the period increased by 2.5% point to 29.5% (27.0% at end-2019). The total capital ratio increased due to a new tier 2 loan of DKK 1,550m issued by the end of March 2020 and the above mentioned decrease in REA.

New regulation

REA, own funds and capital ratios are calculated according to the Capital Requirements Directive (CRD) and the Capital Requirements Regulation (CRR). Several buffers apply to Nordea Kredit. The capital conservation buffer (CCoB) applies with 2.5%. On 12 March 2020 the Danish Minister for Industry, Business and Financial Affairs decreased the countercyclical capital buffer (CCyB) from 1% to 0% with immediate effect as part of the COVID-19 initiatives. The planned increases during 2020 from 1% were hereby cancelled. The Danish Systemic Risk Council has announced that an increase will at the earliest be proposed in 2021. The systemic risk buffer (SRB) applies to systemically important institutions according to their systemicness. The buffer for Nordea Kredit is 1.5% in 2020. On 30 June 2020 Nordea Kredit was reappointed as a systemically

important financial institution (SIFI) with an unchanged level of systemicness. In addition to this, there is a pillar 2 requirement that is set on an individual basis.

On 7 June 2019 the CRR II, the CRD V and the Bank Recovery and Resolution Directive (BRRD) II were published in the EU Official Journal. The new regulations entered into force on 27 June 2019. As regards the CRR II, the majority of the rules will apply from the second quarter of 2021 and the CRD V and the BRRD II will be implemented in national legislation by the fourth quarter of 2020.

On 28 April 2020 the EU Commission presented a package to help facilitate bank lending to households and businesses throughout the European Union. The package was approved with minor adjustments in June and published in the EU Official Journal on 26 June 2020 and came into force the day after. The aim of the package is to ensure that banks can continue to lend money to support the economy and help mitigate the significant economic impact of the COVID-19 pandemic. The package includes a few targeted "quick fix" amendments to the CRR. The changes to the CRR include earlier implementation of the adjusted SME factor and not as planned according to the above implementation plan.

Debt buffer requirement

As part of the implementation of the BRRD in Denmark, mortgage institutions such as Nordea Kredit must fulfil a debt buffer requirement of 2% of their total mortgage lending at fair value. The requirement was fully phased in at 2.0% from June 2020. The debt buffer requirement is fulfilled using tier 1 and tier 2 capital instruments not used for capital requirements.

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 or under Investor Relations on www.nordea.com.

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 a pillar 2 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 fair value. At 30 June 2020 the LCR requirement that was the binding constraint on the liquidity buffer was the pillar 2 LCR floor requirement, and the LCR relative to the floor was 225% (the LCR requirement as specified by the Delegated Act was 2,776%).

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.

At the end of June 2020 Nordea Kredit complied with four benchmarks of the supervisory diamond for mortgage institutions: borrower's interest rate risk, interest-only lending, short-term funding and large exposures.

Due to Nordea Bank's strong market position, Nordea Kredit's lending for residential rental properties has shown a positive trend in recent years. To be able to serve creditworthy and attractive customers within residential rental properties, Nordea Kredit decided to temporarily exceed the 15% recommendation in April 2020. The Danish FSA was informed in advance.

The annual lending growth to residential rental properties was 16% at 30 June 2020.

The supervisory diamond

	30 June 2020	Limit
1. Lending growth		
• Owner-occupied dwellings and holiday homes	4%	15%
• Residential rental properties	16%	15%
• Agriculture	-6%	15%
• Other	-3%	15%
2. Borrower's interest rate risk ¹	14%	25%
3. Interest-only lending ²	7%	10% ⁵
4. Short-term funding ³		
• Annually	6%	25% ⁵
• Quarterly	0%	12.5% ⁵
5. Large exposures ⁴	32%	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.

Executive Management

The Executive Management of Nordea Kredit consists of Kamilla Hammerich Skytte and Claus H. Greve. As part of the generational plan, the Board of Directors appointed Kamilla Hammerich Skytte as Chief Executive Officer (formerly Deputy Chief Executive Officer) and Claus H. Greve as Deputy Chief Executive Officer (formerly Chief Executive Officer) on 19 June 2020.

Risks and uncertainties

See Note 7 for information about risks and uncertainties.

Income statement

DKK m	Note	Jan-Jun 2020	Jan-Jun 2019	Full year 2019
Interest income		3,797	4,380	8,601
Interest expenses		-2,202	-2,804	-5,445
Net interest income	2	1,595	1,576	3,156
Fee and commission income		291	271	815
Fees and commissions paid		-454	-620	-1,301
Net interest and fee income		1,432	1,227	2,670
Value adjustments	3	7	5	13
Other operating income		1	0	4
Staff and administrative expenses		-293	-145	-306
Depreciation of tangible assets		0	0	0
Impairment losses on loans and receivables	4	-400	-4	-6
Profit from equity investment in associated undertaking		3	-3	-2
Profit before tax		750	1,080	2,373
Tax		-164	-238	-523
Net profit for the period		586	842	1,850

Statement of comprehensive income

DKK m	Jan-Jun 2020	Jan-Jun 2019	Full year 2019
Net profit for the period	586	842	1,850
Other comprehensive income, net of tax	-	-	-
Total comprehensive income	586	842	1,850

Balance sheet

DKKm	Note	30 Jun 2020	31 Dec 2019	30 Jun 2019
Assets				
Cash in hand and demand deposits with central banks		50	50	50
Receivables from credit institutions and central banks		44,957	67,462	53,084
Loans and receivables at fair value	5	410,037	404,998	401,598
Loans and receivables at amortised cost		1	1	1
Investment in associated undertaking		23	20	19
Tangible assets		0	0	1
Deferred tax assets		1	3	1
Assets held temporarily		2	12	49
Other assets		253	723	395
Prepaid expenses		22	8	32
Total assets		455,346	473,277	455,230
Debt				
Debt to credit institutions and central banks		6,230	5,597	20,689
Bonds in issue at fair value		421,845	440,929	408,567
Current tax liabilities		64	19	134
Other liabilities		1,642	1,919	2,024
Deferred income		27	23	34
Total debts		429,808	448,487	431,448
Subordinated debt				
Subordinated debt		3,750	2,200	2,200
Equity				
Share capital		1,717	1,717	1,717
Other reserves		24	21	20
Retained earnings		20,047	19,464	19,845
Proposed dividend		-	1,388	-
Total equity		21,788	22,590	21,582
Total liabilities and equity		455,346	473,277	455,230
Contingent liabilities				
Guarantees etc		0	75	75
Credit commitments		1,233	1,498	1,460
Total contingent liabilities		1,233	1,573	1,535

Statement of changes in equity

DKKm	Share capital	Other reserves ¹	Retained earnings	Proposed dividend	Total
Balance at 1 Jan 2020	1,717	21	19,464	1,388	22,590
Net profit for the period	-	3	583	-	586
Other comprehensive income	-	-	-	-	-
Dividends paid	-	-	-	-1,388	-1,388
Balance at 30 Jun 2020	1,717	24	20,047	-	21,788
Balance at 1 Jan 2019	1,717	23	19,000	1,593	22,333
Net profit for the period	-	-2	1,852	-	1,850
Other comprehensive income	-	-	-	-	-
Dividends paid	-	-	-	-1,593	-1,593
Proposed dividend	-	-	-1,388	1,388	-
Balance at 31 Dec 2019	1,717	21	19,464	1,388	22,590
Balance at 1 Jan 2019	1,717	23	19,000	1,593	22,333
Net profit for the period	-	-3	845	-	842
Other comprehensive income	-	-	-	-	-
Dividends paid	-	-	-	-1,593	-1,593
Balance at 30 Jun 2019	1,717	20	19,845	-	21,582

¹ Reserve for net revaluation according to the equity method.

Notes to the financial statements

Note 1 Accounting policies

Basis of presentation

The interim report of 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 for the annual report for 2019. For more information see Note 1 in the annual report for 2019.

The financial statements have not been reviewed or audited.

Critical judgements and estimation uncertainty

Nordea Kredit has applied significant critical judgements in the preparation of the interim report for the first half-year 2020, due to the significant uncertainties in relation to the potential long-term impact of COVID-19 on Nordea Kredit's financial statements. More information on where critical judgements are generally applied and where estimation uncertainty exists can be found in the Annual Report 2019, Note 1 "Accounting policies", section 4. The area of particular importance in the first half-year 2020 is measurement of changes in the fair value of the credit risk on loans and receivables at fair value.

Critical judgement has been applied in the assessment of when loans have experienced a significant increase in credit risk (staging) and in the application of macro scenarios when estimating the increase in expected credit losses. When calculating allowances for individually impaired loans, judgement is exercised to estimate the value of the collateral received. Judgement is exercised in the choice of modelling approaches covering 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. Besides the model-based impairments, management judgements are made to include impairments related to risks that are not captured by the impairment model.

Note 2 Net interest income

DKKm	Jan-Jun 2020	Jan-Jun 2019	Full year 2019
Interest income			
Loans and receivables at fair value	1,917	2,595	4,897
Administration and reserve fees receivable	1,690	1,670	3,342
Positive interest expenses	182	110	348
Other interest income	8	5	14
Total interest income	3,797	4,380	8,601
Interest expenses			
Debt to credit institutions and central banks	-2	-1	-2
Bonds in issue at fair value	-2,040	-2,641	-5,057
Subordinated debt	-22	-13	-25
Negative interest income	-138	-149	-361
Total interest expenses	-2,202	-2,804	-5,445
Net interest income	1,595	1,576	3,156

The comparative figures have been adapted to the new presentation of negative interest income and expenses implemented in the annual report for 2019. For more information see Note 1 in the annual report for 2019.

Notes to the financial statements

Note 3 Value adjustments

DKKkm	Jan-Jun 2020	Jan-Jun 2019	Full year 2019
Mortgage loans	-531	3,036	-1,188
Foreign exchange gains/losses	0	0	0
Interest rate derivatives	30	24	24
Bonds in issue ¹	508	-3,055	1,177
Total	7	5	13

¹ Including value adjustments on own positions.

Note 4 Impairment losses on loans and receivables

DKKkm	Jan-Jun 2020	Jan-Jun 2019	Full year 2019
Stage 1			
New and increased impairment charges	-43	-	-
Reversals of impairment charges	-	-	-
Impairment losses on loans and receivables, non-credit impaired	-43	-	-
Stage 2			
New and increased impairment charges	-229	-4	-11
Reversals of impairment charges	16	21	39
Impairment losses on loans and receivables, non-credit impaired	-213	17	28
Stage 3, credit impaired			
Realised loan losses	-38	-41	-100
Decrease in impairment charges to cover realised loan losses	34	38	91
Recoveries on previous realised loan losses	4	7	11
New and increased impairment charges	-206	-134	-245
Reversals of impairment charges	62	109	209
Impairment losses on loans and receivables, credit impaired	-144	-21	-34
Impairment losses on loans and receivables	-400	-4	-6

Notes to the financial statements

Note 5 Loans and receivables at fair value

DKKkm	30 Jun 2020	31 Dec 2019	30 Jun 2019
Mortgage loans, nominal value			
Value at beginning of period	398,740	387,482	387,482
New loans (gross new lending)	45,646	130,874	41,978
Foreign exchange revaluations	-13	6	-1
Redemptions and prepayments	-35,394	-110,535	-34,474
Net new lending for the period	10,239	20,345	7,503
Scheduled principal payments	-4,525	-9,087	-4,274
Mortgage loan portfolio at end of period	404,454	398,740	390,711
Mortgage loans, fair value			
Nominal value	404,454	398,740	390,711
Adjustment for interest rate risk etc	6,037	6,348	11,017
Adjustment for credit risk	-608	-243	-289
Mortgage loan portfolio	409,883	404,845	401,439
Mortgage arrears and execution levied against debtors' properties	154	153	159
Loans and receivables at fair value	410,037	404,998	401,598

Movements of allowance accounts for loans and receivables measured at fair value

DKKkm	Stage 1	Stage 2	Stage 3	Total
Balance at 1 Jan 2020	-	55	188	243
New impairment charges	43	227	150	420
Increased impairment charges	-	2	53	55
Reversals of impairment charges	-	-16	-62	-78
Write-off through decrease in allowance account	-	-	-32	-32
Other changes ¹	-	-	0	0
Balance at 30 Jun 2020	43	268	297	608

DKKkm	Stage 1	Stage 2	Stage 3	Total
Balance at 1 Jan 2019	-	83	240	323
New impairment charges	-	5	138	143
Increased impairment charges	-	6	103	109
Reversals of impairment charges	-	-39	-208	-247
Write-off through decrease in allowance account	-	-	-83	-83
Other changes ¹	-	-	-2	-2
Balance at 31 Dec 2019	-	55	188	243

DKKkm	Stage 1	Stage 2	Stage 3	Total
Balance at 1 Jan 2019	-	83	240	323
New impairment charges	-	1	72	73
Increased impairment charges	-	3	58	61
Reversals of impairment charges	-	-21	-108	-129
Write-off through decrease in allowance account	-	-	-37	-37
Other changes ¹	-	-	-2	-2
Balance at 30 Jun 2019	-	66	223	289

¹ Relates to transfer of impairment charges on loans to Assets held temporarily.

Notes to the financial statements

Note 5

Loans and receivables at fair value (continued)

Forward-looking information

Forward-looking information is used both for assessing significant increases in credit risk and in the calculation of expected credit losses. Nordea Kredit uses three macroeconomic scenarios, a baseline scenario, a favourable scenario and an adverse scenario. For the second quarter of 2020 the scenarios have been weighted into the final expected credit losses (ECL) using the following weights: baseline 60%, adverse 20% and favourable 20%. The same weights were applied during 2019.

The macro scenarios are based on the Oxford Economics model. The forecast is a combination of modelling and expert judgement, subject to thorough checks and quality control processes. The model has been built to give a good description of the historic relationships between economic variables and to capture the key linkages between those variables.

The macro scenarios reflect Nordea's view of how the COVID-19 virus and lockdowns potentially can impact the economic outlook. The scenarios also reflect the macroeconomic effects of the government and central bank support measures. The labour market support scheme has played a significant role in supporting the Danish economy during the lockdown phase. The support to household incomes and cost relief to companies from the labour market scheme have been substantial. Looking ahead, it is expected that the phasing out of the labour market support scheme in the second half of 2020 will start weighing on consumer confidence and could potentially lead to more business insolvencies and unemployment. This effect is expected to be most pronounced in the service industries and transport, where Nordea data indicate that spending has not yet returned to normal. The rise in open unemployment associated with the end of the labour market schemes is likely to weigh on the housing market. A management judgement has been recognised based on stressed simulation of the ECL reflecting the adverse scenario with a sharp decline in gross domestic product (GDP) in 2020 followed by slow recoveries in 2021 and 2022.

In the below tables the real GDP, unemployment rate and home prices applied in the macro-economic scenarios are presented.

	Real GDP, % y/y			Unemployment rate, %			Home prices, % y/y		
	2020	2021	2022	2020	2021	2022	2020	2021	2022
Favourable scenario	-3.1	5.1	2.3	5.1	4.3	4.0	-2.0	1.5	2.5
Baseline scenario	-5.0	3.8	3.3	5.9	5.6	4.9	-5.3	2.7	2.6
Adverse scenario	-8.0	1.0	4.7	7.0	8.2	6.8	-6.3	-2.5	-0.3

Note 6

Capital adequacy

	30 Jun 2020	31 Dec ¹ 2019	30 Jun 2019
DKK _m			
Calculation of own funds			
Equity	21,203	22,590	20,740
Proposed/actual dividend	-	-1,388	-
Common equity tier 1 capital before regulatory adjustments	21,203	21,203	20,740
IRB provisions shortfall (-)	-390	-415	-400
Other items, net	-134	-185	-175
Total regulatory adjustments to common equity tier 1 capital	-524	-600	-575
Common equity tier 1 capital (net after deduction)	20,679	20,603	20,165
Tier 1 capital (net after deduction)	20,679	20,603	20,165
Tier 2 capital before regulatory adjustments	3,750	2,200	2,200
Total regulatory adjustments to tier 2 capital	-	-	-
Tier 2 capital	3,750	2,200	2,200
Own funds (net after deduction)	24,429	22,803	22,365

¹ Including profit for the year.

Notes to the financial statements

Note 6 Capital adequacy (continued)

Minimum capital requirement and risk exposure amount (REA)

DKKm	30 Jun 2020 Minimum capital requirement	30 Jun 2020 REA	31 Dec 2019 Minimum capital requirement	31 Dec 2019 REA	30 Jun 2019 Minimum capital requirement	30 Jun 2019 REA
Credit risk	6,287	78,582	6,417	80,205	6,631	82,893
- of which counterparty credit risk	77	968	108	1,346	331	4,134
IRB	5,599	69,988	5,695	71,189	5,697	71,208
- corporate	2,384	29,797	2,532	31,656	2,544	31,805
- advanced	2,384	29,797	2,532	31,656	2,544	31,805
- institutions	1	8	1	6	1	4
- retail	3,184	39,795	3,144	39,300	3,134	39,170
- secured by immovable property collateral	3,131	39,131	3,085	38,568	3,054	38,179
- other retail	53	664	59	732	80	991
- other	30	388	18	227	18	229
Standardised	688	8,594	722	9,016	934	11,685
- central governments or central banks	0	4	1	7	0	3
- institutions	676	8,447	701	8,767	919	11,481
- corporate	0	2	0	1	0	1
- secured by mortgages on immovable property	10	118	18	222	14	181
- equity	2	23	2	19	1	19
Market risk	-	-	-	-	-	-
Operational risk	331	4,142	328	4,100	328	4,100
Standardised	331	4,142	328	4,100	328	4,100
Additional risk exposure amount related to Swedish RW floor due to Article 3 CRR	1	16	1	17	2	21
Additional risk exposure amount due to Article 3 of the CRR	-	-	-	-	-	-
Total	6,619	82,740	6,746	84,322	6,961	87,014

Notes to the financial statements

Note 6 Capital adequacy (continued)

Minimum capital requirement and capital buffers

Per cent, 30 Jun 2020	Minimum capital requirements	Capital buffers				Capital buffers total	Total
		CCoB	CCyB	O-SII	SRB		
Common equity tier 1 capital	4.5	2.5	0.0	-	1.5	4.0	8.5
Tier 1 capital	6.0	2.5	0.0	-	1.5	4.0	10.0
Own funds	8.0	2.5	0.0	-	1.5	4.0	12.0

DKKm, 30 Jun 2020

Common equity tier 1 capital	3,723	2,068	0	-	1,241	3,310	7,033
Tier 1 capital	4,964	2,068	0	-	1,241	3,310	8,274
Own funds	6,619	2,068	0	-	1,241	3,310	9,929

Common equity tier 1 available to meet capital buffers

Percentage points of REA	30 Jun 2020	31 Dec ¹ 2019	30 Jun 2019
Common equity tier 1 capital	19.0	18.4	17.2

¹ Including profit for the year.

Capital ratios

Capital ratios, excl Basel I floor (%)	30 Jun 2020	31 Dec ¹ 2019	30 Jun 2019
Common equity tier 1 capital ratio	25.0	24.4	23.2
Tier 1 capital ratio	25.0	24.4	23.2
Total capital ratio	29.5	27.0	25.7

¹ Including profit for the year.

Leverage ratio	30 Jun 2020	31 Dec ¹ 2019	30 Jun 2019
Tier 1 capital, transitional definition, DKKm	20,679	20,603	20,165
Leverage ratio exposure, DKKm	450,453	473,450	455,473
Leverage ratio	4.6	4.4	4.4

¹ Including profit for the year.

Notes to the financial statements

Note 7 Risks and uncertainties

Nordea Kredit's main risk exposure is credit risk. Nordea Kredit only assumes limited market risks, liquidity risks and operational risks. See the annual report for further information on risk composition.

There are significant risks caused by the COVID-19 outbreak given the uncertainty of the economic impact on the market in which Nordea Kredit operates. The extent of economic disruption caused by lockdown is still not clear. The possible reintroduction of lockdown, potentially for a considerable period of time, could cause significant downside risks. The effect of these developments on Nordea Kredit's financial performance is uncertain and could have an impact through further loan losses or reduction in income.

Nordea Kredit is not involved in legal proceedings or disputes which are considered likely to have any significant adverse effect on Nordea Kredit or its financial position.

Note 8 The Danish Financial Supervisory Authority's ratio system

	Jan-Jun 2020	Jan-Jun 2019	Full year 2019
Total capital ratio, %	29.5	25.7	27.0
Tier 1 capital ratio, %	25.0	23.2	24.4
Pre-tax return on equity, %	3.4	4.9	10.6
Post-tax return on equity, %	2.6	3.8	8.2
Income/cost ratio	2.1	8.2	8.6
Foreign exchange exposure as % of tier 1 capital	1.8	1.5	1.6
Loans/equity ratio	18.8	18.6	17.9
Lending growth for the period, %	1.3	0.8	3.0
Impairment ratio for the period, %	0.1	0.0	0.0
Return on assets, %	0.2	0.2	0.4

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.

Glossary

The following definitions apply for ratios and key figures on page 3 etc.

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 period divided by loans and receivables at nominal value beginning of the period.

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 the period.

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 period as a percentage of average equity for the period. Average equity is including net profit for the period 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 period as a percentage of the closing balance of loans and receivables before impairment losses on loans and receivables.

Statement by the Board of Directors and the Executive Management

The Board of Directors and the Executive Management have discussed and approved the interim report of Nordea Kredit Realkreditaktieselskab for the half-year ending 30 June 2020.

The interim 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 30 June 2020 and of the results of the company's operations for the half-year ending 30 June 2020.

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.

Copenhagen, 17 July 2020

Board of Directors

Mads Skovlund Pedersen
(Chair)

Anne Rømer
(Vice Chair)

Kim Skov Jensen

Jørgen Holm

Anita Nedergaard Nielsen

Marte Kopperstad

Thomas Vedel Kristensen

Executive Management

Kamilla Hammerich Skytte
(Chief Executive Officer)

Claus H. Greve
(Deputy Chief Executive Officer)

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