

Nordea

Interim Report January-June 2021
Nordea Kredit Realkreditaktieselskab

Business registration number 15134275

Nordea Kredit is part of the Nordea Group. Nordea is a leading 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 2021	Jan-Jun 2020	Change %
Total operating income	1,341	1,443	-7
Total operating expenses	-678	-293	131
Profit before impairment losses on loans and receivables	663	1,150	-42
Impairment losses on loans and receivables	88	-400	-122
Profit before tax	751	750	0
Net profit for the period	586	586	0

Balance sheet (DKKm)	30 Jun 2021	31 Dec 2020	Change %	30 Jun 2020	Change %
Loans and receivables at fair value	419,745	417,553	1	410,037	2
Loans and receivables at nominal value ¹	420,807	409,222	3	403,846	4
Bonds in issue at fair value	430,487	435,055	-1	421,845	2
Equity	21,790	22,481	-3	21,788	0
Total assets	467,399	467,936	-0	455,346	3

Ratios and key figures	Jan-Jun 2021	Jan-Jun 2020
Return on equity, % ²	5.3	5.3
Cost/income ratio	50.6	20.3
Write-down ratio, basis points ²	-4.2	19.5
Common equity tier 1 capital ratio ³	25.0	25.0
Tier 1 capital ratio ³	25.0	25.0
Total capital ratio ³	29.6	29.5
Own funds, DKKm ³	24,285	24,429
Tier 1 capital, DKKm ³	20,535	20,679
Risk exposure amount, DKKm	81,994	82,740
Average number of employees (full-time equivalents)	114	116

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 continued to see high activity levels in the first half of 2021, particularly driven by properties with a change of ownership for household customers. Even though the first half of 2021 was affected by yet another lockdown with large groups of colleagues working from home, Nordea Kredit managed to keep up momentum and serve both existing and new customers. Going forward, we aim to increase the level of customer satisfaction by keeping our focus on both virtual and personal offerings to our customers.

Nordea Kredit continued its focus on the digital customer experience. In June 2021 a new and faster process for issuing home loan certificates was introduced, enabling personal banking advisers to speed up the granting of home loan certificates significantly. Furthermore, guarantor letters were digitalised and household customers' annual statements for 2020 were delivered in the customers' e-Boks. Corporate customers' physical annual statements for 2021 are expected to be replaced by a similar solution. The journey towards increased digitalisation will continue with other documents during 2021 and 2022.

The focus for Nordea Kredit in 2021 is also to further increase the use of the eBolig portal and thereby increasing the automation level.

The 30-year interest-only loan – Frihed30 – targeted customers with a maximum loan to value ratio of 60% has been popular among household customers. By end-June Frihed30 loans for owner-occupied dwellings amounted to DKK 30bn. Due to the popularity of Frihed30 loans and the possibility of fixed rated loans, interest-only loans constitute an increasing share of the loan portfolio.

Nordea Kredit has continuously increased its

market share within owner-occupied dwellings during the past five quarters.

Nordea Kredit continued to develop its sustainability offering and has as per end-June 2021 issued DKK 9bn in green mortgages for corporate customers. Nordea Kredit has issued green mortgage loans for example for wind turbines, residential rental properties with energy label A or B, public utilities and organic farming.

Green mortgage loans are funded by green bonds issued according to the Nordea Green Bond Framework, and the customers benefit from the lower interest rates on these bonds due to investor demand for green investments.

Result summary January-June 2021

Net interest income was up by 3% compared to the first half of 2020. Lending volumes increased by 3% compared to the end of 2020 mainly driven by new lending related to change of ownership for household customers. Lending volumes increased 4% compared to 30 June 2020. Commission income improved by 8% compared to the first half of 2020 following high lending activity.

Profit before impairment losses was DKK 663m, and decreased by 42% compared to the first half of 2020 due to significant increases in intragroup fees from price adjustments to the first loss guarantee and the sales and distribution services provided by Nordea Bank.

Impairment losses were positive by DKK 88m due to a low level of realised loan losses combined with a reversal of model-calculated provisions, reflecting the good credit quality of the loan portfolio. Management judgements related to the coronavirus pandemic amounted to DKK 98m and were unchanged compared to end December 2020.

Profit before tax was largely unchanged at DKK 751m (DKK 750m) (the comparative figures in brackets refer to the first half of 2020). Profit after tax was unchanged at DKK 586m.

Net interest and net fee income for the first half of 2021 were generally in line with expectations. Due to the higher fee for sales and distribution

services, administrative expenses were higher than the expectations outlined in the annual report for 2020.

Operating income

Net interest income increased by 3% to DKK 1,641m (DKK 1,595m) driven 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.

Fee and commission income was up by 8% to DKK 313m (DKK 291m) driven by higher activity mainly due to lending for change of ownership for household customers.

Fee and commission expenses increased by DKK 162m to DKK 616m (DKK 454m) 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 increased by DKK 385m to DKK 678m (DKK 293m) mainly due to an increase in the fee for sales and distribution services provided by Nordea Bank. From 1 January 2021 the transfer pricing method applied by Nordea to group internal sales and distribution services delivered to Nordea Kredit was updated to be in line with the development of OECD guidelines on transfer pricing. The updated methodology has entailed pricing adjustments of sales and distribution fees. Accrued fees for the first half of 2021 increased administrative expenses.

Staff costs was up by 3% compared to last year affected by a general increase in salaries and performance related salaries.

The average number of full-time equivalent employees were 114 (116).

Impairment losses on loans and receivables

Impairment losses on loans and receivables significantly improved and amounted to a net reversal of DKK 88m (loss of DKK 400m) due to a low level of realised loan losses combined with a reversal of model-calculated provisions, reflecting the good credit quality of the loan portfolio. Loan losses for the first half of 2020 were negatively

affected by management judgements of DKK 386m to cover effects of the coronavirus pandemic and identified development needs in the provisioning model.

The management judgement provision related to the coronavirus pandemic amounted to DKK 98m and was unchanged compared to the end of 2020, thereby ensuring an adequate provision to cover credit losses related to the pandemic.

Overall, the loan portfolio of Nordea Kredit is well diversified with robust collateral and with low exposure to industries highly exposed to the coronavirus pandemic.

The guarantee coverage from Nordea Bank significantly reduces the risk of impairment losses on loans at Nordea Kredit. The first loss guarantees covered an unchanged share of 98% (98% at end-2020) of all loans at Nordea Kredit.

The write-down ratio of the loan portfolio improved to -4.2 bps (19.5 bps) compared to last year.

Tax

Income tax expense was DKK 165m (DKK 164m) and the effective tax rate was unchanged at 22% (22%).

Net profit for the period

Net profit for the period was unchanged at DKK 586m (DKK 586m), corresponding to a return on equity in the first half of 2021 of 5.3% annually (5.3% annually).

Comments on the balance sheet

Assets

Total assets were almost unchanged at DKK 467.4bn (DKK 467.9bn at end-2020).

Receivables from credit institutions and central banks decreased to DKK 47.3bn (DKK 49.9bn at end-2020) due to a decrease in excess liquidity from lending activities.

Loans and receivables at nominal value after loan losses increased by 3% to DKK 420.8bn (DKK 409.2bn at end-2020). The increase was mainly related to owner-occupied dwellings, which were up by DKK 10.3bn nominal. Commercial

properties were up by DKK 2.2bn nominal while agriculture decreased by DKK 0.9bn nominal. Gross new lending increased by 14% compared to the first half of 2020. Fair value increased to DKK 419.7bn (DKK 417.6bn at end-2020).

The arrears rate for owner-occupied dwellings and holiday homes (the 3.5-month arrears rate) for the December 2020 payment date decreased to 0.10% (0.14% at the September 2020 payment date) compared to the arrears rate for the sector of 0.18%. The arrears rate for the March 2021 payment date was 0.09%.

Accumulated loan loss provisions decreased by DKK 118m to DKK 553m (DKK 671m at end-2020) mainly following the reversal of model-calculated provisions. Accumulated loan loss provisions regarding stages 1, 2 and 3 amounted to DKK 53m (DKK 60m at end-2020), DKK 227m (DKK 257m at end-2020) and DKK 273m (DKK 354m at end-2020), respectively.

Assets held temporarily remained at a low level and consisted of a total of 4 repossessed properties at the end of June 2021 (6 at end-2020) with a carrying amount of DKK 4m (DKK 6m at end-2020).

Debt

Debt to credit institutions and central banks was up by DKK 4.4bn to DKK 9.4bn (DKK 5.0bn at end-2020), mainly due to increased short-term funding from Nordea Bank.

Bonds in issue at fair value were down by DKK 4.5bn to DKK 430.5bn (DKK 435.0bn at end-2020) after offsetting the portfolio of own bonds.

Equity

Including the net profit for the period, total equity amounted to DKK 21.8bn at the end of June 2021 compared to DKK 22.5bn at end-2020 and DKK 21.8bn at the end of June 2020.

The property market

Owner-occupied dwellings and holiday homes

House prices and trading activity fell briefly when the coronavirus pandemic hit the Danish economy in March 2020, but subsequently both prices and trading activity have increased

significantly. Prices have increased the most in and around Copenhagen, but growth is evident in all regions and within owner-occupied houses, owner-occupied flats and holiday homes.

Nominal house prices are now higher than the peak in the 2000s in most parts of the country, while real house prices nationwide are at roughly the same level as in the mid-2000s when house prices peaked last time.

Demand for housing depends, among other things, on income trends and the cost of buying and owning a home. Despite the significant impact of the coronavirus pandemic on the national economy in 2020 and 2021, household finances have on average been relatively stable, partly as a result of large fiscal assistance packages and a relaxed monetary policy.

Many people with jobs in coronavirus-affected sectors have been sent home with full wage income without working. In addition, the financial consequences of the crisis have been hardest among young, unskilled and part-time employees as well as in industries with only a small proportion of potential homebuyers. At the same time households' savings have increased through the pandemic due to fewer spending opportunities, social restrictions and the payout of the frozen holiday pay. The increased savings can be used for the mandatory down payment on a home, and it seems reasonable to assume that it has affected housing demand the past year.

Demand for housing also depends on the financing and ownership costs. Long-term mortgage rates rose slightly in early 2021, but the increase must be seen in light of a decline in the first half of 2020, and interest rates are now at about the same level as at the end of 2019. Short-term mortgage rates have risen only marginally at the same time, and overall this supports the interest in buying a home.

There is also a possibility that the coronavirus pandemic has changed people's housing preferences permanently as a result of more people working remotely. It may likewise have created a more lasting desire for more space and better living conditions.

Denmark is not the only country where house prices have risen significantly in recent years.

House price increases are part of an international trend towards rising asset prices, which is partly driven by the expansionary monetary and fiscal policies.

The growth in housing prices was rapid during 2020 and the beginning of 2021. The growth rate is especially high in Copenhagen and surrounding areas for houses and flats and in selected areas in the country for holiday homes. However, this is considered primarily to be driven by economic growth and low interest rates. The proportion of income spent on housing costs is also still considered to be at an acceptable level for most buyers of owner-occupied housing.

In addition, the high demand for housing is deemed to be related to the social restrictions as a result of the coronavirus pandemic, which has made people more aware of their housing conditions. As the coronavirus pandemic fades, interest in buying owner-occupied housing will likely also wane. Supply has already increased and trading activity has fallen slightly. Interest rates are higher than at the beginning of the year, and this will also dampen the demand for owner-occupied housing in the near future.

There is a possibility that regulation in the housing area will be tightened, but this is not expected to spark a major downward trend in prices, but rather to slow or sustain the growth.

Commercial properties

Residential rental properties

During the past year the market for residential rental properties had another good period, with rising prices especially in Copenhagen and Aarhus despite a large supply of new residential rental properties. At the same time rent levels remained stable and yield levels came under downward pressure.

Office and retail properties

Rent levels remain stable and vacancy rates are still low. This may change in the future due to increased use of employees working remotely.

Online trading has made it difficult for many stores to cope with the competition, resulting in increased closures. Generally, vacancies are expected to increase as a consequence of online trading, with pressure on rents resulting in falling prices.

Hotels and restaurants have been closed for a long period and suffered greatly under the coronavirus pandemic. Further supply of capacity especially in Copenhagen as ongoing projects are completed will put downward pressure on property prices for this segment for an extended period.

Warehouses

There has been solid demand for modern and well-located properties with good infrastructure. Vacancy rates are low and rent levels have generally been increased.

Agricultural properties

Total earnings in agriculture have improved significantly in recent years, which has contributed to a reduction in debt and thus increased robustness in the industry. Disregarding the shutdown of the mink industry, the agriculture sector has only been affected by the coronavirus pandemic for a shorter period, and sales prices of agricultural products are back at relatively high levels. The outlook for 2021 is therefore in general good. Agriculture faces a number of uncertainties in the coming years such as the consequences of the new EU agricultural regime and especially the green transition.

Trading activity in land and crop properties has been good in recent years and with stable prices, partly due to the low interest rates and the resultant interest from external investors. The turnover of properties with pig production is good due to generally strong earnings in the pig industry for a number of years. The market for milk production properties is still under pressure due to a relatively large supply of properties. Trading activity is expected to be unchanged in the coming period.

Nordea Kredit's lending

The loan portfolio

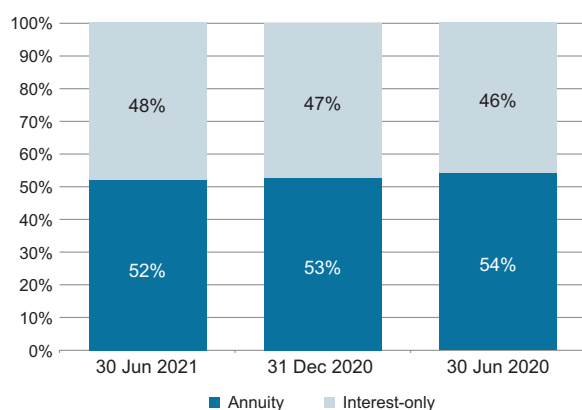
At the end of June 2021 total lending at nominal value after loan losses amounted to DKK 421bn (DKK 409bn at end-2020).

Gross new lending in the first half of 2021 amounted to DKK 52bn, of which DKK 39bn related to owner-occupied dwellings and holiday homes. Lending activity and the increased lending portfolio in the first half of 2021 were

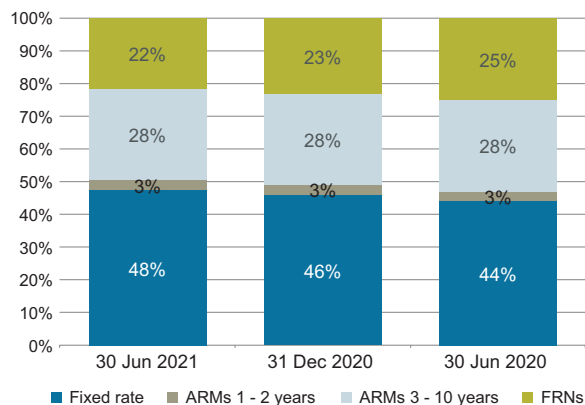
primarily driven by high sales activity on the housing market.

Loans for change of ownership for owner-occupied dwellings and holiday homes increased by 54% compared to first half 2020 and amounted to DKK 15bn in the first half of 2021. The number of owner-occupied dwellings and holiday homes mortgaged with Nordea Kredit increased by 1,700 properties in the first half of 2021.

Total loan portfolio by loan type



Total loan portfolio by loan type



Long-term interest rates rose slightly in the first half of 2021, widening the spread between short- and long-term interest rates. Despite this, fixed-rate loans were still popular, with seven out of ten household customers preferring fixed-rate loans over adjustable-rate loans in the first half of 2021. 48% of the total portfolio was fixed-rate loans by end-June compared to 44% by end-June 2020. Among household customers preferring adjustable-rate loans, three out of four customers chose F5 loans in the first half of 2021.

The 30-year interest-only loan – Frihed30 – was popular among household customers. By end-June Frihed30 loans for owner-occupied dwellings amounted to DKK 30bn. In the first half of 2021 Frihed 30 loans increased by DKK 10bn of which 57% was fixed rated loans. Frihed30 loans are targeted towards experienced homeowners and are only available to customers with a maximum loan to value (LTV) ratio of 60%. Consequently, the increased use of interest-only loans is not driven by customers with high LTVs. Due to the popularity of Frihed30 loans, interest-only loans constitute an increasing share of the loan portfolio. By end-June 48% of the portfolio (47% at end-2020) was interest-only loans.

Floating-rate products (for example Cibor6 and Cibor6 Green loans) account for 45% of the lending portfolio for corporate borrowers. However, in the first half of 2021 fixed-rate loans accounted for 44% of gross new loans for corporate customers.

Lending volumes in Cibor6 Green loans for corporate borrowers introduced in late 2019 amounted to DKK 9bn by end-June 2021 (DKK 3.8bn by end-2020).

LTV ratios

The LTV ratio for total lending at Nordea Kredit was 53.2% at the end of June 2021 (56.8% at end-2020).

The LTV ratio for owner-occupied dwellings and holiday homes decreased by 4.6% points to 56.3% in the first half of 2021, while the LTV ratio for rental properties decreased by 1.8% points to 43.5%. The LTV ratios for agricultural properties and other commercial properties were 50.6% (50.1% at end-2020) and 47.6% (48.2 at end-2020), respectively, by end-June.

The LTV ratios are closely linked to trends in property prices. Consequently, the downward trend in LTV ratios for especially owner-occupied dwellings and holiday homes was mainly caused by rising house prices.

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.

Supplementary collateral for loans financed through covered mortgage bonds

Mortgage institutions issuing loans based on covered bonds (SDROs) must regularly monitor the value of the mortgaged properties.

The value of residential properties must be monitored at least every three years under existing legislation, whereas commercial properties must be monitored annually. In the event of significant changes in market conditions, values must be monitored more frequently.

If it is determined in the monitoring process that the statutory LTV limit for the individual property has been exceeded, the mortgage institution must provide supplementary collateral out of its own funds. Total supplementary collateral is an overcollateralisation (OC) requirement that represents the sum of statutory LTV breaches on every single loan. This is monitored and calculated over the lifetime of the individual loans.

The supplementary collateral required based on the LTV ratios for the individual loans in capital centre 2 (SDRO bonds) was DKK 5bn at end-June (DKK 7bn at end-2020).

Funding

Bond issuance

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 76bn nominal in the first half of 2021 (DKK 57bn in the first half of 2020) mainly driven by the higher lending activity and more series being refinanced in 2021.

At the end of June 2021 the total nominal value of bonds issued to finance mortgage loans, before offsetting the portfolio of own bonds, increased to DKK 454bn (DKK 439bn at end-2020). At end-June 2021 the fair value of the total outstanding volume of bonds was DKK 430bn (DKK 435bn) after offsetting the portfolio of own bonds.

As for the green agenda, Nordea Kredit's issuance

of green covered mortgage bonds amounted to DKK 9bn at the end of the first half of 2021. The refinancing auction in May 2021 included the sale of green covered mortgage bonds for DKK 1.4bn and investors' appreciation was documented by high bid to cover (BtC) ratios.

In general the Danish covered bond market maintained high liquidity in the first half of 2021. Adjustable-rate mortgage bonds (ARMs) and floaters in particular were very stable, but callable mortgage bonds were affected by rising interest rates and market fluctuations.

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.

Capital adequacy

The tier 1 capital ratio excluding the net profit for the period was unchanged 25.0% compared to end-2020.

The risk exposure amount (REA) decreased by DKK 0.6bn to DKK 82.0bn (DKK 82.6bn at end-2020) mainly related to credit risk on IRB Corporate.

The total capital ratio excluding the net profit for the period was unchanged 29.6% compared to end-2020.

In the third quarter of 2021 Nordea Kredit plans to issue senior non-preferred debt of DKK 2.25bn to partially meet the debt buffer requirement. The rest of the debt buffer requirement is met with own funds.

Nordea Kredit has two dated subordinated loans (tier 2 capital) in issue of a total of DKK 3,750m at 30 June 2021, of which one of the loans (DKK 2,200m) has a first call date on 28 September 2021. Nordea Kredit has filed an application to the Danish Financial Supervisory Authority (the Danish FSA) to call the loan. A reduction of the tier 2 capital by DKK 2,200m will reduce the total capital ratio by approximately 2.7% points based on end-June 2021 figures.

New regulation

Risk exposure amount (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 23 June 2021 the Danish Minister for Industry, Business and Financial Affairs announced that the countercyclical buffer rate will be reactivated at 1% from the third quarter of 2021 and valid from 30 September 2022. Systemically important financial institutions (SIFIs) apply according to their systemicness a buffer requirement as other systemically important institutions (O-SIIs). The buffer for Nordea Kredit is 1.5% in 2021. On 21 June 2021 Nordea Kredit was reappointed at the same level as a SIFI and the buffer level for 2022 will be communicated later in 2021. In addition to this, there is a pillar 2 requirement (P2R) that is set on an individual basis.

In June 2019 the banking package containing revisions to the CRR, the CRD and the Bank Recovery and Resolution Directive (BRRD) was adopted. As regards the CRR changes, the majority of the rules applied from 28 June 2021. This includes a strict leverage ratio requirement of 3% to be met by tier 1 capital and updates for large exposure rules. Some targeted items were implemented already in 2020 as part of the CRR "quick fix". The CRD and the BRRD changes were implemented in Danish legislation (including the Danish Financial Business Act) in December 2020.

Finalised Basel III framework ("Basel IV")

Basel III is the global regulatory framework on bank capital adequacy, stress testing and liquidity risk. In December 2017 the finalised Basel III framework, often called the Basel IV package, was published. The Basel IV package was supposed to be implemented in 2022, but was postponed until 2023 due to the coronavirus pandemic. The latest information indicates that the European Commission will present the EU implementation of the framework in the autumn this year.

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 debt buffer may consist of excess capital or senior debt. The debt buffer requirement is fulfilled using tier 1 and tier 2 capital instruments not used for capital requirements.

On 11 June 2021 the Danish FSA sent a guideline in consultation regarding expectations for the institutions regarding excess to the regulatory minimum requirements for own funds and eligible liabilities (MREL) and debt buffer requirements.

Individual solvency needs

Under Danish legislation Nordea Kredit will publish its adequate capital base as well as its individual solvency need on a quarterly basis under Investor Information on www.nordeakredit.dk and under Investor Relations on www.nordea.com.

Liquidity and funding ratios

The liquidity coverage ratio (LCR) measures short-term liquidity risk. 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 2021 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 223% (the LCR requirement as specified by the Delegated Act was 3,732%).

The net stable funding ratio (NSFR) measures long-term liquidity risk. The NSFR requirement for Nordea Kredit is 100% according to the CRR II. At 30 June 2021 Nordea Kredit's NSFR was 700.4%.

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 2021 Nordea Kredit complied with the five benchmarks of the supervisory diamond for mortgage institutions.

The supervisory diamond

	30 June 2021	Limit
1. Lending growth		
• Owner-occupied dwellings and holiday homes	7%	15%
• Residential rental properties	5%	15%
• Agriculture	-5%	15%
• Other	-4%	15%
2. Borrower's interest rate risk ¹	12%	25%
3. Interest-only lending ²	7%	10%
4. Short-term funding ³		
• Annually	9%	25%
• Quarterly	2%	12.5%
5. Large exposures ⁴	43%	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.

Changes to the Executive Management

On 29 April 2021 the former Chief Executive Officer Kamilla Hammerich Skytte left Nordea Kredit. At the same time Deputy Chief Executive Officer Claus H. Greve was appointed as interim Chief Executive Officer. The Board of Directors of Nordea Kredit has appointed Morten Boni as Chief Executive Officer from 1 August 2021 and Claus H. Greve will continue as Deputy Chief Executive Officer from 1 August 2021.

Risks and uncertainties

See Note 7 for information about risks and uncertainties.

Income statement

DKK ^m	Note	Jan-Jun 2021	Jan-Jun 2020	Full year 2020
Interest income		3,610	3,797	7,493
Interest expenses		-1,969	-2,202	-4,282
Net interest income	2	1,641	1,595	3,211
Fee and commission income		313	291	584
Fee and commission expenses		-616	-454	-1,073
Net interest and fee income		1,338	1,432	2,722
Value adjustments	3	3	7	10
Other operating income		0	1	6
Staff and administrative expenses		-678	-293	-608
Depreciation of tangible assets		0	0	0
Impairment losses on loans and receivables	4	88	-400	-491
Profit from equity investment in associated undertaking		0	3	1
Profit before tax		751	750	1,640
Tax		-165	-164	-361
Net profit for the period		586	586	1,279

Statement of comprehensive income

DKK ^m	Jan-Jun 2021	Jan-Jun 2020	Full year 2020
Net profit for the period	586	586	1,279
Other comprehensive income, net of tax	-	-	-
Total comprehensive income	586	586	1,279

Balance sheet

DKKm	Note	30 Jun 2021	31 Dec 2020	30 Jun 2020
Assets				
Cash in hand and demand deposits with central banks		0	50	50
Receivables from credit institutions and central banks		47,337	49,948	44,957
Loans and receivables at fair value	5	419,745	417,553	410,037
Loans and receivables at amortised cost		1	1	1
Investment in associated undertaking		20	19	23
Tangible assets		0	0	0
Deferred tax assets		2	2	1
Assets held temporarily		3	6	2
Other assets		247	351	253
Prepaid expenses		44	6	22
Total assets		467,399	467,936	455,346
Debt				
Debt to credit institutions and central banks		9,443	4,998	6,230
Bonds in issue at fair value		430,487	435,055	421,845
Current tax liabilities		55	9	64
Other liabilities		1,851	1,624	1,642
Deferred income		23	19	27
Total debt		441,859	441,705	429,808
Subordinated debt				
Subordinated debt		3,750	3,750	3,750
Equity				
Share capital		1,717	1,717	1,717
Other reserves		21	21	24
Retained earnings		20,052	19,464	20,047
Proposed dividend		-	1,279	-
Total equity		21,790	22,481	21,788
Total equity and debt		467,399	467,936	455,346
Contingent liabilities				
Guarantees etc		0	0	0
Credit commitments		1,737	1,508	1,233
Total contingent liabilities		1,737	1,508	1,233

Statement of changes in equity

DKKm	Share capital	Other reserves ¹	Retained earnings	Proposed dividend	Total
Balance at 1 Jan 2021	1,717	21	19,464	1,279	22,481
Net profit for the period	-	0	586	-	586
Other comprehensive income	-	-	-	-	0
Share-based payments	-	-	2	-	2
Dividends paid	-	-	-	-1,279	-1,279
Balance at 30 Jun 2021	1,717	21	20,052	-	21,790
Balance at 1 Jan 2020	1,717	21	19,464	1,388	22,590
Net profit for the year	-	1	1,278	-	1,279
Other comprehensive income	-	-	-	-	-
Dividends paid	-	-	-	-1,388	-1,388
Proposed dividend	-	-	-1,279	1,279	-
Balance at 31 Dec 2020	1,717	21	19,464	1,279	22,481
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

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).

The accounting policies and methods of computation are the same as for the annual report for 2020. For more information see Note 1 in the annual report for 2020.

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 January to June 2021, due to the uncertainties in relation to the potential long-term impact of the coronavirus pandemic 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 2020, Note 1 "Accounting policies", section 2.

Note 2 Net interest income

DKKm	Jan-Jun 2021	Jan-Jun 2020	Full year 2020
Interest income			
Loans and receivables at fair value	1,767	1,917	3,817
Administration margins	1,726	1,690	3,390
Positive interest expenses	109	182	270
Other interest income	8	8	16
Total interest income	3,610	3,797	7,493
Interest expenses			
Debt to credit institutions and central banks	-2	-2	-2
Bonds in issue at fair value	-1,823	-2,040	-3,972
Subordinated debt	-30	-22	-53
Negative interest income	-114	-138	-255
Total interest expenses	-1,969	-2,202	-4,282
Net interest income	1,641	1,595	3,211

Notes to the financial statements

Note 3 Value adjustments

DKKkm	Jan-Jun 2021	Jan-Jun 2020	Full year 2020
Mortgage loans	-9,441	-531	1,142
Foreign exchange gains/losses	0	0	-2
Interest rate derivatives	-22	30	20
Bonds in issue ¹	9,466	508	-1,150
Total	3	7	10

¹ Including value adjustments on own positions.

Note 4 Impairment losses on loans and receivables

DKKkm	Jan-Jun 2021	Jan-Jun 2020	Full year 2020
Stage 1			
New and increased impairment charges	-4	-43	-60
Reversals of impairment charges	10	-	-
Impairment losses on loans and receivables, non-credit impaired	6	-43	-60
Stage 2			
New and increased impairment charges	-45	-229	-306
Reversals of impairment charges	75	16	104
Impairment losses on loans and receivables, non-credit impaired	30	-213	-202
Stage 3, credit impaired			
Realised loan losses	-35	-38	-71
Decrease in impairment charges to cover realised loan losses	32	34	63
Recoveries on previous realised loan losses	2	4	6
New and increased impairment charges	-54	-206	-407
Reversals of impairment charges	107	62	180
Impairment losses on loans and receivables, credit impaired	52	-144	-229
Impairment losses on loans and receivables	88	-400	-491

Notes to the financial statements

Note 5 Loans and receivables at fair value

DKKkm	30 Jun 2021	31 Dec 2020	30 Jun 2020
Mortgage loans, nominal value			
Value at beginning of period	409,893	398,740	398,740
New loans (gross new lending)	52,300	94,809	45,646
Foreign exchange revaluations	-2	-23	-13
Redemptions and prepayments	-36,237	-74,245	-35,394
Net new lending for the period	16,061	20,541	10,239
Scheduled principal payments	-4,594	-9,388	-4,525
Mortgage loan portfolio at end of period	421,360	409,893	404,454
Mortgage loans, fair value			
Nominal value	421,360	409,893	404,454
Adjustment for interest rate risk etc	-1,241	8,147	6,037
Adjustment for credit risk	-553	-671	-608
Mortgage loan portfolio	419,566	417,369	409,883
Mortgage arrears and execution levied against debtors' properties	179	184	154
Loans and receivables at fair value	419,745	417,553	410,037

Movements of allowance account for credit risk value changes

DKKkm	Stage 1	Stage 2	Stage 3	Total
Balance at 1 Jan 2021	60	257	354	671
Changes due to origination	-	4	6	10
Transfer between stages	-	-7	-5	-12
Changes due to changes in credit risk (net) and modelling approach	-7	-10	-20	-37
Changes due to repayments	-	-17	-35	-52
Write-off through decrease in allowance account	-	-	-27	-27
Other changes ¹	-	-	-	-
Balance at 30 Jun 2021	53	227	273	553
Balance at 1 Jan 2020	-	55	188	243
Changes due to origination	0	23	24	47
Transfer between stages	-	25	30	55
Changes due to changes in credit risk (net) and modelling approach	60	157	201	418
Changes due to repayments	-	-3	-33	-36
Write-off through decrease in allowance account	-	-	-56	-56
Other changes ¹	-	-	0	0
Balance at 31 Dec 2020	60	257	354	671
Balance at 1 Jan 2020	-	55	188	243
Changes due to origination	-	0	3	3
Transfer between stages	-	0	8	8
Changes due to changes in credit risk (net) and modelling approach	43	213	143	399
Changes due to repayments	-	0	-13	-13
Write-off through decrease in allowance account	-	-	-32	-32
Other changes ¹	-	-	0	0
Balance at 30 Jun 2020	43	268	297	608

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 in the model for the calculation of expected credit losses (ECL). Nordea Kredit uses three macroeconomic scenarios, a base scenario, a favourable scenario and an adverse scenario. For the first half of 2021 the scenarios have been weighted into the final expected credit losses using 60% for the base scenario (50% at year-end 2020), 20% for the adverse scenario (45% at year-end 2020) and 20% for the favourable scenario (5% at year-end 2020). The change in weighting compared to year-end 2020 reflects reduced uncertainty regarding the impact of the coronavirus pandemic, reduced downside risks following progress in COVID-19 vaccination programmes and reduced restrictions in society and the economy.

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 historical relationships between economic variables and to capture the key linkages between those variables. The forecast period in the model is ten years, and for periods beyond, a long-term average is used in the ECL calculations.

The macro scenarios reflect Nordea's view of how the coronavirus pandemic and lockdowns potentially will impact the economic outlook. The scenarios also reflect the macroeconomic effects of the government support packages. When developing the scenarios, Nordea took into account projections from the central bank, Nordea Research and the ECB's macroeconomic forecasts.

Economic projections from the central bank are used as basis for the base scenario. Activity in the Danish economy picked up strongly after the sharp fall in the spring of 2020, but higher infection rates and stricter measures to contain the infection held back the recovery at the beginning of 2021. In recent months infection rates have declined, the pace of vaccination has accelerated and the reopening of society has begun. As a result, economic activity has picked up again, although some service industries are still under pressure. There is still substantial uncertainty surrounding the recovery ahead, but expansionary fiscal and monetary policies, large household savings and pent-up demand provide a sound basis for a sharp further increase in activity when the economy is less constrained by restrictions. Activity is expected to have recovered towards the end of 2021. Following strong housing market activity over the past year, the trend in house prices is expected to become more subdued in the future.

The adjustments to model-based provisions amount to DKK 136m (DKK 143m at year-end 2020). This management judgement covers expected credit losses not yet covered by the impairment model and the possible impact of the coronavirus pandemic on loan losses. The management judgement is based on a stressed simulation of the ECL.

Scenarios and provisions

	2021	2022	2023	Probability weight	Model-based provisions, DKKm	Adjustment, model-based provisions, DKKm	Individual provisions, DKKm	Total provisions, DKKm
Favourable scenario								
GDP growth, %	3.3	5.8	1.9	20%				
Unemployment, %	4.0	3.1	3.1					
House prices, %	11.4	5.2	2.7					
Base scenario								
GDP growth, %	1.4	4.5	2.2	60%	325	136	92	553
Unemployment, %	4.4	4.3	4.1					
House prices, %	9.7	3.0	2.3					
Adverse scenario								
GDP growth, %	-0.4	3.5	2.2	20%				
Unemployment, %	6.3	6.2	6.0					
House prices, %	4.2	-6.3	-0.9					

Notes to the financial statements

Note 6 Capital adequacy

DKKkm	30 Jun 2021	31 Dec ¹ 2020	30 Jun 2020
Calculation of own funds			
Equity	21,204	22,481	21,203
Proposed/actual dividend	-	-1,279	-
Common equity tier 1 capital before regulatory adjustments	21,204	21,203	21,203
IRB provisions shortfall (-)	-368	-360	-390
Other items, net	-301	-161	-134
Total regulatory adjustments to common equity tier 1 capital	-669	-521	-524
Common equity tier 1 capital (net after deduction)	20,535	20,682	20,679
Tier 1 capital (net after deduction)	20,535	20,682	20,679
Tier 2 capital before regulatory adjustments	3,750	3,750	3,750
Total regulatory adjustments to tier 2 capital	-	-	-
Tier 2 capital	3,750	3,750	3,750
Own funds (net after deduction)	24,285	24,432	24,429

¹ Including profit for the year.

Minimum capital requirements and risk exposure amount (REA)

DKKkm	30 Jun 2021 Minimum capital requirement	30 Jun 2021 REA	31 Dec 2020 Minimum capital requirement	31 Dec 2020 REA	30 Jun 2020 Minimum capital requirement	30 Jun 2020 REA
Credit risk	6,226	77,825	6,277	78,463	6,287	78,582
- of which counterparty credit risk	92	1,152	85	1,066	77	968
IRB	5,600	69,998	5,645	70,562	5,599	69,988
- corporate	2,159	26,993	2,265	28,308	2,384	29,797
- advanced	2,159	26,993	2,265	28,308	2,384	29,797
- institutions	0	2	0	0	1	8
- retail	3,345	41,811	3,335	41,687	3,184	39,795
- secured by immovable property collateral	3,318	41,478	3,291	41,136	3,131	39,131
- other retail	27	333	44	551	53	664
- other	96	1,192	45	567	30	388
Standardised	626	7,827	632	7,901	688	8,594
- central governments or central banks	0	6	0	5	0	4
- institutions	618	7,721	623	7,787	676	8,447
- corporate	0	0	0	0	0	2
- secured by mortgages on immovable property	6	79	7	89	10	118
- equity	2	21	2	20	2	23
Market risk	-	-	-	-	-	-
Operational risk	332	4,148	331	4,142	331	4,142
Standardised	332	4,148	331	4,142	331	4,142
Additional risk exposure amount related to Swedish RW floor due to Article 458 of the CRR	2	21	2	21	1	16
Additional risk exposure amount due to Article 3 of the CRR	-	-	-	-	-	-
Total	6,560	81,994	6,610	82,626	6,619	82,740

Notes to the financial statements

Note 6 Capital adequacy (continued)

Minimum capital requirements and capital buffers

Per cent, 30 Jun 2021	Minimum capital requirement	Capital buffers					Capital buffers total	Total
		CCoB	CCyB	O-SII	SRB			
Common equity tier 1 capital	4.5	2.5	0.0	1.5	0.0	4.0	8.5	
Tier 1 capital	6.0	2.5	0.0	1.5	0.0	4.0	10.0	
Own funds	8.0	2.5	0.0	1.5	0.0	4.0	12.0	

DKKm, 30 Jun 2021

Common equity tier 1 capital	3,690	2,050	1	1,230	-	3,280	6,970
Tier 1 capital	4,920	2,050	1	1,230	-	3,280	8,200
Own funds	6,560	2,050	1	1,230	-	3,280	9,840

Common equity tier 1 available to meet capital buffers

Percentage points of REA	30 Jun 2021	31 Dec ¹ 2020	30 Jun 2020
Common equity tier 1 capital	19.0	19.0	19.0

¹ Including profit for the period.

Capital ratios

Capital ratios (%)	30 Jun 2021	31 Dec ¹ 2020	30 Jun 2020
Common equity tier 1 capital ratio	25.0	25.0	25.0
Tier 1 capital ratio	25.0	25.0	25.0
Total capital ratio	29.6	29.6	29.5

¹ Including profit for the period.

Leverage ratio	30 Jun 2021	31 Dec ¹ 2020	30 Jun 2020
Tier 1 capital, transitional definition, DKKm	20,535	20,682	20,679
Leverage ratio exposure, DKKm	467,403	468,112	450,453
Leverage ratio	4.4	4.4	4.6

¹ Including profit for the period.

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 risk and liquidity management note in the annual report for 2020 for further information on Nordea Kredit's management of risks.

There are significant risks caused by the coronavirus pandemic given the uncertainty of the economic impact on the market in which Nordea Kredit operates. Depending on future developments, potential adverse impacts on income could arise due to reduced business activity impacting customer loan activity. Potential future credit risks are addressed in note 5.

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 2021	Jan-Jun 2020	Full year 2020
Total capital ratio, %	29.6	29.5	29.6
Tier 1 capital ratio, %	25.0	25.0	25.0
Pre-tax return on equity, %	3.4	3.4	7.3
Post-tax return on equity, %	2.6	2.6	5.7
Income/cost ratio	2.3	2.1	2.49
Foreign exchange exposure as % of tier 1 capital	1.7	1.8	1.6
Loans/equity ratio	19.3	18.8	18.6
Lending growth for the period, %	2.8	1.3	2.7
Impairment ratio for the period, %	0.0	0.1	0.1
Return on assets, %	0.2	0.2	0.3

The key figures have been computed in accordance with the Danish Financial Supervisory Authority's definitions, see the Executive Order on Financial Reports for Credit Institutions and Investment Firms etc.

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, other operating income and profit from equity investment from associated undertaking.

Operating expenses

Total of staff and administrative expenses and depreciations.

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 today discussed and approved the interim report of Nordea Kredit Realkreditaktieselskab for the half-year ending 30 June 2021.

The interim report has been presented in accordance with the Danish Financial Business Act and additional Danish disclosure requirements for interim reports for issuers of listed bonds. It is our opinion that the financial statements give a true and fair view of the company's financial position at 30 June 2021 and of the results of the company's operations for the half-year ending 30 June 2021.

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, 21 July 2021

Board of Directors

Mads Skovlund Pedersen
(Chair)

Anne Rømer
(Vice Chair)

Kim Skov Jensen

Torben André Petersen

Anita Ina Nielsen

Marte Kopperstad

Thomas Vedel Kristensen

Executive Management

Claus H. Greve
(Interim Chief Executive Officer)

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