

Copenhagen, 29 January 2014

To NASDAQ OMX Copenhagen A/S

**Nordea Kredit Realkreditaktieselskab – Year-end Report 2013  
Company announcement no 10, 2014**

Nordea Kredit Realkreditaktieselskab today presented the attached Year-end Report 2013 with the following key points:

- **Total lending increased to DKK 364bn at end-2013.**
- **Continued positive trend in market share.**
- **Net loan losses of DKK 390m.**
- **All bonds in issue still have the highest ratings.**
- **New “Kort Rente” product introduced in the third quarter of 2013.**
- **Net profit for the year of DKK 1,037m.**

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# Year-end Report 2013

## Nordea Kredit Realkreditaktieselskab

### Financial summary

Key financial figures (DKKm)	2013	2012	Change %	2011
<b>Income statement</b>				
Total operating income	1,986	1,660	20	1,542
Total operating expenses	214	232	-8	248
Net loan losses	390	491	-21	284
Profit before tax	1,383	938	48	1,009
Net profit for the year	1,037	703	48	756
<b>Balance sheet</b>				
Loans to credit institutions and central banks	52,873	46,773	13	40,152
Loans and receivables at fair value	363,749	358,371	2	340,874
Deposits by credit institutions and central banks	46,470	48,905	-5	63,547
Bonds in issue at fair value	349,074	336,402	4	302,951
Equity	17,498	16,461	6	15,758
Total assets	417,038	407,044	2	387,392

### Ratios and key figures (%)

Return on equity after tax	6.1	4.4		4.9
Cost/income ratio	10.8	14.0		16.1
Total capital ratio <sup>1</sup>	16.4	16.2		17.4
Tier 1 capital ratio <sup>1</sup>	16.4	16.2		17.4
Tier 1 capital <sup>1</sup> , DKKm	14,782	14,239		14,348
Risk-weighted assets <sup>1</sup> , DKKm	89,994	87,851		82,248
Number of employees (full-time equivalents) <sup>1</sup>	125	131		133

<sup>1</sup> End of period.

### Comments to the year-end result

(The figures in brackets refer to 2012.)

#### Income statement

Nordea Kredit posted a profit after tax of DKK 1,037m in 2013 compared with DKK 703m the year before.

Total operating income rose by DKK 326m to DKK 1,986m (DKK 1,660m). The growth in operating income reflects several factors: an increase in lending, higher administration and reserve fees and an improved return on investment.

Income from administration and reserve fees was DKK 2,614m (DKK 2,268m), whereas the return on investment was negative at DKK 51m net (negative at DKK 171m).

The return on investment comprises all interest income and the net result from items at fair value relating to cash investments, interest expenses relating to Nordea Kredit's funding facilities as well as income from the bond price spread charged to borrowers when refinancing adjustable-rate mortgages.

The negative net return on investment in 2013 was attributable to the continued negative interest rates on cash investments during the period as well as the high cost of capital to maintain Nordea Kredit's rating.

Fee and commission income stood at DKK 185m (DKK 288m), a decline reflecting lower refinancing activity compared with the previous year. In periods of both 2012 and 2013 fee income was affected by the fee-free switch offered to customers for certain types of refinancings. Fee and commission expense was DKK 780m (DKK 743m).

Total operating expenses, consisting of staff costs and administrative expenses as well as depreciation, amortisation and impairment charges of tangible and intangible assets, were DKK 214m (DKK 232m). This is a decline of 8% as a result of lower staff costs and IT expenses. The cost/income ratio for the year fell to 10.8% (14.0%).

Net loan losses amounted to DKK 390m (DKK 491m) and total losses realised amounted to DKK 430m (DKK 324m). The provisioning requirement is still mainly attributable to loans to personal customers and involves considerable geographical dispersion.

## **Comments on the balance sheet**

### **Assets**

Total assets increased by DKK 10bn in 2013 to DKK 417bn (DKK 407bn).

Loans to credit institutions and central banks amounted to DKK 53bn (DKK 47bn). The increase was mainly due to greater cash deposits with the parent company.

Loans and receivables at fair value increased DKK 5bn to DKK 364bn (DKK 358bn). At the end of 2013 total lending at nominal value after loan losses amounted to DKK 359bn (DKK 349bn). Year-round residences and holiday homes accounted for DKK 244bn (DKK 239bn), agricultural properties for DKK 46bn (DKK 45bn) and other commercial properties for DKK 69bn (DKK 65bn).

At year-end lending for year-round residences and holiday homes accounted for 68% (68%) of the total loan portfolio.

Of the total accumulated losses on loans and receivables of DKK 559m at the end of 2013 (DKK 589m), provisions for collectively assessed loans accounted for DKK 73m (DKK 34m). Accumulated loan losses amounted to DKK 479m at the end of 2013 (DKK 437m), corresponding to 0.13% (0.12%) of the loan portfolio. The quality of the loan portfolio is still considered satisfactory.

Loss guarantees from Nordea Bank were DKK 88bn (DKK 82bn), at end-2013 comprising loans totalling DKK 309bn (DKK 292bn). In December 2013 the maturity of the loss guarantees was changed. For all property types they now cover the entire term of the loan, whereas they previously covered the first five years of the loan for year-round residences and holiday homes and ten years for other property types.

At the beginning of 2014 the 3.5-month arrears rate for year-round residences and holiday homes (the September 2013 payment date) was 0.28% (0.29%), a decline of 0.01% point since the beginning of 2013.

Nordea Kredit's share of the overall mortgage market in Denmark is still growing. At 31 December 2013 the market share was 14.5% (14.2%). For year-round residences and holiday homes the market share was 17.1% (16.8%).

Assets in temporary possession consisted of a total of 41 (65) repossessed properties by the end of 2013 at a value of DKK 37m (DKK 44m). The repossessed properties are predominantly year-round residences.

### **Liabilities**

Deposits by credit institutions and central banks were DKK 46bn (DKK 49bn).

Bonds in issue at fair value totalled DKK 349bn (DKK 336bn) after offsetting the portfolio of own bonds.

### **Equity**

Including the net profit for the year, equity was DKK 17.5bn at the end of 2013 (DKK 16.5bn). The Board of Directors will propose to the Annual General Meeting that no dividend is paid for 2013.

## **Capital adequacy**

At the end of 2013 the risk-weighted assets of Nordea Kredit amounted to DKK 90.0bn (DKK 87.9bn). The change compared with 2012 is mainly due to increased lending volumes.

The tier 1 capital ratio and the total capital ratio were both 16.4% at end-2013 (16.2%).

At the beginning of January 2014 Nordea was approved to use the Advanced Internal Rating Based (AIRB) approach for the corporate portfolio.

## **New loan type and new fee structure**

Nordea Kredit introduced a new mortgage named “Kort Rente” in the third quarter of 2013 with the interest rate based on the 6-month CITA rate. The “Kort Rente” product, an alternative to 1-year adjustable-rate mortgages, was well received by customers and is an integrated part of the individual advisory services to customers.

Alongside the introduction of “Kort Rente” a revised fee structure was announced for new and existing loans with adjustable rates and interest-only periods. One of the purposes was to give customers an incentive to amortise their mortgage loans. With this initiative Nordea Kredit also aims to reduce the share of loans with frequent refinancing to mitigate its refinancing risk.

As a result of the revised fee structure, administration and reserve fees on adjustable-rate mortgages and loans with interest-only periods were increased at 1 January 2014. The bond price spread charged to borrowers when refinancing all types of adjustable-rate mortgages was increased.

Customers affected by the price increases have been offered a fee-free switch to other loan types with a longer refinancing frequency or loans with amortisation.

## **Refinancing of adjustable-rate mortgages**

At the auction in November 2013 bonds equivalent to DKK 54bn were sold. Compared with the December 2012 auction where bonds equivalent to DKK 77bn were sold, this reflects a decline of 30%. This decline was attributable to the decision by many borrowers ahead of the refinancing to switch to the “Kort Rente” product or to fixed-rate mortgages. In addition, volumes were affected by Nordea Kredit’s continued efforts to distribute refinancing auctions over the year.

Yet again the auction resulted in record-low interest rates. For 30-year annuity loans in Danish kroner with annual reset the interest rate for 2014 was set at 0.43% (0.45% in 2013). At the auction the interest rate on a comparable loan in euros was set at 0.56% (0.49% in 2013).

At end-2013 Nordea Kredit had originated adjustable-rate mortgages with refinancing on 1 April for a total of DKK 36bn (DKK 30bn) and with refinancing on 1 October for a total of DKK 54bn (DKK 50bn).

## **New legislation**

The Danish Minister for Business and Growth presented a bill on 28 November 2013, with the aim of regulating the risk associated with the refinancing of bond-based loans at mortgage institutions and banks.

The bill regulates situations where a refinancing auction fails or where the auction leads to very large interest rate increases for borrowers.

Nordea Kredit participates in the hearing process and the ongoing discussions with the ministry and the Danish Financial Supervisory Authority regarding the bill.

It is anticipated that the bill will be finalised by the end of February 2014.

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

Charlotte Gullak Christensen, Senior Vice President, Nordea Bank Danmark, was appointed to the Board of Directors at an extraordinary general meeting held on 10 June 2013.

## **Outlook for 2014**

In 2014 mortgage market activity is set to remain modest in line with the level seen in 2013.

Customers are increasingly switching to loan types with a longer refinancing frequency or to fixed-rate loans and this trend is expected to continue. Nordea Kredit expects continued growth in its market share.

It is anticipated that the Nordea Bank Danmark Group will be designated as a SIFI, and the resultant capital requirements will also comprise the Group's portfolio of mortgage loans. One result of this is likely to be a continued increase in the cost of capital.

## **Further information**

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

The Annual Report for 2013 will be published on 14 February 2014 and the report will be available on [nordeakredit.dk](http://nordeakredit.dk) and [nordea.dk](http://nordea.dk).

Copenhagen, 29 January 2014

Lars Bank Jørgensen  
Chief Executive Officer

Michael Jensen  
Deputy Chief Executive Officer

## Income statement

(DKKm)	2013	2012
Interest income	11,661	12,022
Interest expense	9,306	9,808
<b>Net interest income</b>	<b>2,355</b>	<b>2,214</b>
Dividend income	-	-
Fee and commission income	185	288
Fee and commission expense	780	743
<b>Net interest and fee income</b>	<b>1,760</b>	<b>1,759</b>
Net result from items at fair value	218	-108
Other operating income	8	9
Staff costs and administrative expenses	210	228
Depreciation, amortisation and impairment charges of tangible and intangible assets	4	4
Other operating expenses	-	0
Net loan losses	390	491
Profit from investment in associated undertaking	1	1
<b>Profit before tax</b>	<b>1,383</b>	<b>938</b>
Tax	346	235
<b>Net profit for the year</b>	<b>1,037</b>	<b>703</b>
<b>Statement of comprehensive income</b>		
Net profit for the year	1,037	703
Other comprehensive income, net of tax	0	0
<b>Total comprehensive income</b>	<b>1,037</b>	<b>703</b>
Attributable to		
Shareholder of Nordea Kredit Realkreditaktieselskab	1,037	703
<b>Total</b>	<b>1,037</b>	<b>703</b>

## Balance sheet at 31 December

(DKKm)	2013	2012
<b>Assets</b>		
Cash balance and demand deposits with central banks	250	370
Loans to credit institutions and central banks	52,873	46,773
Loans and receivables at fair value	363,749	358,371
Loans and receivables at amortised cost	2	3
Bonds at fair value	-	-
Investment in associated undertaking	13	11
Intangible assets	-	3
Other tangible assets	0	0
Current tax assets	-	1
Deferred tax assets	1	1
Assets in temporary possession	37	44
Other assets	108	1,464
Prepaid expenses	5	3
<b>Total assets</b>	<b>417,038</b>	<b>407,044</b>
<b>Liabilities and equity</b>		
<b>Liabilities</b>		
Deposits by credit institutions and central banks	46,470	48,905
Bonds in issue at fair value	349,074	336,402
Current tax liabilities	13	-
Other liabilities	3,973	5,267
Deferred income	10	9
<b>Total liabilities</b>	<b>399,540</b>	<b>390,583</b>
<b>Provisions</b>		
Deferred tax liabilities	-	-
<b>Total provisions</b>	<b>-</b>	<b>-</b>
<b>Equity</b>		
Share capital	1,717	1,717
Other reserves	12	11
Retained earnings	15,769	14,733
<b>Total equity</b>	<b>17,498</b>	<b>16,461</b>
<b>Total liabilities and equity</b>	<b>417,038</b>	<b>407,044</b>
<b>Contingent liabilities</b>		
Guarantees etc	75	75