Annual Report 2021
Nordea Kredit Realkreditaktieselskab

Business registration number 15134275

Contents

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.

Financial summary

Key financial figures (DKKm)

	2021	2020	Change %	2019	2018
Income statement					
Total operating income	2,704	2,739	-1	2,685	2,543
Total operating expenses	-1,367	-608	125	-306	-286
Profit before impairment losses on loans and receivables	1,338	2,131	-37	2,379	2,257
Impairment losses on loans and receivables	82	-491	-117	-6	-215
Profit before tax	1,419	1,640	-13	2,373	2,042
Net profit for the year	1,107	1,279	-13	1,850	1,593
Balance sheet					
Receivables from credit institutions and central banks	48,523	49,948	-3	67,462	43,440
Loans and receivables at fair value	432,280	417,553	4	404,998	394,916
Loans and receivables at nominal value[1]	436,116	409,222	7	398,497	387,159
Debt to credit institutions and central banks	14,260	4,998	185	5,597	10,841
Bonds in issue at fair value	441,234	435,055	1	440,929	400,817
Equity	22,311	22,481	-1	22,590	22,333
Total assets	481,015	467,936	3	473,277	438,825

Ratios and key figures

	2021	2020	Change %	2019	2018
Return on equity, %[2]	4.9	5.7		8.2	7.2
Cost/income ratio	50.5	22.2		11.4	11.3
Write-down ratio, basis points[3]	-1.9	11.7		0.1	5.4
Common equity tier 1 capital ratio, %	24.7	25.0		24.4	23.9
Tier 1 capital ratio, %	24.7	25.0		24.4	23.9
Total capital ratio, %	26.6	29.6		27.0	26.5
Own funds, DKKm	22,076	24,432		22,803	22,463
Tier 1 capital, DKKm	20,526	20,682		20,603	20,263
Risk exposure amount, DKKm	83,099	82,626		84,322	84,807
Number of employees (full-time equivalents)[4]	118	116		119	113

[1] After adjustment for provisions for loan losses.
[2] The return on equity ratio excluding the negative transition effect from the new impairment rules in 2018 was 8.0%.
[3] The write-down ratio excluding the negative transition effect from the new impairment rules in 2018 was 0.9 bps.
[4] End of year.

Board of Directors' report

Nordea Kredit Realkreditaktieselskab is a wholly owned subsidiary of Nordea Bank Abp. Nordea Kredit Realkreditaktieselskab is domiciled in Copenhagen and its business registration number is 15134275.

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. The figures in brackets refer to 2020.

High business momentum

Through the past seven quarters Nordea Kredit's retail market share continuously increased from 16.2% to 17.1% driven by many new homeowners at Nordea Kredit and growing demand for top-up lending.

2021 was a busy year in the housing market, resulting in very high activity level at Nordea Kredit. Thanks to the great effort by colleagues in Nordea Kredit and in the customer units of Nordea more than 40,000 customers have been served with mortgage financing.

Nordea Kredit has the same lending policy for all customers regardless of geography. Nordea Kredit's lending increased in all regions in Denmark. In mid-2021 approximately 16% of all loans were issued in areas with average prices per square metre of less than DKK 8,000.

Green mortgage loans

Nordea's focus on the green transition is clearly reflected in Nordea Kredit's lending portfolio. The green mortgage loan offering to corporate customers reached DKK 11bn (DKK 4bn) at end-2021 – equivalent to a market share of approximately 29% for bonds denominated in Danish kroner.

The green mortgage loans are based on the criteria in the Nordea Green Bond Framework and are offered for the funding of:

- Energy efficiency
- Buildings with energy performance certificate (EPC) ratings A or B
- Renewable public utilities
- Organic farms

Customer and investor feedback has been positive, and the green bonds are priced slightly better than the ordinary Cibor6 bonds. The bonds funding the green mortgage loans have been classified as most liquid assets.

Nordea is also contributing to the green transition by offering green loans for green corporate projects where mortgage loans are not an option, but where the criteria of the Nordea Green Bond Framework are met. For personal customers, an attractive low-interest loan (Energisparelån) earmarked for energy improvements in homes is available. These bank loans supplement Nordea Kredit's portfolio of mortgage products.

Increased digitalisation

During 2021 the number of customers in scope for automated loan promises increased. The digital solution now caters for first-time buyers, potential customers and customers who need bridge financing as part of their purchase. This, combined with skilled advisers available in both online and physical channels, ensured a high number of home purchases financed by Nordea Kredit.

Financial review 2021

Lending at nominal value grew by 7% in 2021 compared to 3% in 2020. Gross new lending increased by 11% compared to 2020 and amounted to DKK 105bn (DKK95bn). Total lending measured at nominal value increased to DKK 436bn (DKK 409bn) driven by strong trends within both household and corporate customers. The growth in lending was mainly driven by new lending for change of ownership and top-up lending for household customers and by new lending to public utilities and for private rental properties for corporate customers. Net interest income and commission income improved by 4% and 8%, respectively, following the high lending activity.

Despite the positive trend in net interest income and commission income, profit before impairment losses decreased by 37% to DKK 1,338m (DKK 2,131m) due to significant increases in intragroup fees from price adjustments to the first loss guarantee from 1 July 2020 and sales and distribution services from 1 January 2021. The price adjustment to the first loss guarantee in 2020 had full-year effect in 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.

Impairment losses on loans and receivables significantly improved and amounted to a net reversal of DKK 82m (loss of DKK 491m) due to a low level of realised loan losses combined with a reversal of model-calculated provisions, reflecting the strong credit quality of the loan portfolio.

Profit before tax amounted to DKK 1,419m (DKK 1,640m). Disregarding the impact from the updated transfer pricing method on sales and distribution service fees, profit before tax was in line with expectations.

Operating income
Net interest income increased by 4% to DKK 3,324m (DKK 3,211m) driven by the growth in lending volumes. Average margins were as expected slightly down driven by customers who remortgaged and refinanced F1-F3 loans by either fixed-rate loans or adjustable-rate loans with a longer fixing period. The decline in average margins was to some extent offset by more customers choosing interest-only loans. Furthermore, net interest income was positively affected by a slight decrease in negative interest rates on the investment of capital.

Fee and commission income was up by 8% to DKK 629m (DKK 584m), driven by the growth in lending volumes. Furthermore, refinancing fees increased as expected following higher refinancing volumes in 2021 compared to 2020.

Fee and commission expenses increased by 17% to DKK 1,259m (DKK 1,073m) mainly due to higher fees for the first loss guarantee from Nordea Bank following new pricing effective from 1 July 2020. The price adjustment to the first loss guarantee in 2020 had full-year effect in 2021. Property valuation fee expenses increased following the growth in lending volumes.

Staff and administrative expenses
Total staff and administrative expenses increased by DKK 759m to DKK 1,367m (DKK 608m) mainly due to an increase in sales and distribution services fees charged 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.

Staff costs increased by 8% to DKK 116m (DKK 108m) mainly reflecting the high activity level, increased profit sharing and non-recurring items. Furthermore, the average number of full-time equivalent employees increased slightly to 118 (116). A number of temporary assignments were changed to permanent employees during 2021.

Impairment losses on loans and receivables
Impairment losses on loans and receivables significantly improved and amounted to a net reversal of DKK 82m (loss of DKK 491m) due to a low level of realised loan losses combined with a reversal of model-calculated provisions, reflecting the strong credit quality of the loan portfolio. Loan losses for 2020 were affected by an update of the model for calculating expected credit losses and management judgements covering effects of the coronavirus pandemic as well as expected losses on loans in stage 1 covering rating migration not yet identified in the rating/scoring models.

The management judgement provision related to the coronavirus pandemic increased by DKK 22m to DKK 120m at end-2021 (DKK 98m) to cover for credit losses not captured by the impairment model.

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. So far Nordea Kredit has not realised loan losses directly linked to the pandemic.

The guarantee coverage from Nordea Bank significantly reduces the risk of impairment losses on loans at Nordea Kredit. The loss guarantees from Nordea Bank are first loss guarantees covering loans totalling DKK 428bn (DKK 400bn). The share of the total loans covered by the loss guarantees was 98% (98%).

The write-down ratio of the loan portfolio improved to -1.9 bps (11.7 bps).

Tax
Income tax expense was DKK 312m (DKK 361m) and the effective tax rate was 22% (22%).

Net profit for the year
Net profit for the year amounted to DKK 1,107m (DKK 1,279m), corresponding to a return on equity in 2021 of 4.9% (5.7%).

Assets
Total assets increased by 3% to DKK 481bn (DKK 468bn).

Receivables from credit institutions and central banks, mainly consisting of deposits with Nordea Bank, amounted to DKK 49bn (DKK 50bn).

Loans and receivables at fair value increased to DKK 432bn (DKK 418bn), while total lending at nominal value after loan losses increased by 7% to DKK 436bn (DKK 409bn).

Table 1. Lending at nominal value by property category

DKKbn	2021	2020	Chg.%
Owner-occupied dwellings and holiday homes	306	283	8%
Commercial properties	92	86	7%
Agricultural properties	38	40	-5%
Total	**436**	**409**	**7%**

The quality of the loan portfolio continued to be strong in 2021. The accumulated loan loss provisions decreased to DKK 511m (DKK 671m). Accumulated loan loss provisions regarding stages 1, 2 and 3 amounted to DKK 60m (DKK 60m), DKK 210m (DKK 257m) and DKK 241m (DKK 354m), respectively.

Assets held temporarily decreased and consisted of 1 repossessed property (6) by the end of 2021 with a carrying amount of DKK 1m (DKK 6m).

Debt
Debt to credit institutions and central banks amounted to DKK 14bn (DKK 5bn), mainly consisting of short-term funding from Nordea Bank. Furthermore, debt to credit institutions included a senior non-preferred loan. Nordea Kredit raised a senior non-preferred loan of DKK 2.3bn with the parent company Nordea Bank Abp in August 2021. The loan is eligible for the debt buffer requirement.

Bonds in issue at fair value totalled DKK 441bn (DKK 435bn) after offsetting the portfolio of own bonds of DKK 11bn (DKK 12bn).

Subordinated debt
Subordinated debt decreased to DKK 1.6bn (DKK 3.8bn) as a subordinated loan of DKK 2.2bn was repaid at the call date in September 2021.

Equity
Shareholders' equity amounted to DKK 22bn (DKK 22bn) at the end of 2021. Net profit for the year was DKK 1.1bn (DKK 1.3bn).

It is proposed that the net profit of DKK 1.1bn is distributed as dividend to the parent company Nordea Bank Abp. The proposed dividend payment of DKK 1.1bn is equivalent to DKK 64 (DKK 74) per share.

Capital adequacy

At year-end the risk exposure amount (REA) of Nordea Kredit had increased by 1% to DKK 83.1bn (DKK 82.6bn). The common equity tier 1 (CET1) ratio had decreased to 24.7% (25.0%) due to the increase in REA and regulatory adjustments to the CET1 capital. The total capital ratio was down to 26.6% (29.6%) at end-2021 mainly affected by increased REA and the termination of tier 2 capital of DKK 2.2bn. The increase in REA was mainly related to exposures calculated according to the standardised approach.

At year-end 2021 the leverage ratio was 4.2% (4.4%), thus meeting the minimum requirement of 3%.

Nordea Kredit complies with the conditions for temporary use of internal models in accordance with the European Central Bank (ECB) ruling of 16 August 2018 for Nordea and approved for Nordea Kredit by the Danish Financial Supervisory Authority (the Danish FSA) in December 2018. Applications for regulatory approvals of redeveloped IRB models were submitted in 2021 and decisions are expected during 2022.

Debt buffer

The debt buffer requirement was DKK 8.6bn at end-2021 (DKK 8.4bn). Nordea Kredit met the debt buffer requirement with excess CET1 capital, tier 2 capital and unsecured senior debt.

Individual solvency needs

Under Danish legislation Nordea Kredit must publish its adequate capital base as well as its individual solvency need on a quarterly basis. Information about individual solvency needs is available on www.nordea.com/en/investors/individual-solvency-need.

The property market

The economy
The coronavirus pandemic affected the world economy in 2021, including the Danish economy. Many countries experienced major lockdowns in the first half of 2021, but the proliferation of vaccines improved the situation in the second half of the year.

In Denmark the economic recovery has been rapid, and the Danish gross domestic product is now higher than before the coronavirus pandemic. Private consumption has been an important driving force in the economic recovery, and it has been supported by high purchasing power as a result of positive real wage growth, low interest rates, general wealth gains and the disbursement of the frozen holiday pay.

Private consumption is also expected to develop strongly in the coming year, partly supported by the repayment of DKK 14bn in overpaid property tax, while exports are helped along by a rise in world trade and the reopening of the economy as more people are vaccinated.

Inflation has risen markedly in the recent year. Although a large part of the increase is due to pandemic-related factors such as higher freight rates and energy prices, there is a possibility that inflation will bite at a higher level than seen for many years.

In a short time, the Danish labour market has moved from a mood of pandemic crisis and rising unemployment to a situation of sharply declining unemployment and a record-high level of employment. The growing shortage of labour is beginning to make its mark as upward pressure on wages. Employees are thus expected to maintain a positive trend in their real wages despite rising inflation.

The Danish economy is assessed to be strong, but there is a risk that new coronavirus variants may create a renewed spread of infection and thereby prolong the pandemic crisis and lead to lower activity in 2022 than otherwise assumed. The immediate perception from most experts in the area seems to be consensus that the variants have mutated to less serious types, thus paving the way for a normalisation of society.

Property prices and market activity
The pandemic has also affected the housing market. A record number of homes were purchased in 2021, and prices have risen significantly across most of the country. This is unusual, as during an economic downturn the normal experience is declining appetite for home purchases, partly due to lower incomes and higher uncertainty. During the pandemic, however, the opposite has been the case in both Denmark and many other countries.

In the second half of 2021 the housing market slowed down, with lower price increases and declining trading activity as a result. The slower pace of the housing market was due to the reopening of society over the summer and autumn, which reduced the need to spend time at home and opened up for normal patterns of consumption. In addition, rising housing costs and the fact that many potential homebuyers had already found their dream homes played a role.

Price increases in the housing market are expected to be more subdued in the coming years. Specifically, house prices are expected to rise by 4% in 2022 and by a further 2% in 2023.

According to housing market statistics from the business association Finance Denmark, house prices rose by 12% from the third quarter of 2020 to the third quarter of 2021, which is the most recent quarter for which house prices have been published. The rising prices are driven by the strong interest in buying homes. This interest is reflected by trading activity, which increased by 24% when comparing the number of detached and terraced houses sold during the first three quarters of 2021 with the same period the previous year. At the same time both offer price discounts and times on market have declined.

The market for flats also gained momentum. An average flat increased by 13% from the third quarter of 2020 to the third quarter of 2021, while trading activity increased by 22% in the first three quarters of 2021.

The market for holiday homes has been busy during the pandemic. Prices rose by 19% from the third quarter of 2020 to the third quarter 2021, while trading activity in the first three quarters of the year was 27% higher than in the same period the year before.

House prices are expected to continue to rise in the coming year. If house prices rise as forecast, it will be the ninth consecutive year with rising prices. This trend is expected to be supported by rising incomes and a low unemployment rate.

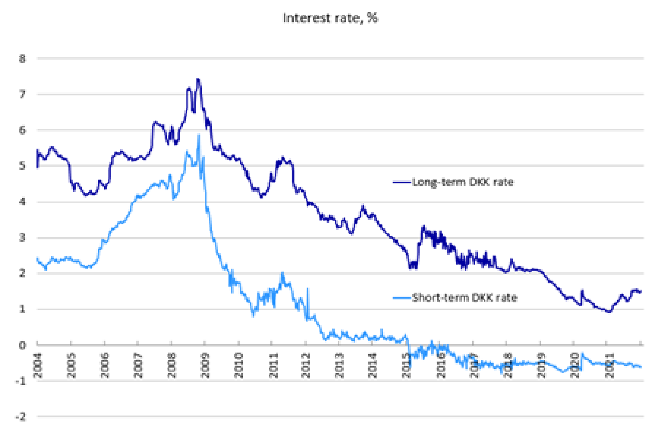
Interest rates
The bond market was also affected by the pandemic in 2021. When the year began, the coupon rate on the 30-year benchmark fixed-rate loan was 0.5%, but at the end of the year the coupon rate rose to 1.5-2% depending on whether the loan was with or without amortisation.

Short-term interest rates also rose, but not nearly as much as long-term rates. At the auction of adjustable-rate loans at Nordea Kredit in November 2021, the F3 and F5 interest rates ended at -0.07% and 0.16%, respectively. This is higher than at the auction in November 2020 when the F3 and F5 interest rates were set at -0.29% and -0.24%, respectively.

The rise in interest rates is due to both the improved growth prospects for the global economy and rising inflation. Both the US Federal Reserve and the ECB have a 2% inflation target, and higher inflation has therefore led investors to expect monetary tightening in the coming years.

In a historical perspective, Danish housing interest rates have, however, remained at a low level, and at present there is much to suggest that interest rates will remain low. Thus, only minor interest rate increases are expected in the coming year.

Figure 1. Interest rate development



Residential rental properties
The commercially owned residential property market has been unaffected by the coronavirus pandemic.

In 2021 the market for residential rental properties had another strong year with rising prices especially in Copenhagen and Aarhus, despite a large supply of new rental housing. The yield requirement has fallen to a very low level even though a slight increase in vacancies is seen in some areas.

In several major provincial towns, higher prices have also been seen due to a low requirement as to yield levels.

Office properties
There is still good demand for modern and well-located office properties in the larger cities.

The Copenhagen office market will be expanded in the coming years which can cause downward pressure on rent levels.

In smaller cities downward pressure on rent levels is seen, which leads to lower prices.

The coronavirus pandemic has taught employees to work remotely, and it will be very interesting to see how this will affect rent levels and vacancy rates in the future. Many large companies have already announced lower demand for office space as their employees are offered more flexibility.

Retail properties
Competition from online trading has been hard for many retail shops during the coronavirus pandemic, and increasing vacancies are seen as a result. The rising vacancy rates have caused pressure on rent levels resulting in lower prices especially in side streets. It seems that the coronavirus pandemic has accelerated a trend that was already underway.

Other parts of the market, for example grocery stores and DIY stores, have benefited from the pandemic.

Agricultural properties
In 2021 the agricultural economy was exposed to large fluctuations in prices of agricultural products/commodities. Crop production saw sharply rising prices and milk production saw slightly rising prices, while pork production suffered from steeply declining pork prices and rising prices of input factors. Price trends were reflected in the economy in a similar way. It is expected that pork prices will rise from the current very low level during 2022. In addition to the current sharply fluctuating prices, agriculture faces structural uncertainties in the coming years such as the implementation of the agricultural agreement/new EU agricultural regime and 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 livestock production is more subdued, but well-maintained properties with good locations and future-oriented production facilities see satisfactory turnover. Trading activity is expected to be unchanged in the coming year.

Nordea Kredit's lending

The loan portfolio
Total lending at nominal value after loan losses amounted to DKK 436bn by end-2021 (DKK 409bn). The increase was mainly driven by lending for owner-occupied dwellings and holiday homes (DKK 23bn), public utilities (DKK 4bn) and private rental housing (DKK 4bn).

The first half of 2021 was characterised by continued high activity on the housing market. Although activity was somewhat lower in the second half of 2021, Nordea Kredit reached an all-time high level of new lending for change of ownership for owner-occupied dwellings and holiday homes in 2021.

Total gross new lending in 2021 was DKK 105bn (DKK 95bn), of which DKK 77bn (DKK 72bn) was for owner-occupied dwellings and holiday homes.

Low long-term interest rates led many household and corporate customers to choose fixed-rate loans at the beginning of the year. In the first half of 2021, 7 out of 10 new loans were fixed-rate loans. As long-term rates went up and spreads widened, a smaller share of customers preferred fixed-rate loans over adjustable-rate mortgages (ARM) in the second half of 2021.

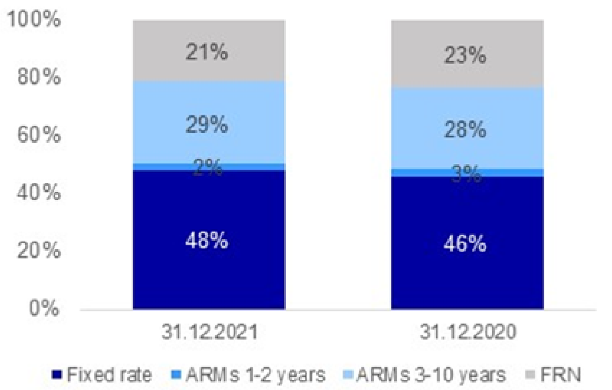
Fixed-rate loans accounted for 54% of gross new lending in 2021. By end-2021 48% (46%) of Nordea Kredit's lending portfolio was fixed-rate loans. Next to fixed-rate loans, household customers preferred F5 loans in 2021. The preferred choice of loan type among corporate customers was floating-rate notes (FRN - Cibor6 and Cibor6 Green) followed by fixed-rate loans.

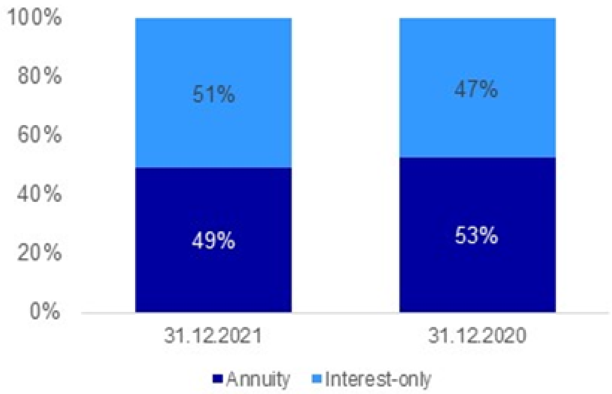
Lending in Green Cibor6 loans for corporate customers amounted to DKK 11bn (DKK 4bn) at the end of 2021. Nordea Kredit's market share within green lending was approximately 29% for bonds denominated in Danish kroner by end-2021.

Interest-only loans accounted for 51% (47%) of the lending portfolio by end-2021. The increasing share of interest-only loans was primarily driven by the continued popularity of the 30-year interest-only Frihed30 loans among household customers.

By end-2021 Frihed30 lending to household customers amounted to DKK 41bn (DKK 21bn), of which fixed-rate loans accounted for DKK 11bn. The fixed-rate version was introduced in October 2020 and was a popular choice among household customers throughout 2021. Frihed30 loans are limited to a maximum loan to value (LTV) ratio of 60% and targeted towards experienced homeowners.

Figure 2. Total loan portfolio by loan type





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. Total supplementary collateral is an overcollateralisation requirement and 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-2021 (DKK 7bn).

Funding

Bond issuance
Nordea Kredit adheres to the specific balance principle and exclusively match-funds its lending by the issuance of bonds.

Bond issuance before redemptions amounted to DKK 164bn nominal in 2021 (DKK 142bn), all financed by means of covered bonds. The increase mainly related to higher lending activity in 2021.

Nordea Kredit's green mortgage loans are floating-rate loans based on Cibor 6M and are offered to corporate customers against a mortgage on for example assets within renewable energy and properties with a Danish EPC (Energy Performance Certificate) rating of A-B. Nordea Kredit's green mortgage loans are financed by designated green covered mortgage bonds and at end-2021 the volume amounted to DKK 11bn.

At end-2021 the total outstanding nominal value of bonds, before offsetting the portfolio of own bonds, amounted to DKK 456bn (DKK 439bn). Of this amount, mortgage bonds accounted for DKK 2bn (DKK 2bn) and covered mortgage bonds accounted for DKK 454bn (DKK 437bn). At end-2021 the fair value of the total outstanding volume of bonds was DKK 441bn (DKK 435bn) after offsetting the portfolio of own bonds.

Refinancing of adjustable-rate mortgages
Adjustable-rate mortgage loans (F1-F5) are refinanced as of January, April and October and funded by issuance of bullet bonds. The share of adjustable-rate loans refinanced every year (F1) amounted to 2% at end-2021 (3%), while adjustable-rate mortgages with longer interest reset periods (F3-F5) amounted to 29% of the portfolio (28%). Adjustable-rate mortgage loans for DKK 6bn, DKK 8bn and DKK 10bn were refinanced as of January 2021, April 2021 and October 2021, respectively.

Refinancing auctions during 2021 resulted in low and negative interest rates for customers. For example the interest rate for adjustable-rate mortgage loans with refinancing in April 2021 was fixed at -0.25% for a 30-year annuity loan with reset every three years (F3).

Refinancing of floating-rate mortgages
Floating-rate loans based on Cibor6 are currently refinanced as of July. The July 2021 refinancing amounted to DKK 12bn, of which the traditional and green Cibor6 bonds accounted for DKK 10bn and DKK 1bn, respectively.

Rating
The mortgage bonds issued by Nordea Kredit are rated by the rating agency Standard & Poor's. All bonds have been assigned the highest rating of AAA.

Risk and capital management

Risk management
Nordea Kredit is exposed to credit risk on borrowers as well as operational risk because of Nordea Kredit's activities. Furthermore, Nordea Kredit is exposed to liquidity risk and market risk in the form of interest rate risk and modest currency risk related to its mortgage loans and the investment of capital.

Risk management is described in Note 25 Risk and liquidity management.

Capital management
Nordea Kredit strives to be efficient in its use of capital and therefore actively manages its balance sheet with respect to assets, liabilities and risk categories. Nordea Kredit reports risk exposure amounts according to applicable external regulations in the form of the Capital Requirements Directive IV (CRD IV)/the Capital Requirements Regulation (CRR), which stipulate the limits for the minimum capital (the capital requirement).

Nordea Kredit has approval to report its capital requirement in accordance with the advanced internal ratings-based (AIRB) approach for large enterprises. The internal ratings-based (IRB) approach is approved for credit institutions and commitments with retail customers in line with Nordea Bank. Rating and scoring are key components in credit risk management. Common to both the rating and scoring models is the ability to predict defaults and rank Nordea Kredit's customers. While the rating models are used for corporate customers, scoring models are used for personal customers and small corporate customers.

The most important parameters when quantifying the credit risk are the probability of default (PD), the loss given default (LGD) and the exposure at default (EAD). The parameters are used for calculation of risk exposure amounts. In general, historical losses and defaults are used to calibrate the PDs assigned to each rating grade. LGD is measured taking into account the collateral type and the counterparty's balance sheet components. Scoring models are pure statistical methods to predict the probability of customer default. The models are mainly used in the personal customer segment as well as for small corporate customers. Nordea Kredit collaborates with Nordea in utilising bespoke behavioural scoring models developed on internal data to support both the credit approval process and the risk management process.

As a complement to the ordinary credit risk quantification, comprehensive stress testing is performed at least annually in accordance with current requirements (Internal Capital Adequacy Assessment Process, ICAAP), after which capital requirements are measured.

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.

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

Table 2. The supervisory diamond

	2021	Limit
1. Lending growth		
Owner-occupied dwellings and holiday homes	8%	15%
Residential rental properties	8%	15%
Agriculture	-5%	15%
Other	6%	15%
2. Borrower´s interest rate risk[1]	**11%**	**25%**
3. Interest-only lending[2]	**7%**	**10%**
4. Short-term funding[3]		
Annually	8%	25%
Quarterly	1%	13%
5. Large exposures[4]	**34%**	**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%/12 .5% of the total portfolio .
[4] The 20 largest exposures less CRR deductions are limited to 100% of CET1 .

New capital regulation

Capital regulation
In June 2019 the banking package containing revisions to the CRR was adopted. The majority of the remaining changes to the CRR was applied from 28 June 2021, including the introduction of a binding net stable funding ratio (NSFR) and a strict binding leverage ratio of 3% to be met by tier 1 capital.

In March 2020 the countercyclical buffer requirement was decreased in Denmark due to the pandemic. On 23 June 2021 it was decided to increase the buffer requirement from 0% to 1% from 30 September 2022 and further decided on 15 December 2021 to increase the requirement to 2% from 31 December 2022.

Nordea Kredit was identified as a systemically important financial institution (SIFI) in January 2017. The identification and the buffer requirement were confirmed most recently on 7 December 2021. The buffer requirement was 1.5% in 2021 and will be unchanged in 2022. A pillar 2 requirement can be set for an institution on an individual basis at the Danish FSA's discretion. A pillar 2 requirement has been set that applies for Nordea Kredit.

On 2 December 2021 as part of amendments to the Danish Financial Business Act, a new model for the designation of SIFIs in Denmark was approved. The new model is based on 12 key points and will be applicable from 2022. It is not expected that the new model at the starting point will have any impact on the SIFI level or buffer requirement.

The new European Covered Bond Directive has been implemented in Danish legislation and together with the EU Regulation will take effect from 8 July 2022.

In 2019 the Danish FSA published a model for new pillar 2 liquidity coverage ratio (LCR) add-ons for mortgage institutions. The reporting of the new pillar 2 add-ons continues until the overcollateral (OC) requirement in the European Covered Bond Directive comes into effect in June 2022. At that time – with possible changes – it is expected to replace the current requirement of 2.5% based on lending exposure. The model for LCR pillar 2 add-ons is institution-specific and risk-sensitive and will include risk types not included in the current LCR.

Debt buffer
Nordea Kredit must fulfil a debt buffer requirement of 2% of its unweighted lending. According to legislation the debt buffer requirement must be fulfilled using tier 1/tier 2 instruments or unsecured senior debt instruments.

The main principle for a SIFI mortgage institution belonging to an international group with a parent company outside Denmark – such as Nordea Kredit – is that besides the current debt buffer requirement of 2%, no additional requirement will apply as an 8% minimum requirement for eligible liabilities (MREL) is fulfilled on group level.

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, and includes revisions to credit risk, market risk, operational risk, credit valuation adjustment (CVA) risk, leverage ratio and introduces a new output floor.

Before being applicable to Nordea Kredit, the Basel IV package needs to be implemented into EU regulations. On 27 October 2021 the proposal for the implementation into EU regulations was published by the European Commission by amendments to the CRD and the CRR. The proposal from the Commission is to set the start date to 1 January 2025. The proposal is now subject to negotiations between the Commission, the Council and the Parliament before the final set of regulations is decided.

On credit risk, the proposal includes revisions to both the IRB approach, where restrictions to the use of IRB for certain exposures are implemented, as well as to the standardised approach. Also, for market risk the internal models approach and the standardised approach have been revised. For operational risk, the existing three approaches will be replaced by one standardised approach to be used by all banks. On CVA risk, the internally modelled approach will be removed and the standardised approach revised.

The output floor is to be set to 72.5% of the standardised approaches on an aggregate level. The floor will be phased in, starting with 50% from 1 January 2025 to be fully implemented at 72.5% from 1 January 2030 and with transitional rules for the calculation of the REA for the output floor extending to end-2032. The output floor should only be calculated on the highest consolidated level. Nordea Kredit will have a proportional part allocated if the output floor is a binding requirement for the consolidated situation.

Reporting on internal control and risk management regarding financial reporting

Control environment
The systems for internal control and risk management of financial reporting at Nordea Kredit are designed to provide reasonable assurance about the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, applicable laws and regulations as well as other requirements for companies with listed bonds. The internal control and risk management activities are included in Nordea Kredit's planning and resource allocation processes.

Internal control is based on a control environment which includes the following elements: values and management culture, an organisational structure with clear roles and responsibilities and an independent evaluation process. The documentation of the internal control framework consists of internal business procedures and Standard Operating Procedures (SOPs) supported by the Nordea Group directives.

To further support internal controls and guidelines, Nordea Kredit has a risk management function headed by a Chief Risk Officer (CRO) who is responsible for ensuring that the overall risk control at Nordea Kredit is conducted adequately. The CRO independently reports directly to the Board of Directors. Furthermore, Nordea Kredit has established a compliance function headed by a Chief Compliance Officer (CCO) who is responsible for independently monitoring, providing advice and assurance, and reporting of compliance risks.

Monitoring
The Executive Management of Nordea Kredit reports on an ongoing basis to the Board of Directors and the Board Audit Committee on significant matters affecting the internal control in relation to financial reports.

Nordea Kredit's internal audit function reviews the company's processes, to test and report whether these are in accordance with the objectives set out by management. This review includes an assessment of the reliability of procedures, controls and financial reporting as well as compliance with legislation and regulations. The internal audit function annually issues a conclusion to the Board of Directors on the overall effectiveness of the governance, risk management and internal controls of Nordea Kredit.

The Board Audit Committee of Nordea Kredit assists the Board of Directors in fulfilling its oversight responsibilities, for instance by monitoring the financial reporting process and system and providing recommendations to ensure its reliability, monitoring the effectiveness of the internal controls and risk management systems, in relation to the financial reporting process, monitoring the effectiveness of the internal audit function and keeping itself informed as to the statutory audit of the annual accounts, informing the Board of Directors of the outcome of the statutory audit and explaining how the statutory audit contributed to the reliability of financial reporting. Finally, the Board Audit Committee reviews and monitors the impartiality and independence of external auditors in accordance with section 24 of the Danish Act on Approved Auditors and Audit Firms, and in particular the provision of additional services to Nordea Kredit, and in conjunction therewith, pays special attention to whether the auditor provides Nordea Kredit with services other than auditing services. The external and the internal auditors present the results of their audits of Nordea Kredit's annual report to the Board of Directors and the Board Audit Committee.

Preventing financial crime

Nordea Kredit complies with Nordea's policy and measures to prevent financial crime based on international standards, EU regulation and local legislation. Nordea Kredit is committed to complying with applicable laws, regulations and best practice and has established policies, procedures and controls to mitigate and manage the risks of being used for financial crime activities.

Nordea Kredit conducts an annual risk assessment – built on the Nordea framework – to ascertain any specific financial crime risks arising from Nordea Kredit's business model and activities and take appropriate actions to mitigate the risks.

Sustainability

Nordea is committed to sustainable business and development by combining financial performance with environmental and social responsibility as well as sound governance practices. Nordea works to engage with customers on environmental, social and governance matters and to have an understanding of the challenges and opportunities faced by customers. Nordea has developed a long-term plan to fully integrate sustainability into its business strategy focusing on the sustainability topics where Nordea can have a material impact.

It is at the core of our business to develop and provide financial services and offerings that support sustainable development by enabling customers to make conscious sustainable choices.

At Nordea Kredit, this has resulted in the offering of green mortgage loans to corporate customers for energy efficiency, buildings with EPC ratings A or B, renewable public utilities and organic farms funded by green bonds.

Environmental, social and corporate governance (ESG)

Nordea defines ESG risk as the risk of negative financial impact over the short to longer term, stemming from the direct or indirect impact that environmental (including climate), social and governance issues may have on Nordea. It is important for Nordea to integrate ESG assessments into our risk management frameworks.

Further information on Nordea's sustainability can be found in the annual report for Nordea on www.nordea.com/en/investors/group-annual-reports.

Data ethics policy

The Nordea Group Board of Directors has approved the Group Board Directive on Code of Conduct, the Group Board Directive on Data Governance and the Group Board Directive on Data Privacy. These Group directives include the Nordea Group's policy for data ethics. The Group policies have been adopted by the Board of Directors of Nordea Kredit and are applicable for all employees of the Nordea Group.

Processing of data at Nordea Kredit is a part of the core business. Nordea Kredit complies with applicable law and strives to process, treat and analyse all data in a fair and transparent manner and with a strong ethical mindset. We respect customers' privacy:

- We collect and process personal and customer data fairly, lawfully and transparently for legitimate business purposes.
- We respect individuals' right to be in control of what data they share with us and for what purposes with the limitations that legal requirements set on us.
- We only disclose personal and customer data to those authorised to receive it internally at Nordea and externally, for example third parties we collaborate with.
- Our commitment to privacy remains also after relationships with stakeholders end.

Furthermore, Nordea has issued guidelines for Ethical and Trustworthy Artificial Intelligence (AI). These guidelines are derived from the Group Board Directive on Code of Conduct and is a key component of the AI Framework, which ensures that AI is developed and used in a safe and compliant way.

The policy for data ethics covers the processing of data across the Nordea Group. Essential data, automated data processing and modelling are subject to governance and measured continuously to ensure a high level of data security and ensure compliance with the ethical guidelines.

The daily activities concerning data ethics are carried out in the local Nordea Kredit business areas.
The reporting on data ethics is the responsibility of a number of functions at Nordea Kredit, including Compliance and Data Management.

Changes to the Board of Directors

At the beginning of 2021 the Board of Directors consisted of Mads Skovlund Pedersen (Chair), Anne Rømer (Vice Chair and external member), Anita Ina Nielsen, Marte Kopperstad, Thomas Vedel Kristensen, Torben André Petersen and Kim Skov Jensen.

In October 2021 Kim Skov Jensen left the Board of Directors and was replaced by Anders Frank-Læssøe.

After the changes the Board of Directors consists of Mads Skovlund Pedersen (Chair), Anne Rømer (Vice Chair and external member), Anita Ina Nielsen, Marte Kopperstad, Thomas Vedel Kristensen, Torben André Petersen and Anders Frank-Læssøe.

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. Morten Boni was appointed as Chief Executive Officer on 1 August 2021 and Claus H. Greve as Deputy Chief Executive Officer.

Further information regarding members of the Board of Directors and the Executive Management is available on page 52.

Balanced gender composition

The Nordea Group Board of Directors has approved a policy to promote gender balance when selecting board members of subsidiaries of Nordea Bank Abp. The Board of Directors of Nordea Kredit has endorsed this policy where the Board of Directors should have a gender balance of 40/60. The gender balance was met throughout 2021.

Furthermore, the Nordea Group Board of Directors has approved a policy to promote gender balance on the other managerial levels. The Board of Directors of Nordea Kredit has endorsed this policy.

According to the policy, Nordea strives to ensure that the right person is employed for the right job at the right time, while ensuring the right mix of competencies needed, including an appropriate gender composition in leading positions.

The Board of Directors continuously assesses its composition to ensure that the necessary competencies are available while considering the need for an equal gender balance.

Nordea continuously follows up on diversity measures and social data. See the latest sustainability report on www.nordea.com/en/sustainability.

Remuneration at Nordea

Nordea has a clear remuneration policy, instructions and processes, supporting sound remuneration structures throughout the organisation.

The Board of Directors of Nordea decides on the Nordea Remuneration Policy, taking possible risks into account, and oversees its functionality by ensuring that it is applied and followed up as proposed by the Board Remuneration and People Committee.

The Remuneration Policy

- Support Nordea's ability to recruit, develop and retain highly motivated, competent and performance-oriented employees and hence support the Group strategy.
- Ensure that employees are offered a competitive and market-aligned total reward offering.
- Support sustainable results and the long-term interest of the shareholders by including goals directly linked to the performance of Nordea and by awarding parts of variable remuneration in shares or other instruments.
- Ensure that remuneration at Nordea is aligned with efficient risk management, the Nordea Purpose and Values and applicable regulations.

Nordea has a total remuneration approach to compensation that recognises the importance of well-balanced but differentiated remuneration structures, based on business and local market needs, as well as the importance of remuneration being consistent with and promoting sound and effective risk management and not encouraging excessive risk-taking or counteracting Nordea's long-term interests.

Nordea remuneration components

Nordea's remuneration structure comprises fixed remuneration and variable remuneration.

Fixed remuneration components:

- Fixed Base Salary remunerates employees for role and position and is affected by job complexity, responsibility, performance and local market conditions.
- Allowance is a predetermined fixed remuneration component tied to the employee's role and position. Fixed Base Salary is, however, the cornerstone of all fixed remuneration. Allowances are not linked to performance or otherwise incentivising risk-taking.

Pension and Insurance aims at ensuring an appropriate standard of living for employees after retirement as well as personal insurance coverage during employment. Pension and insurance provisions are in accordance with local laws, regulations and market practice either collectively agreed schemes or company-determined schemes, or a combination thereof. Nordea aims to have defined contribution pension schemes.

- Benefits at Nordea are awarded as a part of the total reward offering that is either individually agreed or based on local laws, market practice, collective bargaining agreements and company-determined practice.

Variable remuneration components:

- Executive Incentive Programme (EIP) and variable salary part (VSP) were offered to a few selected key employees. The assessment of individual performance is based on a predetermined set of well-defined financial as well as non-financial goals.
- Profit Sharing Plan (PSP) is offered groupwide to all Nordea employees but not to employees who are eligible for any of Nordea's other formal annual variable remuneration plans. For eligible employees, the PSP is offered irrespective of position and salary and aims to collectively reward employees based on achievement against predetermined financial goals as well as goals relating to customer satisfaction. The PSP is capped financially, and the outcome is not linked to the value of Nordea's share price.

The total remuneration earned by the Board of Directors and the Executive Management is disclosed in accordance with section 77d (4) of the Danish Financial Business Act on www.nordea.dk/privat/produkter/boliglaan/nordea-kredit.html#tab=Lonforhold.

Subsequent events

No events have occurred after the balance sheet date which may affect the assessment of the annual report.

Outlook for 2022

Nordea Kredit expects that lending volumes for both owner-occupied dwellings and commercial properties will increase in 2022, but the increase is expected to be somewhat lower than in 2021. Net interest income is expected to increase driven by higher volumes. Changes in negative interest rates on the investment of capital can also affect net interest income.

Net commission income is expected to be at the same level as in 2021.

Staff and administrative expenses are expected to increase slightly driven by group internal fees for sales and distribution services.

Loan losses are expected to be at a low level due to the strong credit quality of the lending portfolio.

On an overall level, profit before tax for 2022 is expected to be on the same level as in 2021.

Financial Statements - Contents

Income statement

DKKm	Note	2021	2020
Interest income		7,313	7,493
Interest expenses		-3,989	-4,282
Net interest income	**2**	**3,324**	**3,211**
Fee and commission income	3	629	584
Fee and commission expenses	3	-1,259	-1,073
Net interest and fee income		**2,694**	**2,722**
Value adjustments	4	1	10
Other operating income		8	6
Staff and administrative expenses	5	-1,367	-608
Depreciation of tangible assets		0	0
Impairment losses on loans and receivables	6	82	-491
Profit from equity investment in associated undertaking	7	2	1
Profit before tax		**1,419**	**1,640**
Tax	8	-312	-361
Net profit for the year		**1,107**	**1,279**
Attributable to			
Shareholder of Nordea Kredit Realkreditaktieselskab		1,107	1,279
Total		**1,107**	**1,279**

Statement of comprehensive income

DKKm	2021	2020
Net profit for the year	1,107	1,279
Other comprehensive income, net of tax	-	-
Total comprehensive income	**1,107**	**1,279**
Attributable to		
Shareholder of Nordea Kredit Realkreditaktieselskab	1,107	1,279
Total	**1,107**	**1,279**

Balance sheet

DKKm	Note	31 Dec 2021	31 Dec 2020
Assets			
Cash in hand and demand deposits with central banks		0	50
Receivables from credit institutions and central banks	10	48,523	49,948
Loans and receivables at fair value	11	432,280	417,553
Loans and receivables at amortised cost		1	1
Investment in associated undertaking	12	22	19
Tangible assets		0	0
Deferred tax assets	8	1	2
Current tax assets	8	2	-
Assets held temporarily	13	1	6
Other assets		177	351
Prepaid expenses		8	6
Total assets		**481,015**	**467,936**
Debt			
Debt to credit institutions and central banks	15	14,260	4,998
Bonds in issue at fair value	16	441,234	435,055
Current tax liabilities	8	-	9
Other liabilities	17	1,644	1,624
Deferred income		16	19
Total debt		**457,154**	**441,705**
Subordinated debt			
Subordinated debt	18	**1,550**	**3,750**
Equity			
Share capital		1,717	1,717
Other reserves		23	21
Retained earnings		19,464	19,464
Proposed dividend		1,107	1,279
Total equity		**22,311**	**22,481**
Total equity and debt		**481,015**	**467,936**
Contingent liabilities			
Guarantees etc.		0	0
Credit commitments		2,721	1,508
Total contingent liabilities		**2,721**	**1,508**

Statement of changes in equity

DKKm	Share capital[1]	Other reserves[2]	Retained earnings	Proposed dividend	Total equity
Balance at 1 Jan 2021	**1,717**	**21**	**19,464**	**1,279**	**22,481**
Net profit for the year	**-**	**2**	**1,105**	**-**	**1,107**
Other comprehensive income, net of tax	**-**	-	-	-	-
Share-based payments	-	-	2	-	2
Dividends paid	-	-	-	-1,279	-1,279
Proposed dividends	-	-	-1,107	1,107	-
Balance at 31 Dec 2021	**1,717**	**23**	**19,464**	**1,107**	**22,311**

DKKm					
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, net of tax	-	-	-	-	-
Dividends paid	-	-	-	-1,388	-1,388
Proposed dividends	-	-	-1,279	1,279	-
Balance at 31 Dec 2020	**1,717**	**21**	**19,464**	**1,279**	**22,481**

A description of items in equity is included in Note 1 Accounting policies.

[1] Total shares registered were 17,172,500 of DKK 100 each all fully owned by Nordea Bank Abp, Helsinki, Finland.
All issued shares are fully paid. All shares are of the same class and hold equal rights.
[2] Reserve for net revaluation according to the equity method.
[3] Nordea Kredit is consolidated into the group annual report for the parent company Nordea Bank Abp, Satamaradankatu 5, Helsinki, Finland which is available on www.nordea.com/en/investors/group-annual-reports'.

5-year overview

Income statement (DKKm)

	2021	2020	2019	2018	2017
Net interest income	3,324	3,211	3,156	3,190	3,270
Net interest and fee income	2,694	2,722	2,670	2,555	2,685
Value adjustments	1	10	13	-18	3
Other operating income	8	6	4	3	7
Staff and administrative expenses	-1,367	-608	-306	-286	-314
Depreciation of tangible assets	0	0	0	0	0
Impairment losses on loans and receivables	82	-491	-6	-215	-143
Profit from equity investment in associated undertaking	2	1	-2	3	4
Profit before tax	**1,419**	**1,640**	**2,373**	**2,042**	**2,242**
Tax	-312	-361	-523	-449	-492
Net profit for the year	**1,107**	**1,279**	**1,850**	**1,593**	**1,750**

Balance sheet (DKKm)

	2021	2020	2019	2018	2017
Receivables from credit institutions and central banks	48,523	49,948	67,462	43,440	46,220
Loans and receivables at fair value	432,280	417,553	404,998	394,916	393,008
Loans and receivables at nominal value[1]	436,116	409,222	398,497	387,159	383,582
Other assets	211	435	817	469	973
Total assets	**481,015**	**467,936**	**473,277**	**438,825**	**440,201**
Debt to credit institutions and central banks	14,260	4,998	5,597	10,841	7,636
Bonds in issue at fair value	441,234	435,055	440,929	400,817	405,629
Other liabilities	3,210	5,402	4,161	4,834	4,884
Equity	22,311	22,481	22,590	22,333	22,052
Total equity and debt	**481,015**	**467,936**	**473,277**	**438,825**	**440,201**

Ratios and key figures

	2021	2020	2019	2018	2017
Return on equity, %	4.9	5.7	8.2	7.2	7.9
Cost/income ratio	50.5	22.2	11.4	11.3	11.7
Write-down ratio, basis points	-1.9	11.7	0.1	5.4	3.6
Loans/equity ratio	19.4	18.6	17.9	17.7	17.4
Lending growth for the year, %	6.6	2.7	3.0	1.0	0.1
Common equity tier 1 capital ratio, %	24.7	25.0	24.4	23.9	29.7
Tier 1 capital ratio, %	24.7	25.0	24.4	23.9	29.7
Total capital ratio, %	26.6	29.6	27.0	26.5	32.9
Own funds, DKKbn	22.1	24.4	22.8	22.5	22.6
Tier 1 capital, DKKbn	20.5	20.7	20.6	20.3	20.4
Risk exposure amount, DKKbn	83.1	82.6	84.3	84.8	68.9
Number of employees (full-time equivalents)[2]	118	116	119	113	111
Average number of employees	118	116	114	110	106

[1] After adjustment for provisions for loan losses.
[2] At the end of the year.

The Danish Financial Supervisory Authority's ratio system is shown in note 23.

Glossary

The following definitions apply for ratios and key figures.

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 year divided by loans and receivables at nominal value beginning of year.

Leverage ratio
The leverage ratio is the institution's capital as tier 1 capital net after deductions divided by that institution's total leverage ratio exposure and expressed as a percentage.

Loans/equity ratio
Loans and receivables at fair value divided by equity end of year.

Operating income
Total of net interest and fee income, value adjustments, other operating income and profit from equity investment in associated undertaking.

Operating expenses
Total of staff and administrative expenses.

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 and other items.

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

Notes to the financial statements

Note 1 Accounting policies

Table of contents

1. Basis for presentation

The annual report for 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, methods of computation and presentations are unchanged from last year.

2. Critical judgements and estimation uncertainty

The preparation of financial statements in accordance with generally accepted accounting principles requires, in some cases, the use of judgements and estimates by management. Actual outcomes can later, to some extent, differ from the estimates and the assumptions made.

In this section a description is made of:

- the sources of estimation uncertainty at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year, and
- the judgements made when applying accounting policies (apart from those involving estimations) that have the most significant impact on the amounts recognised in the financial statements.

Critical judgements and estimates are in particular associated with:

- the fair value measurement of certain financial instruments, and
- measurement of loans and receivables at fair value due to changes in credit risk.

Fair value measurement of certain financial instruments

Nordea Kredit's accounting policy for determining the fair value of financial instruments is described in section 6 "Determination of fair value of financial instruments".

Critical judgements that have a significant impact on the recognised amounts for financial instruments are exercised when determining fair value of financial instruments that lack quoted prices or recently observed market prices. Those judgements relate to the following areas:

- The choice of valuation techniques.
- The determination of when quoted prices fail to represent fair value (including the judgement of whether markets are active).
- The construction of fair value adjustments in order to incorporate relevant risk factors such as credit risk, model risk and liquidity risk.
- The judgement of which market parameters are observable.

The critical judgements required when determining fair value of financial instruments that lack quoted prices or recently observed market prices also introduce a high degree of estimation uncertainty.

In all of these instances, decisions are based upon professional judgement in accordance with Nordea's accounting and valuation policies that are adopted by the Board of Directors of Nordea Kredit.

Measurement of loans and receivables at fair value due to changes in credit risk

Nordea Kredit's accounting policy for measurement of loans and receivables at fair value due to changes in credit risk is described in section 9 "Loans and receivables at fair value".

Management is required to exercise critical judgements and estimates when calculating changes in credit risk. The credit risk is calculated based on the impairment rules for loans at amortised cost with relevant fair value adjustments. The credit risk is recognised in the balance sheet as loan impairment allowances.

When calculating allowances for individually impaired loans, judgement is exercised to estimate the value of the collateral received and the timing of the sale of the property.

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. Judgement is exercised in the modelling approach for the coverage of the first loss guarantee as it will depend on the composition of future defaults. The statistical models used to calculate provisions are based on macroeconomic scenarios, which requires management to exercise judgement when identifying such scenarios and when assigning the likelihood of the different scenarios occurring. Judgement is also exercised in the assessment of to what extent the parameters for the different scenarios, based on historical experience, are relevant for estimating future losses. Adjustments are made to the model calculated provisions if the historical data does not adequately reflect management's view on the expected credit losses. The estimation of post-model adjustments requires management to exercise critical judgements.

3. Recognition of operating income and impairment

Interest income and expense are calculated and recognised based on the effective interest rate method or, if considered appropriate, based on a method that results in an interest income or interest expense that is a reasonable approximation of using the effective interest rate method as basis for the calculation.

Interest income and expenses from financial instruments are classified as "Net interest income".

Negative interest income is presented as part of interest expenses and negative interest expenses are presented as part of interest income.

Net fee and commission income

Nordea Kredit earns commission income from different services provided to customers. The recognition of commission income depends on the purpose for which the fees are received. Fee income is recognised either when or as performance obligations are satisfied.

Fees categorised as loan processing, brokerage, refinancing fees and pay-out fees plus other fee and commision income are recognised at a point of time.

Expenses for bought financial guarantees are amortised over the duration of the instruments. Other commission expenses are transaction based and recognised in the period when the services are received.

Value adjustments

Realised and unrealised gains and losses on financial instruments measured at fair value through profit and loss are recognised in the item "Value adjustments".

Realised and unrealised gains and losses derive from:

- interest-bearing securities and other interest-related instruments
- other financial instruments, and
- foreign exchange gains/losses.

Other operating income

Net gains from divestments of shares in associated undertakings and net gains on sale of tangible assets as well as other operating income, not related to any other income line, are generally recognised when it is probable that the benefits associated with the transaction will flow to Nordea Kredit and if the significant risks and rewards have been transferred to the buyer (generally when the transactions are finalised).

Impairment losses on loans and receivables

Changes in the credit risk on loans and receivables at fair value on the balance sheet are reported as "Impairment losses on loans and receivables". Nordea Kredit's accounting policies for the calculation of changes in the credit risk on loans and receivables at fair value can be found in section 9 "Loans and receivables at fair value".

Profit from investment in associated undertaking

The profit from investment in associated undertaking is defined as the post-acquisition change in Nordea Kredit's share of net assets in the associated undertaking. Nordea Kredit's share of profit is accounted for in "Profit from investment in associated undertaking" and placed under equity, "Other reserves". Profits from investment in associated undertaking are reported in the income statement post-taxes. Consequently, the tax expense related to these profits is excluded from the income tax expense for Nordea Kredit.

The change in Nordea Kredit's share of the net assets is generally based on reporting from the associated undertaking.

4. Recognition and derecognition of financial instruments on the balance sheet

Derivative instruments, quoted securities, foreign exchange spot transactions and other financial instruments are recognised on and derecognised from the balance sheet on the settlement date.

Financial assets are derecognised from the balance sheet when the contractual rights to the cash flows from the financial asset expire or are transferred to another party. The rights to the cash flows normally expire or are transferred when the counterparty has performed by for example repaying a loan to Nordea Kredit, that is on the settlement date.

Financial liabilities are derecognised from the balance sheet when the liability is extinguished.

For further information, see the section "Repurchase and reverse repurchase agreements" within section 8 "Financial instruments".

5. Translation of assets and liabilities denominated in foreign currencies

Unrealised translation differences on unsettled foreign currency monetary assets and liabilities are recognised in the income statement in the item "Value adjustments".

6. Determination of fair value of financial instruments

Fair value is defined as the price that at the measurement date would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants under current market conditions in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability.

The existence of published price quotations in an active market is the best evidence of fair value and when they exist they are used to measure financial assets and financial liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. The absolute level for liquidity and volume required for a market to be labelled active vary with the instrument classes. For some classes low price volatility is seen, also for those instruments within the class where the trade frequency is high. For instruments in such a class the liquidity requirements are lower and correspondingly, the age limit for the prices used for establishing fair value is higher. The trade frequency and volume are monitored regularly in order to assess if markets are active or non-active. Nordea Kredit is predominantly using published price quotations to establish fair value for interest-bearing securities and bonds in issue.

If quoted prices for a financial instrument fail to represent actual and regularly occurring market transactions or if quoted prices are not available, fair value is established by using an appropriate valuation technique. The adequacy of the valuation technique, including an assessment of whether to use quoted prices or theoretical prices, is monitored on a regular basis.

Valuation techniques can range from simple discounted cash flow analysis to complex option pricing models. Valuation models are designed to apply observable market prices and rates as input whenever possible, but can also make use of unobservable model parameters. The adequacy of the valuation model is assessed by measuring its capability to hit market prices. This is done by comparison of calculated prices to relevant benchmark data, for example quoted prices from an exchange, the counterparty's valuations, price data from consensus services etc.

Nordea Kredit is predominantly using valuation techniques to establish fair value for items disclosed under the following balance sheet items:

- loans and receivables at fair value are described in section 9
- interest-bearing securities (when quoted prices in an active market are not available)
- bonds in issue at fair value.

For financial instruments where fair value is estimated by a valuation technique, it is investigated whether the variables used in the valuation model are predominantly based on data from observable markets. By data from observable markets, Nordea Kredit considers data that can be collected from generally available external sources and where these data are judged to represent realistic market prices. If non- observable data have a significant impact on the valuation, the instrument cannot be recognised initially at the fair value estimated by the valuation technique and any upfront gains are thereby deferred and amortised through the income statement over the contractual life of the instrument. The deferred upfront gains are subsequently released to income if the non-observable data become observable.

The valuation models applied by Nordea Kredit are consistent with accepted economic methodologies for pricing financial instruments and incorporate the factors that market participants consider when setting a price.

7. Cash in hand and demand deposits with central banks

Cash in hand and demand deposits with central banks consist of cash and balances with central banks, where the following conditions are fulfilled:

- the central bank is domiciled in Denmark
- the balance is readily available at any time.

8. Financial instruments

Each financial instrument has been classified into one of the following categories: amortised cost, fair value through profit and loss or fair value through other comprehensive income. The classification of a financial instrument is dependent on the business model for the portfolio in which the instrument is included and on whether the cash flows are solely payments of principal and interest (SPPI).

Financial assets with cash flows that are not solely payments of principal and interest (SPPI) are measured at fair value through profit and loss. All other assets are classified based on the business model.

All financial assets and liabilities are initially measured at fair value. The classification of financial instruments into different categories forms the basis for how each instrument is subsequently measured on the balance sheet and how changes in its value are recognised.

Mortgage loans and the related bonds issued are classified at fair value through profit and loss according to the Executive Order.

Repurchase and reverse repurchase agreements

Securities delivered under repurchase agreements and securities received under reverse repurchase agreements are not derecognised from or recognised on the balance sheet.

Cash received under repurchase agreements is recognised on the balance sheet as "Debt to credit institutions and central banks". Cash delivered under reverse repurchase agreements is recognised on the balance sheet as "Receivables from credit institutions and central banks".

Derivatives

All derivatives are recognised on the balance sheet and measured at fair value. Derivatives with total positive fair values, including any accrued interest, are recognised as assets in the item "Other assets" on the asset side. Derivatives with total negative fair values, including any accrued interest, are recognised as liabilities in the item "Other liabilities" on the liability side.

Realised and unrealised gains and losses from derivatives are recognised in the income statement in the item "Value adjustments".

Offsetting of financial assets and liabilities

Nordea Kredit offsets financial assets and liabilities on the balance sheet if there is a legal right to offset, in the ordinary course of business and in case of default, bankruptcy and insolvency of Nordea Kredit and the counterparties, and if the intent is to settle the items net or realise the asset and settle the liability simultaneously.

9. Loans and receivables at fair value

Recognition and presentation

Financial instruments classified into the category "Loans and receivables at fair value" are measured at fair value. The fair value of loans and receivables is based on the fair value of the underlying bonds issued adjusted for changes in the credit risk on the customers. Changes in the credit risk are measured based on the impairment rules for loans at amortised cost with relevant fair value adjustments.

Loans and receivables at fair value are recognised gross with an offsetting allowance for changes in the credit risk. The allowance account is disclosed net on the face of the balance sheet, but the allowance account is disclosed separately in the notes. Changes in the allowance account are recognised in the income statement and classified as "Impairment losses on loans and receivables".

If the change in the credit risk is regarded as final, it is reported as a realised loss and the carrying amount of the loan and the related allowance for changes in the fair value of credit risk are derecognised. An impairment loss is regarded as final when the collateral is sold in either an agreed sale or a forced sale.

Changes in credit risk
Nordea Kredit classifies all exposures into stages on an individual basis. Stage 1 includes assets where there has been no significant increase in credit risk, stage 2 includes assets where there has been a significant increase in credit risk and stage 3 includes credit-impaired assets. Nordea Kredit monitors whether there are indicators of exposures being credit impaired (stage 3) by identifying events that have a detrimental impact on the estimated future cash flows (loss event). Nordea Kredit applies the same definition of default as the Capital Requirements Regulation. More information on the identification of loss events can be found in Note 24 Risk and liquidity management. Exposures without individually calculated allowances will be covered by the model-based impairment calculation.
For credit-impaired exposures impairment tested on an individual basis, the carrying amount of the exposure is compared with the sum of the net present value of the collaterals and the first loss guarantee. If the carrying amount is higher, the difference is recognised as an impairment loss.

For credit-impaired exposures with impairment not calculated on an individual basis, the impairment loss is measured using the model described below but based on the fact that the exposures are already credit impaired.

Model-based calculation of changes in credit risk
For exposures not impairment tested on an individual basis, a statistical model is used for calculating impairment losses. The provisions are calculated as the exposure at default times the change in probability of default (PD) times the loss given default. In stage 3 the expected loss is calculated based on the actual probability of default.

Changes in credit risk are measured based on a distribution of loans and receivables into three groups depending on the stage of credit deterioration:

- Stage 1 includes loans and receivables where management has assessed that there has not been a significant increase in credit risk since first recognition. The assessment is made using a portfolio approach and covers the coming 12 months' expected loss.
- Stage 2 includes loans and receivables with a significant increase in credit risk, but which are not credit impaired. The provision is based on the lifetime expected loss.

  In addition, customers with forbearance measures and customers with payments more than 30 days past due are also transferred to stage 2, unless already identified as credit impaired (stage 3). There has been a significant increase in credit risk in the following situations:
  - An increase in PD of 100% for the expected maturity for the exposure and an increase in the 12-month PD of 0 .5% point for exposures when the 12-month PD at initial recognition was less than 1%.
  - An increase in PD of 100% for the expected maturity for the exposure or an increase in the 12-month PD of 2% points for exposures when the 12-month PD at initial recognition was 1% or higher.
- Stage 3 includes credit-impaired loans and receivables.

When calculating the expected loss, the calculation is based on probability-weighted forward-looking information. Nordea Kredit applies three macroeconomic scenarios to address the non-linearity in expected credit losses. The different scenarios are used to adjust the relevant parameters for calculating expected losses and a probability-weighted average of the expected losses under each scenario is recognised as a provision.

Besides the model-based impairments, management judgements are made to include impairments related to risks that are not captured by the impairment model.

Assets held temporarily
At Nordea Kredit the item "Assets held temporarily" consists of repossessed properties.

Assets taken over are measured at the lower of the carrying amount at the time of classification and the fair value less expected costs to sell. Any change in value is presented in the income statement under "Impairment losses on loans and receivables".

10. Tangible assets
Tangible assets include IT equipment, furniture and other equipment. Tangible assets are measured at cost less accumulated depreciation and accumulated impairment losses. The cost of a tangible asset comprises its purchase price as well as any directly attributable costs of bringing the asset to the working condition for its intended use.

Tangible assets also include right-to-use assets (leases). The right-to-use asset is initially measured as the present value of the lease payments.

Tangible assets are depreciated on a straight-line basis over the estimated useful life of the assets. The estimates of the useful life of different assets are reassessed on a yearly basis. The current estimate for tangible assets is 3-5 years.

11. Taxes
The item "Tax" in the income statement comprises current and deferred income tax. The tax expense is recognised in the income statement, except to the extent the tax effect relates to items recognised in other comprehensive income or directly in equity, in which case the tax effect is recognised in other comprehensive income or in equity, respectively.

Current tax is the expected tax expense on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognised, using the balance sheet method, for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets are recognised for the carry forward of unused tax losses.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, tax losses carry forward and unused tax credits can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Current tax assets and current tax liabilities are offset when the legal right to offset exists and Nordea Kredit intends to either settle the tax asset and the tax liability net or to recover the asset and settle the liability simultaneously. Deferred tax assets and deferred tax liabilities are generally offset if there is a legally enforceable right to offset current tax assets and current tax liabilities.

12. Employee benefits

All forms of consideration given by Nordea Kredit to its employees as compensation for services performed are employee benefits. Short-term benefits are to be settled within 12 months after the reporting period when the services have been performed. Post-employment benefits are benefits payable after the termination of the employment. Post-employment benefits at Nordea Kredit consist only of pensions. Termination benefits normally arise if an employment is terminated before the normal retirement date, or if an employee accepts an offer of voluntary redundancy.

Short-term benefits

Short-term benefits consist mainly of fixed and variable salary. Both fixed and variable salaries are expensed in the period when the employees have performed services to Nordea Kredit.

More information can be found in Note 5 “Staff and administrative expenses”.

Post-employment benefits
Pension plans

All pensions at Nordea Kredit are based on defined contribution arrangements that hold no pension liability for Nordea Kredit. Nordea Kredit also contributes to public pension systems.

13. Equity

Other reserves

Other reserves comprise income and expenses, net after tax effects which are reported in equity through other comprehensive income. These reserves include reserve for Nordea Kredit’s share of earnings in associated undertakings under the equity method.

Retained earnings

Retained earnings comprise undistributed profits from previous years.

14. Related-party transactions

Nordea Kredit defines related parties as

- the parent company Nordea Bank Abp
- other undertakings of the Nordea Group
- associated undertakings
- members of the Board of Directors and the Executive Management
- members of the parent company’s Board of Directors and Executive Management
- other related parties.

All transactions with related parties are made on an arm’s length basis.

Other undertakings of the Nordea Group

Other undertakings of the Nordea Group consist of subsidiaries of Nordea Bank Abp.

Intragroup transactions between legal entities are performed according to the arm’s length principle in compliance with the Danish Financial Supervisory Authority OECD transfer pricing requirements.

Associated undertakings

Further information on the associated undertakings is found in Note 12 “Investment in associated undertaking”.

Members of the Board of Directors and the Executive Management

For information about compensation, pensions and other transactions with members of the Board of Directors and the Executive Management, see Note 5 “Staff and administrative expenses”.

Other related parties

Other related parties comprise close family members of members of the Board of Directors and the Executive Management. Other related parties also include companies significantly influenced by members of the Board of Directors and the Executive Management of Nordea Kredit as well as companies significantly influenced by close family members of the members of the Board of Directors and the Executive Management.

Information concerning transactions between Nordea Kredit and other related parties is found in Note 22 “Related-party transactions”.

Note 2 Net interest income

DKKm	2021	2020
Interest income		
Loans and receivables at fair value	3,583	3,817
Administration margins	3,503	3,390
Positive interest expenses	210	270
Other interest income	17	16
Total interest income	**7,313**	**7,493**
Interest expenses		
Debt to credit institutions and central banks	-3	-2
Bonds in issue at fair value	-3,699	-3,972
Subordinated debt	-54	-53
Negative interest income	-233	-255
Total interest expenses	**-3,989**	**-4,282**
Net interest income	**3,324**	**3,211**

Note 3 Net fee and commission income

DKKm	2021	2020
Loan processing fees	143	149
Brokerage	108	104
Refinancing fees and pay-out fees	330	278
Other fee and commission income	48	53
Fee and commission income	**629**	**584**
Guarantee commissions etc payable to Nordea Bank	-995	-822
Brokerage payable to Nordea Bank	-99	-96
Other fee and commission expenses	-165	-155
Fee and commission expenses	**-1,259**	**-1,073**
Net fee and commission income	**-630**	**-489**

Note 4 Value adjustments

DKKm	2021	2020
Mortgage loans	-12,586	1,142
Foreign exchange gains/losses	0	-2
Interest rate derivatives	-22	20
Bonds in issue[1]	12,609	-1,150
Total	**1**	**10**

[1] Including value adjustments on own positions.

Note 5 Staff and administrative expenses

DKKm	2021	2020
Salaries and remuneration (specification below)	-89	-79
Pension costs (specification below)	-9	-9
Social insurance contributions	-18	-20
Administrative expenses[1]	-1,251	-500
Total	**-1,367**	**-608**
Average number of employees	118	116

[1] Administrative expenses increased due to an update of the transfer pricing method applied by Nordea to group internal sales and distribution services provided by Nordea Bank.

DKKm	2021	2020
Salaries and remuneration[1]		
To the Board of Directors:		
- Board and Audit Committee fee	0	0
To the Executive Management:		
- Fixed salary and benefits	-4	-3
- Performance-related compensation[2]	-1	-2
To the employees that have significant influence on Nordea Kredit's risk profile:		
- Fixed salary and benefits	-4	-4
- Performance-related compensation	0	0
Total	**-10**	**-9**
To other employees	-79	-70
Total	**-89**	**-79**

[1] Nordea Kredit' remuneration policy including the remuneration policy for the Board of Directors, the Executive Management and employees that have significant influence on Nordea Kredit's risk is available in Danish on www.nordea.dk/privat/produkter/boliglaan/nordea-kredit.html#tab=Lonforhold.

[2] Performance-related compensation consists of the Executive Incentive Programme (EIP).

Pension costs		
Defined contribution plans:		
- Executive Management	0	0
- Employees that have significant influence on Nordea Kredit's risk profile	-1	0
- Other employees	-8	-9
Total	**-9**	**-9**

Compensation including pension		
Board of Directors[1]	0	0
Executive Management[2]	-6	-5
Employees that have significant influence on Nordea Kredit's risk profile[3]	-5	-5
Total	**-11**	**-10**

[1] The Board of Directors included seven individuals (7) at the end of the year.

[2] The Executive Management included two individuals (2) at the end of the year.

[3] Other employees that had significant influence on Nordea Kredit's risk profile included seven individuals (6) at the end of the year.

Executive Incentive Programme (EIP 2021) for the executive managers of Nordea Kredit has a one-year performance period and includes pre-determined performance goals and targets at Group, business area/Group function (BA/GF) and individual level. The impact on long-term results was considered when determining the targets.

Performance goals at Group level included financial goals measuring return on equity, income and cost/income ratio as well as non-financial goals measuring employee engagement and customer satisfaction. BA/GF goals included BA/GF-specific financial and non-financial goals. At individual level, performance was measured in relation to the individually agreed goals and targets including risk and compliance. The weighting of Group, BA/ GF and individual goals is determined individually. The overall ambition for 2021 was to deliver on Nordea's strategic priorities. Any awards were determined on the basis of achievement in relation to the agreed goals and targets following appropriate risk adjustments.

The outcome from EIP 2021 will be paid in equal portions of cash and Nordea shares, and will be subject to forfeiture clauses. 40% of the confirmed outcome of the EIP 2021 will be delivered in equal portions of cash and Nordea shares in 2022. The remaining 60% of EIP 2021 outcome is deferred for annual pro rata delivery over a five-year period, meaning that a significant portion of the outcome remains to be delivered at the time of the award. No dividends are paid during the deferral period. Nordea shares will be subject to 12 months' retention when delivered to the executive managers. The maximum outcome of the EIP 2021 was 70% of annual fixed base salary. The estimated expense for the 2021 EIP programme is recognised in the income statement for 2021.

Note 6 Impairment losses on loans and receivables

DKKm	2021	2020
Stage 1		
New and increased impairment charges	-13	-60
Reversals of impairment charges	12	0
Impairment losses on loans and receivables, non-credit impaired	-1	-60
Stage 2		
New and increased impairment charges	-54	-306
Reversals of impairment charges	100	104
Impairment losses on loans and receivables, non-credit impaired	45	-202
Stage 3, credit impaired		
Realised loan losses	-86	-71
Decrease in impairment charges to cover realised loan losses	81	63
Recoveries on previous realised loan losses	4	6
New and increased impairment charges	-98	-407
Reversals of impairment charges	137	180
Impairment losses on loans and receivables, credit impaired	37	-229
Impairment losses on loans and receivables	**82**	**-491**

Note 7 Profit from equity investment in associated undertaking

DKKm	2021	2020
Profit from equity investment in associated undertaking	2	1
Total	**2**	**1**

Note 8 Tax

Income tax expense

DKKm	2021	2020
Current tax	-311	-360
Deferred tax	-1	-1
Adjustment relating to prior years	0	0
Total	**-312**	**-361**

Profit before tax	1,419	1,640
Tax calculated at a tax rate of 22%	-312	-361
Income from associated undertaking	1	0
Non-deductible expenses	-1	0
Adjustment relating to prior years	0	0
Tax charge	**-312**	**-361**
Average effective tax rate	22%	22%

Deferred tax

	Deferred tax assets		Deferred tax liabilities	
DKKm	2021	2020	2021	2020
Deferred tax related to:				
Provisions	1	2	-	-
Total	**1**	**2**	**-**	**-**

DKKm	2021	2020
Movements in deferred tax assets/liabilities, net are as follows:		
Amount at beginning of year (net)	2	3
Deferred tax in the income statement	-1	-1
Amount at end of year (net)	**1**	**2**

Current tax assets	**2**	**-**
Current tax liabilities	**-**	**9**

Nordea Kredit is jointly taxed with the Danish companies and branches of Nordea. The companies and branches included in the joint taxation have joint and several unlimited liability for Danish corporation taxes and withholding taxes on dividends and interest. At 31 December 2021, the net taxes receivable from the Danish Tax Agency by the companies and branches included in the joint taxation amounted to DKK 204m (net taxes receivable DKK 230m). Any subsequent corrections of the taxable income subject to joint taxation or withholding taxes on dividends etc may entail that the companies' assets/liabilities will increase. The Danish Nordea entities as a whole are not liable to others.

In terms of payroll tax and VAT, Nordea Kredit is registered jointly with Nordea Danmark, filial af Nordea Bank Abp, Finland and with the majority of the Danish subsidiary undertakings of Nordea and these companies are jointly and severally liable for such taxes.

Note 9 Commitments with the Board of Directors and the Executive Management

Loans for the members of Nordea Kredit's Executive Management and Board of Directors and related parties:

DKKm	31 Dec 2021	31 Dec 2020
Loans etc		
Executive Management	-	-
Board of Directors	26	25

Interest income on these loans to members of Nordea Kredit's Executive Management and Board of Directors amounts to DKK 0.3m (DKK 0.2m) at end 2021.

Loans to members of Nordea Kredit’s Executive Management and Board of Directors consist of mortgage loans on terms based on market conditions. At the end of 2021 interest on the mortgage loans was payable at the rate of 1.1%-1.3% pa of which the administration fee was 0.6%-1.2% following normal customer terms. Loans to related parties of the Executive Management and the Board of Directors are granted on the same terms.

Loans etc to members of the Executive Management and the Board of Directors of the parent company Nordea Bank consist of mortgage loans amounting to DKK 14m (DKK 2m) with interest rates of 0,4%-1.1% of which the administration fee was 0.6%-0.9% following normal customer terms.

Nordea Kredit has not pledged any assets or provided other collateral or committed to contingent liabilities on behalf of any member of the Executive Management and the Board of Directors and related parties.

Note 10 Receivables from credit institutions and central banks

DKKm	31 Dec 2021	31 Dec 2020
Receivables from credit institutions	48,523	49,948
Total[1]	**48,523**	**49,948**
Of which purchase and resale transactions	41,324	48,446

[1] Carrying amount is a fair approximation to fair value.

Note 11 Loans and receivables at fair value

DKKm	31 Dec 2021	31 Dec 2020
Mortgage loans, nominal value		
Value at beginning of year	409,893	398,740
New loans (gross new lending)	104,796	94,809
Foreign exchange revaluations	-2	-23
Redemptions and prepayments	-68,633	-74,245
Net new lending for the year	36,161	20,541
Scheduled principal payments	-9,428	-9,388
Mortgage loan portfolio at end of year	**436,626**	**409,893**
Mortgage loans, fair value		
Nominal value	436,626	409,893
Adjustment for interest rate risk etc	-3,952	8,147
Adjustment for credit risk (see below)	-511	-671
Mortgage loan portfolio	432,164	417,369
Mortgage arrears (see below)	116	184
Loans and receivables at fair value	**432,280**	**417,553**

DKKm	Stage 1[1]	Stage 2	Stage 3	Total
Movements of allowance account for credit risk value changes				
Balance at 1 January 2021	60	257	354	671
Changes due to origination	0	11	9	20
Transfer between stages	0	-12	-9	-21
Changes due to changes in credit risk (net) and modelling approach[3]	1	-12	19	8
Changes due to repayments	0	-33	-59	-91
Write-off through decrease in allowance account	-	0	-76	-76
Closing balance at 31 December 2021	**61**	**211**	**239**	**511**

DKKm	Stage 1[1]	Stage 2	Stage 3	Total
Movements of allowance account for credit risk value changes				
Balance at 1 January 2020	0	55	188	243
Changes due to origination	0	23	24	47
Transfer between stages	0	25	30	55
Changes due to changes in credit risk (net) and modelling approach[3]	60	157	201	418
Changes due to repayments	0	-3	-33	-36
Write-off through decrease in allowance account	-	0	-56	-56
Closing balance at 31 December 2020	**60**	**257**	**354**	**671**

[1] Stage 1 includes loans and receivables where management has assessed that there has not been a significant increase in credit risk since first recognition. In stage 1 a portfolio approach is used.

[2] Including the impact from an update of the model and parameters for calculating expected credit losses.

Individually assessed loans and receivables at fair value in stage 3 with no adjustment for credit risk due to full coverage from the value of the mortgaged property and the first loss guarantee from Nordea Bank amount to DKK 2bn (DKK 3bn).

Note 11 Loans and receivables at fair value, continued

DKKm	31 Dec 2021	31 Dec 2020
Mortgage arrears		
Mortgage arrears before provisions	90	97
Execution levied against debtors' properties before provisions	26	87
Total	**116**	**184**
Mortgage arrears mid-January following year	30	68

DKKm	31 Dec 2021	31 Dec 2020
Age distribution of mortgage loans in arrears before provisions		
More than 3 months and up to 6 months	413	343
More than 6 months and up to 1 year	175	860
More than 1 year	150	106
Total	**738**	**1,309**

(%)	31 Dec 2021	31 Dec 2020
Mortgage loan portfolio by property category (nominal value)		
Owner-occupied dwellings	66	65
Holiday homes	4	4
Subsidised housing	0	0
Private rental property	11	11
Commercial property	1	0
Office and retail property	7	8
Agricultural property etc	9	10
Property for social, cultural and educational purposes	0	0
Other property	2	2
Total	**100**	**100**

For additional information on credit risks see Note 25.

Note 12 Investment in associated undertaking

DKKm	31 Dec 2021	31 Dec 2020
Acquisition value at beginning of year	0	1
Purchase/sales during the year	1	-1
Acquisition value at end of year	**1**	**0**
Revaluation at beginning of year	20	19
Revaluation during the year	2	1
Total revaluation at end of year	**22**	**20**
Total	**22**	**19**

2021	Domicile	Business activity	Carrying amount (DKKm)	Voting power of holding (%)	Equity (DKKm)	Net profit for the year (DKKm)
e-nettet A/S	Copenhagen	Development of software solutions for the property industry	22	19	109	6

2020	Domicile	Business activity	Carrying amount (DKKm)	Voting power of holding (%)	Equity (DKKm)	Net profit for the year (DKKm)
e-nettet A/S	Copenhagen	Development of software solutions for the property industry	19	18	103	0

Note 13 Assets held temporarily

DKKm	31 Dec 2021	31 Dec 2020
Repossessed properties	1	6
Total	**1**	**6**

Note 14 Other assets

DKKm	31 Dec 2021	31 Dec 2020
Interest receivable	6	5
Derivatives	67	94
Other assets[1]	104	252
Total	**177**	**351**

[1] Other assets include short-term receivables related to remortgaging activity.

Note 15 Debt to credit institutions and central banks

DKKm	31 Dec 2021	31 Dec 2020
Debt to credit institutions	14,260	4,998
Total[1]	**14,260**	**4,998**
Of which sale and repurchase transactions	6,154	4,992
Of which senior non-preferred loan	2,250	-

[1] Carrying amount is a fair approximation to fair value.

Note 16 Bonds in issue at fair value

DKKm	31 Dec 2021	31 Dec 2020
Bonds in issue at beginning of year (nominal value)	438,794	446,343
Bonds issued during the year	163,494	141,706
Exchange differences	-2	-23
Scheduled payments and notified prepayments	-44,320	-31,183
Redemptions and other prepayments	-101,795	-118,049
Bonds in issue at end of year at nominal value	**456,170**	**438,794**
Adjustment at fair value	-3,909	8,355
Own bonds at fair value offset	-11,027	-12,094
Bonds in issue at end of year at fair value	**441,234**	**435,055**
Of which pre-issued (nominal value)	6,180	5,035
Drawn for redemption at next payment date (nominal value)	12,587	21,117

Changes in fair value of financial liabilities attributable to changes in credit risk
The financial liabilities designated at fair value through profit and loss are bonds issued, DKK 441bn (DKK 435bn). For the bonds issued a change in the liability's credit risk and price will have a corresponding effect on the value of the loan.

The fair value of bonds issued decreased in 2021 by approximately DKK 0.9bn (increase of approximately DKK 0.3bn) due to changes in own credit risk. The cumulative change since designation was a decrease of approximately DKK 4.0bn (decrease of approximately DKK 3.1bn). The calculation method of the estimated fair value changes attributable to changes in market conditions is based on relevant benchmark interest rates, which are the average yield on Danish and German government bonds and for adjustable rates, the swap rate. The calculation method is subject to uncertainty related to a number of assumptions and estimates.

Note 17 Other liabilities

DKKm	31 Dec 2021	31 Dec 2020
Interest payable on bonds in issue	1,366	1,391
Other interest and commissions payable	178	105
Other	100	128
Total	**1,644**	**1,624**

Note 18 Subordinated debt

DKKm	31 Dec 2021	31 Dec 2020
Other subordinated debt	1,550	3,750
Total	**1,550**	**3,750**
Interest	-54	-53
Cost of increase in and repayments of subordinated debt	-	-
Total	**-54**	**-53**

At 31 December 2021 one loan – with terms specified below – was outstanding.

Issued by	Year of issue/ maturity	Call date	Nominal value DKKm	Carrying amount DKKm	Interest rate (coupon)
Nordea Kredit Realkreditaktieselskab	2020/2030	31 March 2025	1,550	1,550	Cibor 3M + interest rate premium 2.36%

Subordinated debt is subordinated to other liabilities.

Pursuant to the Danish Financial Business Act repayment of subordinated debt may neither take place at the initiative of the lender nor without the approval of the Danish Financial Supervisory Authority.

Note 19 Capital adequacy

Summary of items included in own funds

DKKm	31 Dec 2021	31 Dec 2020
Calculation of own funds		
Equity	22,311	22,482
Proposed/actual dividend	-1,107	-1,279
Common equity tier 1 capital before regulatory adjustments	**21,205**	**21,203**
IRB provisions shortfall (-)	-360	-360
Other items, net	-319	-161
Total regulatory adjustments to common equity tier 1 capital	**-679**	**-521**
Common equity tier 1 capital (net after deduction)	20,526	20,682
Tier 1 capital (net after deduction)	**20,526**	**20,682**
Tier 2 capital before regulatory adjustments	1,550	3,750
Total regulatory adjustments to tier 2 capital	**-**	**-**
Tier 2 capital	1,550	3,750
Own funds (net after deduction)	**22,076**	**24,432**

Minimum capital requirements and risk exposure amount (REA)

	31 Dec 2021	31 Dec 2021	31 Dec 2020	31 Dec 2020
DKKm	Minimum capital requirement	REA	Minimum capital requirement	REA
Credit risk	**6,314**	**78,930**	**6,277**	**78,463**
- of which counterparty credit risk	90	1,125	85	1,066
IRB	5,536	69,207	5,645	70,562
- sovereign	-	-	0	0
- corporate	2,031	25,394	2,265	28,308
- advanced	*2,031*	*25,394*	*2,265*	*28,308*
- foundation	-	-	*0*	*0*
- institutions	-	-	0	0
- retail	3,497	43,710	3,335	41,687
- secured by immovable property collateral	*3,401*	*42,513*	*3,291*	*41,136*
- other retail	*96*	*1,197*	*44*	*551*
- other	8	103	45	567
- corporate	-	-	-	-
Standardise	778	9,723	632	7,901
- central governments or central banks	0	4	0	5
- regional governments or local authorities	-	-	-	-
- institutions	768	9,604	623	7,787
- corporate	0	0	0	0
- secured by mortgages on immovable properties	8	93	7	89
- in default	-	-	-	-
- equity	2	22	2	20
Market risk	**-**	**-**	**-**	**-**
Operational risk	**332**	**4,148**	**331**	**4,142**
Standardised	332	4,148	331	4,142
Additional risk exposure amount related to Swedish RW floor due to Article 458 CRR	2	21	2	21
Total	**6,648**	**83,099**	**6,610**	**82,626**

Note 19 Capital adequacy, continued

Minimum capital requirement and capital buffers

31 Dec 2021 (%)	Minimum capital requirement	Capital buffers CCoB	CCyB	SII	SRB	Capital buffers total[1]	Total
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
31 Dec 2021 (DKKm)							
Common equity tier 1 capital	3,739	2,077	0.6	1,246	0.0	3,325	7,064
Tier 1 capital	4,986	2,077	0.6	1,246	0.0	3,325	8,310
Own funds	6,648	2,077	0.6	1,246	0.0	3,325	9,972

[1] Only the maximum of the SRB and the SII is used in the calculation of the total capital buffers.

Common equity tier 1 available to meet capital buffers

Percentage points of REA	31 Dec 2021	31 Dec 2020
Common equity tier 1 capital	18.6	19.0

Capital ratios excl Basel I floor (%)	31 Dec 2021	31 Dec 2020
Common equity tier 1 capital ratio	24.7	25.0
Tier 1 capital ratio	24.7	25.0
Total capital ratio	26.6	29.6

Leverage ratio[1]	31 Dec 2021	31 Dec 2020
Tier 1 capital, DKKm	20,526	20,682
Leverage ratio exposure, DKKm	483,979	468,112
Leverage ratio, %	4.2	4.4

[1] Including profit for the year.

Note 19 Capital adequacy, continued

Credit risk exposures for which internal models are used, split by rating/risk grade

31 Dec 2021	On-balance sheet exposure, DKKm	Off-balance sheet exposure, DKKm	Exposure value (EAD), DKKm[1]	of which EAD for off-balance sheet, DKKm	Exposure-weighted average risk weight:
Corporate, advanced IRB:	120,575	527	96,576	382	26
of which					
- rating grades 6	22,356	60	22,426	44	8
- rating grades 5	38,727	178	33,982	129	25
- rating grades 4	47,673	175	32,464	127	33
- rating grades 3	6,862	39	4,622	28	36
- rating grades 2	1,661	-	994	0	56
- rating grades 1	956	3	585	2	77
- unrated	443	72	297	52	78
- defaulted	1,897	-	1,206	-	102
Institutions, foundation IRB	-	-	-	-	-
Retail, of which secured by real estate:	298,322	2,195	299,756	1,434	14
of which	0	0	0	0	0
- scoring grades A	206,361	1,208	207,151	790	11
- scoring grades B	63,044	530	63,391	346	13
- scoring grades C	20,411	254	20,577	166	19
- scoring grades D	3,082	187	3,203	122	37
- scoring grades E	2,209	7	2,214	5	66
- scoring grades F	1,711	5	1,714	3	103
- not scored	5	2	6	1	87
- defaulted	1,500	2	1,501	1	160
Retail, of which other retail:	15,215	-	4,626	-	26
of which	0	0	0	0	0
- scoring grades A	3,220	-	3,219	-	15
- scoring grades B	1,723	-	904	-	32
- scoring grades C	6,074	-	306	-	60
- scoring grades D	1,860	-	83	-	75
- scoring grades E	968	-	40	-	96
- scoring grades F	737	-	44	-	126
- not scored	1	-		-	0
- defaulted	632	-	30	-	328
Other non credit-obligation assets:	104	-	104	-	100

Nordea Kredit does not have the following IRB exposure classes: equity exposures, central governments and central banks, qualifying revolving retail.
[1] Includes EAD for on-balance sheet, off-balance sheet, derivatives and securities financing.

Nordea

Note 20 Debt buffer

Composition of instruments that are applicable for meeting the debt buffer requirement

Instrument, DKKm	Type	Curr.	31 Dec 2021	31 Dec 2020	Issued	Maturity	Call
Excess CET1 capital [1]	CET1 capital	DKK	6,007	8,866	-	-	-
10Y dated subordinated loan, provided by Nordea Bank	Tier 2 capital	DKK	-	2,200	28/09/2016	28/09/2026	28/09/202
10Y subordinated unsecured loan, provided by Nordea Bank	Tier 2 capital	DKK	1,550	1,550	31/03/2020	31/03/2030	31/03/202
5Y senior non-preferred loan, provided by Nordea Bank	Unsecured senior debt	DKK	2,250	-	20/08/2021	20/08/2026	-
Total			**9,807**	**12,616**			

[1] Excess CET1 capital is determined in accordance with section 268d of the Danish Financial Business Act, no. 2497 of 15 December 2021.

Debt buffer requirement

DKKm	31 Dec 2021	31 Dec 2020
Debt buffer requirement	8,646	8,352

Note 21 Maturity analysis for selected assets and liabilities

Remaining maturity

31 Dec 2021, DKKm	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Total
Receivables from credit institutions and central banks	7,199	41,324	-	-	-	48,523
Loans and receivables at fair value	90	2,638	8,121	48,172	373,259	432,280
Debt to credit institutions and central banks	5,857	6,154	-	2,250	-	14,260
Bonds in issue at fair value	-	9,793	71,110	154,602	205,729	441,234

31 Dec 2020, DKKm	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Total
Receivables from credit institutions and central banks	1,502	48,446	-	-	-	49,948
Loans and receivables at fair value	97	2,644	8,521	48,950	357,341	417,553
Debt to credit institutions and central banks	6	4,992	-	-	-	4,998
Bonds in issue at fair value	-	9,537	46,331	175,848	203,339	435,055

Mortgage loans are match-funded and are undertaken on the basis of the statutory balance principle. The majority of these loans are long-term loans and are therefore categorised as >5 years in the maturity analysis, while the bonds issued are allocated through the maturity distribution in comparison to the refinancing period.

Note 22 Related-party transactions

The information below is presented from a Nordea Kredit perspective, meaning that the information shows the effect from related-party transactions on the Nordea Kredit figures.

DKKm	2021	2020
Operating items		
Interest income:		
Positive interest expenses	50	56
Interest expenses:		
Interest on debt to credit institutions	-57	-80
Negative interest income	-233	-255
Fee and commission income:		
Other fee and commission income	4	3
Fee and commission expenses:		
Guarantee commissions etc	-995	-822
Brokerage	-99	-96
Value adjustments:		
Interest rate derivatives	-22	20
Other operating income	7	5
Staff and administrative expenses:		
IT	-37	-64
Other administrative expenses	-1,124	-363
Rent	-10	-13
Internal audit expenses	-3	-4
Profit from investment in associated undertaking	2	1
Assets		
Receivables from credit institutions	48,523	49,948
Interest receivable from credit institutions	0	0
Investment in associated undertaking	22	19
Other assets	67	94
- of which derivatives	67	94
Debt		
Debt to credit institutions	14,260	4,998
Bonds in issue at fair value	22,864	31,566
Interest payable	37	31
IT expenses payable	10	15
Other liabilities	30	46
Guarantee commissions payable	178	105
Subordinated debt	1,550	3,750
Guarantees		
Nordea Bank provides on an ongoing basis guarantees to cover the first loss of the principal of mortgage loans	119,214	113,411
Nordea Bank has provided guarantees relating to registration with the Land Registry, loans disbursed ahead of building start as well as other statutory guarantees	10,146	9,510

The main part of the transactions is between Nordea Kredit and Nordea Bank.

The majority of the mortgage loans originated by Nordea Kredit are disbursed through Nordea Bank.

Nordea Bank acted as an intermediary for a number of securities and financial instruments transactions during the year. Intragroup transactions are provided on market terms.

A Liquidity Transfer and Support Agreement has been signed between Nordea Bank Abp and the specialised mortgage lending entities being Nordea Kredit Realkreditaktieselskab, Nordea Eiendomskreditt AS, Nordea Hypotek AB and Nordea Mortgage Bank Plc. The agreement ensures that Nordea Kredit has sufficient cash resources to comply with the liquidity coverage ratio (LCR) requirement on an ongoing basis and to meet its payment obligations in respect of outstanding covered bonds in a timely manner. Nordea Kredit is thereby also required to provide liquidity support to the other entities in the agreement, however only to the extent that it would not in any way result in Nordea Kredit breaching any of its own central obligations.

As part of the normal business other entities in the Nordea Group on an ongoing basis held a portfolio of bonds issued by Nordea Kredit.

In 2021 there were no unusual related-party transactions.

Note 22 Related-party transactions, continued

Compensation and loans to Board of Directors and Executive Management
Compensation to the Board of Directors and the Executive Management is specified in Note 5.

Loans to the Board of Directors and the Executive Management and related parties are specified in Note 9.

Related parties
Related parties are the parent company, other Nordea companies, associated undertakings and other related parties. Other related parties are companies significantly influenced by the Board of Directors and the Executive Management of Nordea Kredit as well as companies significantly influenced by related parties to the Board of Directors and the Executive Management.

Note 23 The Danish Financial Supervisory Authority's ratio system

	2021	2020	2019	2018	2017
Total capital ratio, %	26.6	29.6	27.0	26.5	32.9
Tier 1 capital ratio, %	24.7	25.0	24.4	23.9	29.7
Pre-tax return on equity, %	6.3	7.3	10.6	9.2	10.2
Post-tax return on equity, %	4.9	5.7	8.2	7.2	7.9
Income/cost ratio	2.10	2.49	8.60	5.10	5.90
Foreign exchange exposure as % of tier 1 capital	1.1	1.6	1.6	1.1	0.6
Loans/equity ratio	19.4	18.6	17.9	17.7	17.4
Lending growth for the year, %	6.6	2.7	3.0	1.0	0.1
Impairment ratio for the year, %	0.0	0.1	0.0	0.1	0.0
Return on assets, %	0.2	0.3	0.4	0.4	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.

Note 24 Series financial statements

DKKm	Note	Capital centre 2	Capital centre 1 (General Capital Centre)	Total
Income statement for 2021				
Income from lending		3,509	11	3,520
Interest, net		-176	-8	-183
Administrative expenses, net		-1,897	-102	-1,999
Provisions for loan losses		43	39	82
Tax		-325	13	-312
Total		**1,153**	**-46**	**1,107**
Balance sheet, 31 Dec 2021				
Assets				
Mortgage loans		438,973	1,214	440,187
Other assets		49,980	1,878	51,858
Total assets	**1**	**488,953**	**3,092**	**492,045**
Liabilities and equity				
Bonds in issue	2	451,949	1,732	453,680
Other liabilities		15,960	93	16,053
Equity	3	21,044	1,267	22,311
Total liabilities and equity		**488,953**	**3,092**	**492,045**

Note 1 Balance sheet, series financial statements

Balance sheet total, Nordea Kredit's annual financial statements	481,015
Own bonds, not offset in series financial statements	11,027
Interest receivable on own bonds	2
Balance sheet total, series financial statements	**492,045**

Note 2 Bonds in issue, series financial statements

Bonds in issue, Nordea Kredit's annual financial statements	441,234
Own bonds, not offset in series financial statements	11,027
Deferred income	1,419
Bonds in issue, series financial statements	**453,680**

Note 3 Equity

Movements in capital, net	-	-	-

Background to series financial statements

Pursuant to the Danish Financial Supervisory Authority's Executive Order no 872 of 20 November 1995 on series financial statements in mortgage credit institutions, special series financial statements must be prepared for series with series reserve funds.

The series financial statements have been prepared on the basis of Nordea Kredit Realkreditaktieselskab's annual report for 2021.

Complete series financial statements for the individual series are available from Nordea Kredit.

Note 25 Risk and liquidity management

Maintaining risk awareness in the organisation is engrained in Nordea Kredit's business strategies. Nordea Kredit has defined clear risk, liquidity and capital management frameworks, including policies and instructions for different risk types, capital adequacy and capital structure.

Management principles and control

The Board of Directors of Nordea Kredit has the responsibility for limiting and monitoring risk exposures as well as for approving the setting of target capital ratios and the individual solvency need and deciding on the risk appetite. Risk is measured and reported according to common principles and policies approved by the Board of Directors of Nordea Kredit.

In accordance with the Danish Financial Business Act, the Board of Directors has established a Board Risk Committee (BRIC). BRIC assists the Board of Directors in fulfilling its oversight responsibilities concerning the management and control of risk, risk frameworks as well as controls and processes associated with Nordea Kredit's operations. Furthermore, BRIC assesses whether the incentives of Nordea Kredit's remuneration structure take account of Nordea Kredit's risk, capital and liquidity as well as the likelihood of profit and timing for this.

The Executive Management has the responsibility for ensuring that the risk strategy and risk management decided by the Board of Directors are implemented, that the necessary practical measures are taken and that risks are monitored and limited.

In accordance with the Danish Executive Order on Management and Control of Banks etc, Nordea Kredit has appointed a Chief Risk Officer (CRO). The CRO is appointed by the Board of Directors of Nordea Kredit and functionally reports to the Executive Management of Nordea Kredit. The CRO is the overall manager with specific responsibility for the risk management function at Nordea Kredit – including the responsibility for ensuring that an overall risk assessment is provided, ensuring coordination of risk control activities and ensuring adequate risk management practice within Nordea Kredit. The CRO independently reports directly to the Board of Directors of Nordea Kredit.

The Charter for the CRO of Nordea Kredit defines the role, responsibilities, tasks and mandate of the CRO and forms part of Nordea Kredit's risk management framework. The CRO mainly operates through established functions for risk management at Nordea such as Group Risk & Compliance, Group Credit Management and Group Finance.

It is the responsibility of the CRO to ensure that the overall risk control at Nordea Kredit is conducted adequately. The CRO must provide a complete view of the whole range of risks at Nordea Kredit to the relevant governing bodies and ensure that all risks at Nordea Kredit are monitored.

In accordance with the Danish Executive Order on Management and Control of Banks etc, Nordea Kredit has appointed a Chief Compliance Officer (CCO). The CCO is appointed by the Executive Management of Nordea Kredit and functionally reports to the Executive Management of Nordea Kredit. The CCO has the overall functional responsibility for the compliance function at Nordea Kredit – including the responsibility for monitoring compliance which is based on collecting information and providing independent assessments of the compliance risks. Furthermore, the compliance function advises and supports the first line of defence on ways to effectively and efficiently manage compliance obligations. The CCO independently reports directly to the Board of Directors of Nordea Kredit.

The Charter for the CCO of Nordea Kredit defines the role and responsibilities of the CCO and forms part of Nordea Kredit's internal control framework. The Nordea Kredit compliance function utilises the functional framework within Group Risk & Compliance, Group Compliance. This means that the methodology and standard processes applied by Group Compliance are – to the extent possible – also applied by Nordea Kredit.

Risk management

Nordea Kredit is exposed to credit risk on borrowers as well as operational risk because of Nordea Kredit's activities. Furthermore, Nordea Kredit is exposed to liquidity risk and market risk in the form of interest rate risk and modest currency risk related to its mortgage loans and the investment of capital.

Reporting of risk is conducted on a daily basis for liquidity risk and market risk and on a quarterly basis for credit risk and operational risk. Reporting on the risk profile, the risk appetite, capital adequacy – including the individual solvency need (ISN) and liquidity adequacy is presented to the Board of Directors, BRIC and the Executive Management on a quarterly basis.

Additional information on risk and capital management is presented in the Capital and Risk Management Report 2021 in accordance with the CRR, which is based on the Basel III framework issued by the Basel Committee on Banking Supervision. The report is available on www.nordea.com/en/investors/capital-and-risk-reports-pillar-3.

Note 25 Risk and liquidity management *(continued)*

Credit risk management

The credit approval process follows directives and guidelines for Nordea. Within the powers to act granted by the Board of Directors of Nordea Kredit, internal credit risk limits are approved by credit decision-making bodies on different levels in the Nordea organisation constituting the maximum risk appetite on the customer in question. The risk categorisation and the exposure of the customer determine at what level the decision will be made. The customer responsible units take individual credit decisions with a primary focus on the customer's creditworthiness based on mandates and instructions from Nordea Kredit. Furthermore, individual credit decisions for mortgage loans with a primary focus on the property are made within Nordea Kredit.

The assessment and monitoring of credit risks lies with the customer responsible unit. Customers are risk categorised by a rating or score in accordance with Nordea's rating and scoring guidelines. The rating and scoring of customers aims to predict their probability of default and to consequently rank them according to their respective default risk. Rating and scoring of customers are used as integrated parts of the credit risk management and decision-making process. Representatives from the credit organisation approve the rating independently.

Credit risk

Credit risk is defined as the potential for loss due to the inability of Nordea Kredit's customers to repay their loans. If the customer is unable to repay the loan, Nordea Kredit's credit risk depends on the value of the property received as collateral and coverage by the first loss guarantee issued by Nordea Bank. Nordea Kredit's credit risk is therefore affected by the general price trends on the property market.

Nordea Kredit's maximum exposure to credit risk consists of the following balance sheet line items:

Maximum exposure to credit risk

DKKm	31 Dec 2021	31 Dec 2020
Demand deposits with central banks	0	50
Receivables from credit institutions and central banks[1]	48,523	49,948
Loans and receivables at fair value	432,280	417,553
Loans and receivables at amortised cost	1	1
Other asset items	189	365
Guarantees etc	0	0
Loan commitments	2,721	1,508
Total	**483,715**	**469,425**

[1] The maximum credit risk on receivables from credit institutions is secured by own securities in connection with purchase and resale transactions.

Concentration risk

Nordea Kredit have a well-diversified lending portfolio in respect of single customer groups and industry segments. The diversification of concentration risks is stipulated in Nordea Kredit's Risk Appetite framework and limits adverse concentration risk developments.

Collateral

Mortgage loans are collateralised by the mortgaged properties in accordance with Danish mortgage legislation. The credit risk is therefore significantly reduced by the value of the mortgaged property. The value of the mortgaged properties is monitored on a quarterly basis and properties are continuously up for review of the valuation based on criteria decided on a quarterly basis.

To further reduce the credit risk of Nordea Kredit and to align incentives, loss guarantees are provided by Nordea Bank covering a significant part of the principal of mortgage loans disbursed. If a customer defaults, the realised loss is calculated and the guarantee is settled by Nordea Bank. The first loss guarantees amounted to DKK 119,214m (DKK 113,411m) at end-2021. The share of the loans covered by the first loss guarantees was 98% (98%).

Furthermore, in connection with the disbursement of loans, Nordea Bank provides statutory guarantees relating to registration with the Land Registry. At end-2021 the guarantee amounted to DKK 10,146m (DKK 9,510m).

Note 25 Risk and liquidity management *(continued)*

Loan to value

The loan to value (LTV) ratio is considered a useful measure to evaluate the quality of collateral, that is, the credit extended divided by the market value of the properties pledged.

The LTV ratio for owner-occupied dwellings and holiday homes decreased by 7% points to 54% in 2021, while the LTV ratio for commercial properties decreased by 2% point to 45%. The LTV ratio for agriculture decreased 1% points to 47%.

For owner-occupied dwellings and holiday homes 63% of lending was in the 0-60% LTV range compared to 45% at end-2020. For commercial properties, 42% of loans was in the 0-40% LTV range compared to 38% at end-2020.

The lower LTV values for owner-occupied dwellings through 2021 were mainly due to the increasing property prices.

Mortgage loans by loan to value (LTV) and property category

	Owner-occupied dwellings and holiday homes		Commercial properties		Agricultural properties		Total	
(%)	2021	2020	2021	2020	2021	2020	2021	2020
0-40%	21%	14%	42%	38%	35%	33%	26%	21%
40-60%	42%	31%	34%	38%	43%	41%	40%	33%
60-80%	33%	42%	22%	21%	19%	22%	30%	36%
>80%	4%	13%	2%	4%	3%	5%	4%	10%
Total fair value, DKKbn	**303**	**290**	**91**	**87**	**38**	**40**	**433**	**418**
Weighted average LTV	**54%**	**61%**	**45%**	**47%**	**47%**	**48%**	**52%**	**57%**

Further information regarding 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 at www.nordea.com/en/investors/debt-and-rating/nordea-kredit-covered-bonds.

Measurement of changes in credit risk

The change in credit risk is measured as part of the fair value of the mortgage loans. The change in credit risk is measured based on the impairment rules for loans at amortised cost with relevant fair value adjustments.

All mortgages are tested for changes in underlying credit risk. The mortgage loans are divided into three groups depending on the stage of credit deterioration. Stage 1 includes mortgage loans where it has been assessed that there has not been a significant increase in credit risk since the first recognition of the mortgage loan. Stage 2 includes mortgage loans where there has been a significant increase in credit risk and stage 3 includes credit-impaired mortgage loans. All mortgage loans are assessed individually for staging. Mortgage loans in stage 3 are assessed for changes in credit risk either on an individual basis or by using a statistical model. Mortgage loans in stage 1 and stage 2 are assessed for changes in credit risk by using a statistical model. Impairment assessment applies three forward-looking and weighted scenarios.

The quality of credit exposures is continuously reviewed throughout the process of identifying and mitigating changes in credit risk. Weak and credit-impaired mortgage loans are closely monitored and reviewed at least on a quarterly basis regarding a possible need for provisions.

Calculation of provisions regarding changes in credit risk

A change in the credit risk is recognised as a provision if based on credit events and observable data, a negative impact is likely on the customer's expected future cash flow to the extent that full repayment is unlikely (pledged properties and guarantees received considered). The size of the provision is equal to the estimated loss, which is the difference between the carrying amount of the outstanding exposure and the discounted value of the expected future cash flow, including the value of pledged properties and guarantees received.

The calculation of provisions regarding changes in credit risk is executed quarterly. One important driver for provisions is the trigger for transferring mortgage loans from stage 1 to stage 2. For mortgage loans recognised from 1 January 2018 changes to the lifetime probability of default are used as the trigger. In addition, customers with forbearance measures and customers with payments more than 30 days past due are also transferred to stage 2. In stage 1, the provisions are based on changes to the 12-month expected loss assessed using a portfolio approach. In stage 2, the provisions are based on changes to the lifetime expected loss except from weak stage 2 loans. For weak stage 2 loans and loans in stage 3, the provisions equal the lifetime expected loss. The output is complemented with an analysis process to ensure adequate provisioning.

Note 25 Risk and liquidity management *(continued)*

Credit impaired (stage 3)
Customers with exposures that are past due more than 90 days, customers in bankruptcy or considered unlikely to pay are regarded as credit impaired. If a customer recovers from being credit impaired, the customer is seen as cured. Typically, this situation occurs if the customer succeeds in ensuring a balance between income and expenses. In order to be cured the recovery should include the customer's total liabilities with Nordea. The customer will be kept in stage 3 for a penalty period to ensure sufficient recovery.

The provisioning for credit-impaired exposures is either calculated individually or by the statistical model.

Forbearance
Forbearance refers to eased terms or restructuring of credit terms and conditions due to the borrower experiencing financial difficulties. The intention of granting forbearance for a limited period of time is to ensure full repayment of the outstanding debt. Examples of eased terms are changes in the amortisation profile or reduced administration margins. Forbearance is undertaken on an individual basis, according to internal guidelines, and followed by impairment testing. Loan loss provisions are recognised if necessary. Customers with forbearance measures are transferred to stage 2, unless already identified as credit impaired (stage 3).

Sensitivity
The loan loss provisions are sensitive to rating migration even if staging triggers are not reached. The table below shows the impact on loan loss provisions of a one-notch downgrade on all exposures in Nordea Kredit. It includes both the impact of the higher risk for all exposures and the impact of transferring exposures that reach the trigger from stage 1 to stage 2. It also includes the impact of the exposures with one rating grade above default becoming default. This figure is based on calculations using the statistical model rather than individual estimates, as would be the case in reality for material defaulted loans.

Sensitivities

DKKm	31 Dec 2021	31 Dec 2020
Recognised provisions	511	671
Impact on provisions if one notch downgrade	169	190

Forward-looking information
Forward-looking information is used for both assessing significant increases in credit risk and calculating expected credit losses (ECL). Nordea Kredit uses three macroeconomic scenarios, a base scenario, a favourable scenario and an adverse scenario. For 2021 the scenarios were weighted into the final ECL as follows: 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 weighting for 2021 reflects continued reduced uncertainty regarding the impact of the pandemic, less severe restrictions and the extension of vaccination programmes to include boosters and cover younger people. The macroeconomic 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. For periods beyond, a long-term average is used in the ECL calculations.

The macroeconomic scenarios reflect Nordea's view of how the economy will potentially develop following the reopening of society after the corona related lockdowns. The scenarios take into account 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 banks and the European Central Bank are used as a basis for the baseline scenario. In Denmark, real GDP has more than recovered from the fall in economic activity caused by the lockdowns of the past two years. Economic prospects are good, although growth is expected to be lower than in recent quarters. Strained global supply chains and bottlenecks are creating headwinds for growth but these problems are expected to subside as consumption patterns normalise, demand slows and production capacity is adjusted. The spread of the coronavirus has increased again and it is still unclear how serious the economic implications of the new Omicron variant are. The baseline scenario is that Omicron will not have any major impact on growth.

Nordea's two alternative macroeconomic scenarios cover a range of plausible impacts of the pandemic on the Danish economy, reflecting the persisting uncertainty concerning the pandemic's future evolution and economic effects.

At end-2021 adjustments to model-based provisions amounted to DKK 166m. The management judgement covers expected credit losses not yet covered by the impairment model and the possible impact of the coronavirus pandemic on expected credit losses. The management judgement is based on a stressed simulation of the ECL reflecting adverse or base scenarios dependent on the assessed default sensitivity of the exposures towards the coronavirus pandemic.

Note 25 Risks and liquidity management *(continued)*

The table below presents the applied scenarios and recognised loan loss provisions.

Scenarios and provisions 2021

		2022	2023	2024	Probability weight	Model-based provisions, DKKm	Adjustment, model based provisions, DKKm	Individual provisions, DKKm	Total provisions, DKKm
Favourable scenario	GDP growth, %	4.7%	2.7%	2.3%	20%				
	Unemployment, %	2.7%	2.4%	2.4%					
	Home prices, %	3.1%	2.4%	2.4%					
Base scenario	GDP growth, %	3.1%	2.4%	2.4%	60%	306	166	39	511
	Unemployment, %	3.2%	3.1%	3.1%					
	Home prices, %	4.6%	1.2%	3.0%					
Adverse scenario	GDP growth, %	1.3%	2.3%	2.0%	20%				
	Unemployment, %	4.1%	4.0%	4.0%					
	Home prices, %	-4.4%	-1.9%	1.4%					

Scenarios and provisions 2020

		2021	2022	2023	Probability weight	Model-based provisions, DKKm	Adjustment, model based provisions, DKKm	Individual provisions, DKKm	Total provisions, DKKm
Favourable scenario	GDP growth, %	-2.8%	4.7%	2.4%	5%				
	Unemployment, %	4.7%	4.3%	3.9%					
	Home prices, %	2.3%	-0.6%	0.3%					
Base scenario	GDP growth, %	-4.5%	3.0%	2.5%	50%	404	143	132	679
	Unemployment, %	5.1%	5.6%	4.8%					
	Home prices, %	1.8%	-2.6%	0.6%					
Adverse scenario	GDP growth, %	-5.7%	-0.5%	3.6%	45%				
	Unemployment, %	5.4%	7.5%	6.8%					
	Home prices, %	1.2%	-5.6%	-4.6%					

The sensitivity of the applied scenarios to the model-calculated ECL reflects Nordea Kredit's business model and credit risk management. The high collateralisation and additional first loss guarantee from Nordea Bank are to a high extent expected to absorb losses from deterioration in credit quality. The model-calculated ECL take into account the expected improvement in the macro scenarios as a recovery is assumed following the coronavirus pandemic.

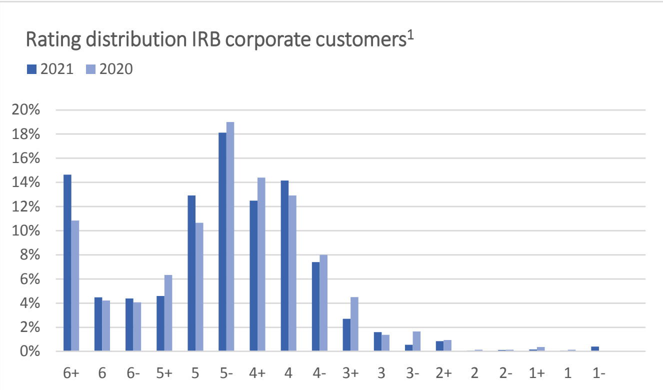
Rating and scoring distribution

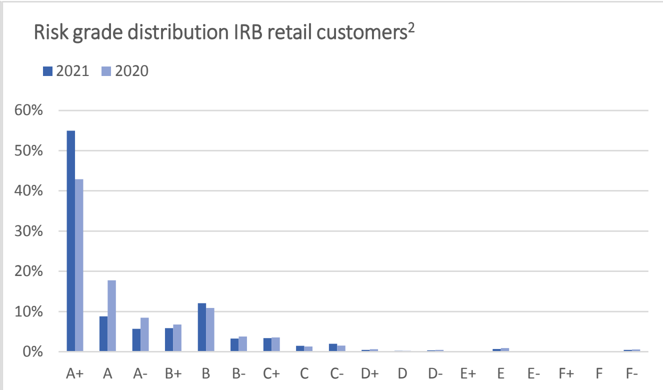
One way of assessing credit quality is through analysis of the distribution across rating grades for rated corporate customers as well as risk grades for scored household and small business customers, that is, retail exposures.

The overall credit quality is solid with strongly rated customers.

The average credit quality improved in 2021 as 22% of corporate customers migrated upwards (2020: 28%) while 15% (2020: 18%) were downrated. 93% (90%) of the corporate exposure was rated 4- or higher with an average rating for the portfolio of 5-.

Retail customers showed a distribution that was biased towards the higher risk grades. 98% (97%) of the retail exposure was rated C- or higher, which indicates a probability of default of 1% or lower. Defaulted loans are not included in the rating/scoring distributions.





[1] Ratings grade 4- and better are comparable to investment grade as defined by external agencies such as Moody's and Standard & Poor's. Rating grades 2+ to 1- are considered as weak and require special attention.
[2] Scoring grades A+ to F are non-default. The best score is A+.

Note 25 Risk and liquidity management *(continued)*

The table below presents loans and receivables at fair value (gross carrying amount) broken down by rating/scoring distributions plus stage 1, 2 and 3:

DKKm, 31 Dec 2021	Stage 1	Stage 2	Stage 3	Total
6 / A	224	0	0	224
5 / B	106	0	0	107
4 / C	73	4	0	76
3 / D	9	3	0	13
2 / E	1	4	0	5
1 / F	0	3	0	3
0 (credit impaired)	0	0	4	4
Unrated customers	0	0	0	0
Total	**413**	**15**	**5**	**432**

DKKm, 31 Dec 2020	Stage 1	Stage 2	Stage 3	Total
6 / A	204	0	0	204
5 / B	107	0	0	107
4 / C	70	5	0	75
3 / D	10	6	0	16
2 / E	1	5	0	6
1 / F	0	3	0	3
0 (credit impaired)	0	0	7	7
Unrated customers	0	0	0	0
Total	**392**	**19**	**8**	**418**

Market and liquidity risks

Market risk is the risk of loss on Nordea Kredit's positions as a result of changes in market rates and parameters that affect the market values or net interest income flows. Liquidity risk is the risk that Nordea Kredit can only meet its liquidity commitments at an unsustainably high price or, ultimately, is unable to meet its obligations as they come due.

The business model of Nordea Kredit is to provide mortgage loans match-funded by covered bond issuance. Consequently, Nordea Kredit's market risk exposure is limited to the following three sources: (i) liquidity investments of cash and equity in reverse repos generate risk to its net interest income (NII) in case of falling interest rates; (ii) adherence to the specific balance principle generates interest rate risk, primarily from cash flow mismatches stemming from the early redemption of loans; (iii) the income from administration margins on bonds denominated in euros generates some currency risk, as the income is not immediately exchanged to Danish kroner.

Nordea Kredit is exposed to liquidity risk from the funding of loans, the refinancing of maturing adjustable-rate mortgage (ARM) bonds and floating-rate notes (FRN) bonds, as well as the supplementary collateral requirement in the SDRO issuing cover pool (capital centre 2). Furthermore, the credit risk on borrowers can create a liquidity risk if a borrower cannot pay according to agreed terms, while Nordea Kredit is obliged to pay the investor.

Interest rate risk

For the lending portfolio, the Danish Executive Order on the Issue of Bonds, the Balance Principle and Risk Management stipulates that the interest rate risk resulting from differences between incoming payments on loans and outgoing payments on mortgage bonds issued calculated based on the specific balance principle must not exceed 1% of own funds, or DKK 221m (DKK 244m). For the securities portfolio, the interest rate risk on capital investments must not exceed 8% of own funds, or DKK 1,766m (DKK 1,955m).

Nordea Kredit is significantly below both of the above-mentioned limits.

Note 25 Risk and liquidity management *(continued)*

Interest rate risk

DKKm	31 Dec 2021	31 Dec 2020
Capital investments (IR sensitivity)[1]	20	24
Specific balance principle (IR stress loss)[2]	9	8

[1] Capital investments (IR sensitivity) measures the interest rate risk on the capital and liquidity investments as a parallel shift in interest rates of +/- 100bp, where the total interest rate rate risk is the numerical sum of interest rate risk across all currencies. For Nordea Kredit only DKK is relevant.

[2] Specific balance principle (IR stress loss) measures the interest rate risk stemming from payment differences as the most adverse potential loss based on six predetermined . The scenarios are +/- 100bp parallel shift, +/- 300bp parallel shift for option-like cash flows divided by 3, and a curve steepening as well as a curve flattening scenario.

Currency risk
At end-2021 the currency risk amounted to DKK 0.4m (DKK 0.6m) with effect on profit before tax and equity and relates solely to exposures in euros.

Currency risk

DKKm	Total risk	Max	Min
31 Dec 2021	0	1	0
31 Dec 2020	1	1	0

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 mortgage lending at fair value. At 31 December 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 200% (the LCR requirement as specified by the Delegated Act was 4,872%).

Operational risk
Operational Risk is defined in Nordea as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk. Operational risk is inherent in all activities within the organisation, in outsourced activities and in all interactions with external parties.

Nordea Kredit has its own second line of defence a risk management function (CRO), where operational risk is also monitored. The flow of risk-related information is presented directly to the Board of Directors and initially passes through BRIC. The operational risks are monitored through regular risk assessment procedures and systematic quality and risk-focused management of changes.

Compliance risk
Compliance risk is defined as the risk of failing to comply with applicable laws, regulations, standards, supervisory requirements and related internal rules governing Nordea Kredit's activities.

Managing compliance risks is part of management's responsibilities. The compliance risks are monitored by Nordea Kredit's compliance function. The flow of risk-related information is presented directly to the Board of Directors and initially passes through BRIC. The compliance risks are monitored through compliance assessment procedures.

Proposed distribution of earnings

According to the company's balance sheet, the following amount is available for distribution by the Annual General Meeting:

DKKm	
Retained earnings	19,464
Share based payments	2
Net profit for the year	1,107
Total	**20,573**

The Board of Directors proposes that the profit for 2021 is distributed as follows:

DKKm	
Retained earnings	19,464
Other reserves	2
Proposed dividends to the shareholders	1,107
Total	**20,573**

The company's distributable earnings amount to DKK 20,573m. After the proposed distribution of earnings, the company's unrestricted shareholders´ equity amounts to DKK 19,464m.

Statement by the Board of Directors and the Executive Management

The Board of Directors and the Executive Management have discussed and approved the annual report of Nordea Kredit Realkreditaktieselskab for the financial year 2021.

The annual 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.

It is our opinion that the financial statements give a true and fair view of the company's financial position at 31 December 2021 and of the results of the company's operations for the financial year 1 January-31 December 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.

In our opinion, the annual report of Nordea Kredit Realkreditaktieselskab for the financial year 1 January-31 December 2021 identified as nordeakredit-31-12-21.xhtml is prepared, in all material respects, in compliance with the ESEF Regulation.

We propose to the Annual General Meeting that the annual report should be adopted.

Copenhagen, 22 February 2022

Board of Directors

Mads Skovlund Pedersen (Chair)	Anne Rømer (Vice Chair)	Anders Frank-Læssøe
Torben André Petersen	Anita Nedergaard Nielsen	Marte Kopperstad
Thomas Vedel Kristensen		

Executive Management

Morten Boni (Chief Executive Officer)	Claus H. Greve (Deputy Chief Executive Officer)

Independent auditors' reports

To the shareholders of Nordea Kredit Realkreditaktieselskab

Our opinion
In our opinion, the Financial Statements give a true and fair view of the Company's financial position at 31 December 2021 and of the results of the Company's operations for the financial year 1 January to 31 December 2021 in accordance with the Danish Financial Business Act.

Our opinion is consistent with our Auditor's Long-form Report to the Audit Committee and the Board of Directors.

What we have audited

The Financial Statements of Nordea Kredit Realkreditaktieselskab for the financial year 1 January to 31 December 2021 comprise income statement and statement of comprehensive income, balance sheet, statement of changes in equity and notes to the financial statements, including summary of significant accounting policies ("Financial Statements").

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of Nordea Kredit Realkreditaktieselskab in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark. We have also fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

To the best of our knowledge and belief, prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 were not provided.

Appointment
We were first appointed auditors of Nordea Kredit Realkreditaktieselskab on 27 February 2015 for the financial year 2015. We have been reappointed annually by shareholder resolution for a total period of uninterrupted engagement of seven years including the financial year 2021.

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements for 2021. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and receivables at fair value Accounting for loans to customers at fair value is complex and requires subjective judgements over both the timing of the recognition of impairment and the estimation of the size of any such provision for impairment in accordance with the Accounting Executive Order (“Regnskabsbekendtgørelsen”). We refer to the accounting policies note 1 section 2. The Company makes provisions for expected losses both on an individual basis in terms of individual provisions and on a model-based basis. As a result of the covid-19 situation Management has recognised a substantial provision for expected losses as based on an accounting estimate (“management judgement”). The consequences of covid-19 for the customers are to a material extent not known and as a result hereof there’s an increased estimation uncertainty related to the size of the provision for expected losses on loans. Loan impairment charges are a key area of focus as Management performs material estimates of whether write-down for impairment should be made and of the size of such impairment charges. Furthermore, Management has made a management judgement related to expected losses on loans due to a time lag not yet to be considered included in the model-based provisions. We focused on loan impairment charges, as the accounting estimate is by nature complex and influenced by subjectivity and thus to a large extent associated with estimation uncertainty. Important areas within impairment of loans to customers relate to: • Identification of credit-impaired loans (stage 3) or loans with material weaknesses (stage 2), including completeness of the customer accounts that are included in the impairment calculation. • Customer risk assessment, including internal rating and valuation of collaterals held related to real estate and third-party guarantees. • The model-based impairments in stages 1 and 2, including Management’s assessment of the model variables. • Assumptions and judgements made by Management as the variables in the model underlying the calculation of model- based impairments and individual provisions including management judgements related to the covid-19 situation. The principles for impairments of loans and receivables at fair value are described in note 1 section 2 - Critical accounting estimates and estimation uncertainty, note 11 - Loans and receivables at fair value to the Financial Statements and note 25 - Risk and liquidity management.	We performed risk assessment procedures with the purpose of achieving an understanding of IT systems, business procedures and relevant controls regarding the calculation of provisions for expected losses on loans. In respect of controls, we assessed whether they were designed and implemented effectively to address the risk of material misstatement. For selected controls, on which we planned to rely on, we tested whether these controls had been performed on a consistent basis. We assessed and tested relevant internal controls over: • Individually assessed loan impairment calculations (stage 3 and stage 2 with weaknesses) • Valuation of collaterals held • Model-based assessed loan impairment calculations • Internal rating and stage classification We performed detailed testing on a sample of loans to ascertain whether we concur with the risk assessment as expressed by the internal rating and stage classification. We tested the impairment calculation on a sample of impaired loans, including assessment of expected future cash flow, fair value of collaterals (real estate) and various outcomes of the financial position of the customer (scenarios). We examined a sample of loans, which had not been identified by Management as impaired. We assessed and challenged the appropriateness of the Company’s validation of the model and relevant parameters in the model-based impairment model. We assessed and challenged the basis for the accounting estimates (“management judgement”) related to the provisioning for expected losses as a result of the covid-19 situation and other management judgements. We also assessed whether the matters that may have an influence on provisions for expected losses on loans have been appropriate disclosed.

Statement on Management's Review
Management is responsible for Management's Review.

Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Moreover, we considered whether Management's Review includes the disclosures required by the Danish Financial Business Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Business Act. We did not identify any material misstatement in Management's Review.

Management's responsibilities for the Financial Statements
Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Business Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.
As part of an audit in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on compliance with the ESEF Regulation

As part of our audit of the Financial Statements, we performed procedures to express an opinion on whether the annual report of Nordea Kredit Realkreditaktieselskab for the financial year 1 January to 31 December 2021 identified as nordeakredit-31-12-21.xhtml is prepared, in all material respects, in compliance with the Commission Delegated Regulation (EU) 2019/815 on the European Single Electronic Format (ESEF Regulation) which includes requirements related to the preparation of the annual report in XHTML format.

Management is responsible for preparing an annual report that complies with the ESEF Regulation. This responsibility includes the preparing of the annual report in XHTML format.

Our responsibility is to obtain reasonable assurance on whether the annual report is prepared, in all material respects, in compliance with the ESEF Regulation based on the evidence we have obtained, and to issue a report that includes our opinion. The procedures consist of testing whether the annual report is prepared in XHTML format.

In our opinion, the annual report of Nordea Kredit Realkreditaktieselskab for the financial year 1 January to 31 December 2021 identified as nordeakredit-31-12-21.xhtml is prepared, in all material respects, in compliance with the ESEF Regulation.

Hellerup, 22 February 2022

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Business registration no 33 77 12 31

Christian Fredensborg Jakobsen
State Authorised Public Accountant
mne16539

Benny Voss
State Authorised Public Accountant
mne15009

Management and Board of Directors of Nordea Kredit

Board of Directors

Mads Skovlund Pedersen (Chair)
Internal assignments:
Head of Personal Banking, Nordea Denmark
Vice Chair of danbolig a/s

External assignments:
Chair of the Board of Directors of the Danish Employers' Association for the Financial Sector
Member of the Board of Directors of Karl Pedersen og Hustrus Industrifond

Anne Rømer (Vice Chair and external member)
Internal assignments:
None

External assignments:
VP Group Finance & Treasury, DSB
Chair of Selskabet af 28.08.2017 67DD A/S
Chair of Selskabet af 23.05.2017 46DD A/S
Chair of Selskabet af 04.09.2020 EB A/S
Chair of Selskabet af 04.01.2021 EB A/S
Chair of Selskabet af 03.01.2021 EB A/S

Anders Frank-Læssøe (appointed October 2021)
Internal assignments:
Group Treasurer, Group Treasury

External assignments:
None

Torben André Petersen
Internal assignments:
Deputy Head of Business Banking, Nordea Denmark

External assignments:
None

Anita Ina Nielsen
Internal assignments:
Country AML Responsible, Nordea Denmark

External assignments:
None

Marte Kopperstad
Internal assignments:
Head of Products and Business Development, Nordea BankAbp
Member of the Board of Directors of Nordea Hypotek AB (publ), Sweden
Vice Chair of the Board of Directors of Nordea Mortgage Bank Plc, Finland
Member of the Board of Directors of Nordea Direct ASA, Norway
Vice Chair of the Board of Directors of Nordea Eiendomskreditt AS, Norway
Member of the Board of Directors of BITS AS, Norway

External assignments:
None

Thomas Vedel Kristensen
Internal assignments:
Head of Core Technology, Nordea Bank Abp

External assignments:
None

Executive Management of Nordea Kredit

Morten Boni (Chief Executive Officer)
Internal assignments:
None

External assignments:
Member of the Board of Directors of the Association of Danish Mortgage Banks

Claus H. Greve (Deputy Chief Executive Officer)
Internal assignments:
None

External assignments:
Member of the Board of Directors of the Association of Danish Mortgage Banks

Address

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