# Annual Report 2020
Nordea Eiendomskreditt AS

# Contents



## Notes to the financial statements



*Nordea Eiendomskreditt AS 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*

# Key financial figures – Five year overview

## Summary of the income statement (NOKm)

| | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| Net interest income | 2 399 | 1 879 | 1 328 | 1 576 | 1 247 |
| Net result from items at fair value | -34 | -31 | -25 | 42 | 49 |
| Other operating income | 74 | 66 | 33 | -2 | -16 |
| **Total operating income** | **2 439** | **1 914** | **1 337** | **1 616** | **1 279** |
| | | | | | |
| Staff costs | 23 | 19 | 19 | 17 | 0 |
| Other expenses | 894 | 604 | 356 | 396 | 462 |
| **Total operating expenses** | **917** | **623** | **375** | **414** | **462** |
| | | | | | |
| Loan losses (negative figures are reversals) | 98 | -2 | 6 | 27 | 1 |
| **Operating profit** | **1 424** | **1 293** | **955** | **1 175** | **817** |
| Income tax expense | 356 | 323 | 239 | 294 | 204 |
| **Net profit for the period** | **1 068** | **970** | **717** | **881** | **613** |

## Summary of the balance sheet (NOKm)

| | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| Loans to the public | 266 240 | 245 978 | 111 920 | 135 511 | 106 008 |
| Allowance for loan losses | -190 | -103 | -56 | -89 | -69 |
| Other assets | 7 143 | 6 689 | 8 583 | 7 111 | 7 673 |
| Debt securities in issue | 142 744 | 98 124 | 82 564 | 77 731 | 84 252 |
| Other liabilities | 110 690 | 135 276 | 24 445 | 51 635 | 17 083 |
| Equity | 19 759 | 19 164 | 13 437 | 13 167 | 12 278 |
| **Total assets** | **273 192** | **252 564** | **120 447** | **142 533** | **113 613** |
| Average total assets | 264 935 | 205 635 | 127 959 | 131 021 | 119 682 |

## Ratios and key figures

| | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| Basic/diluted Earnings per share (EPS), annualised basis, NOK | 69,6 | 63,2 | 46,7 | 57,5 | 39,9 |
| Equity per share[1], NOK | 1 288,4 | 1 249,6 | 876,2 | 858,5 | 800,6 |
| Shares outstanding[1], million | 15,3 | 15,3 | 15,3 | 15,3 | 15,3 |
| Return on average equity | 5,5 % | 5,5 % | 5,4 % | 6,9 % | 6,0 % |
| Cost/income ratio | 37,6 % | 32,6 % | 28,1 % | 25,6 % | 36,1 % |
| Loan loss ratio, annualised, basis points | 3,8 | -0,1 | 0,5 | 2,2 | 0,1 |
| Common Equity Tier 1 capital ratio, excl. Basel I floor[1,2] | 30,6 % | 31,8 % | 46,7 % | 83,5 % | 85,8 % |
| Tier 1 capital ratio, excl. Basel I floor[1,2] | 30,6 % | 31,8 % | 46,7 % | 83,5 % | 85,8 % |
| Total capital ratio, excl. Basel I floor[1,2] | 34,4 % | 35,8 % | 50,9 % | 91,6 % | 94,4 % |
| Common Equity Tier 1 capital ratio, incl. Basel I floor[1,2] | 30,6 % | 31,8 % | 26,9 % | 21,2 % | 25,7 % |
| Tier 1 capital ratio, incl. Basel I floor[1,2] | 30,6 % | 31,8 % | 26,9 % | 21,2 % | 25,7 % |
| Total capital ratio, incl. Basel I floor[1,2] | 34,4 % | 35,8 % | 29,4 % | 23,2 % | 28,3 % |
| Own funds, NOKm[1] | 21 489 | 20 789 | 14 615 | 13 923 | 13 486 |
| Risk Exposure Amount incl. Basel I floor[1], NOKm | 62 546 | 58 023 | 49 748 | 59 927 | 47 707 |
| Number of employees (full-time equivalents)[1] | 17,5 | 16,5 | 15,5 | 15,5 | 1,7 |

[1] At the end of the period.

[2] The Basel I floor is no longer applicable from Q4 2019 due to CRR implementation in Norway.

# Board of Directors' Report

## Introduction

Nordea Eiendomskreditt AS was first incorporated in 1927 as a credit association known as Norges Hypotekforening for Næringslivet. During the course of autumn 2009, the company's commercial property lending activities were sold to the parent bank, Nordea Bank Norge ASA. With effect from 2010 the company has operated solely as a mortgage credit institution, licenced by the Norwegian Financial Supervisory Authority (FSA) to issue covered bonds. The business objective is to grant and acquire residential mortgage loans and loans secured by mortgages over holiday homes and secured construction loans for residential properties and holiday homes, and to finance its lending activities mainly by issuing of covered bonds. The mortgage loans in the portfolio are originated directly from own balance sheet or bought from the parent bank and amounts to NOK 266 billion at the end of 2020.

Nordea Eiendomskreditt AS is domiciled in Oslo, and its business registration number is 971 227 222.

The company's share capital is NOK 1,718m, made up of 15,336,269 ordinary shares, each of nominal value NOK 112. The entire issued share capital is owned by Nordea Bank Abp.

### Covid-19 outbreak – governance, operational risk measures and further disclosures

From the outbreak of the Covid-19 pandemic in the first quarter of 2020, Nordea took prompt action in order to mitigate operational risks and protect both our customers and employees. A Global Crisis Management team was established for a close monitoring of the development, and met on a frequent basis to discuss and assess the situation and take necessary action.

In Norway the unemployment figures fell from above 10% during the second quarter to 3.9% at the end of 2020. House prices continued to rise and were in December 2020 8.7% higher than in the same month last year, supported by historically low interest rates.

Information on the financial and operational impacts of the Covid-19 outbreak on Nordea Eiendomskreditt, as well as the measures taken to address these impacts, have been provided elsewhere in this report. See "Impaired loans", "Outlook for 2021", Note 1 "Accounting policies" and Note 9 "Loans and impairment".

### Nordea Direct Boligkreditt merger

At 17 July 2020 the Boards of Directors and General Meetings of Nordea Eiendomskreditt AS and Nordea Direct Boligkreditt AS signed a merger plan and resolved to initiate the merger between the two companies. The merger is expected to be completed between 1 May 2021 and 1 July 2021. The execution of the merger is subject to approval from the Financial Supervisory Authority of Norway (N-FSA).

## Comments on the Income statement

*(previous year's figures are shown in brackets)*

### Income

Total operating income in 2020 was NOK 2,439m (NOK 1,914m) which was an increase of 27%, mainly driven by higher Net interest income.
Net interest income was NOK 2,399m in 2020 (NOK 1,879m). The increase is mainly due to higher loan portfolio, with average lending volume 30% higher in 2020.

Net fee and commission income was higher in 2020 than 2019 since fee income increases with increased loan portfolio. Commission expense includes provision related to a Liquidity Transfer and Support agreement with the parent bank. Net fee and commission income ended at NOK 74m in 2020 (NOK 66m).

Net result from items at fair value ended at a cost of NOK 34m in 2020 (cost of NOK 31m). In accordance with IFRS, net result from items at fair value includes both realized gain/loss from buy-backs of own bonds, as well as fair value changes of interest rate swaps and the corresponding hedged items (fixed-rate lending and fixed-rate bonds) in the hedge portfolio, due to changes in market rates. Of the total net result from items at fair value, a loss of NOK 21.3m in 2020 (loss of NOK 21.3m) is related to interest-bearing securities and derivatives held for economic hedging.

### Expenses

Total operating expenses were NOK 917m in 2020 (NOK 623m). The cost is mainly related to staff costs and services bought from the parent bank Nordea Bank Abp. These services are related to sales, distribution and management of the loan portfolio and customer contact, funding and risk management, accounting and reporting. Sales, distribution and management of the loan portfolio are the main parts and the fee charged for these services was adjusted mid-2019 to include sales and distribution due to changed business model. Total operating expenses were equivalent to 0.35% of average total assets (0.30%). Nordea Eiendomskreditt AS does not incur any costs for research and development (R&D) activities.

### Loan losses

Net loan losses for the year were NOK 98m in 2020 including a management judgement booked in the second quarter due to uncertainties related to the Covid-19 pandemic (reversal of NOK 2m), corresponding to a loan loss ratio of 3.8 basis points (-0.1 bp). Comparable figures for 2019 were a net reversal of NOK 2m.

Total loan loss allowances have increased from NOK 103m at the beginning of the year to NOK 190m at the end of the year, with the increase mainly related to model based loan loss provisions in Stage 1 and 2. Realised loan losses were NOK 8m. See note 7 and note 9 for further information about loan losses and impairment.

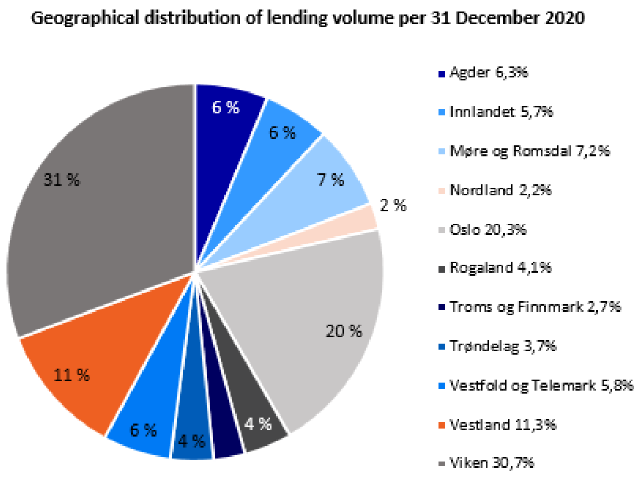
Nordea Eiendomskreditt has considered it prudent and appropriate to complement the outcome of the individual and modelled collective provisions with additional cyclical and structural management judgements to account for expected loan losses following future expected rating downgrades not yet captured by the IFRS 9 collective provisioning models, and to cover the identified development needs in our IFRS 9 collective provisioning models. The management judgement provision means that we have an allowance of NOK 108m to cover for expected future loan losses and IFRS 9 model improvements. Nordea Eiendomskreditt will take appropriate actions to release management judgements as respective losses are realised or captured by Nordea's models, whilst maintaining in place an adequate management judgement.

### Taxes

Taxes for the year amounted to NOK 356m, of which NOK 383m relates to tax payable and NOK -27m due to changes in deferred tax.

### Net profit

Net profit for the year amounted to NOK 1,068m (NOK 970m). This gives a return on average equity of 5.5% (5.5%).




## Comments on the Balance sheet

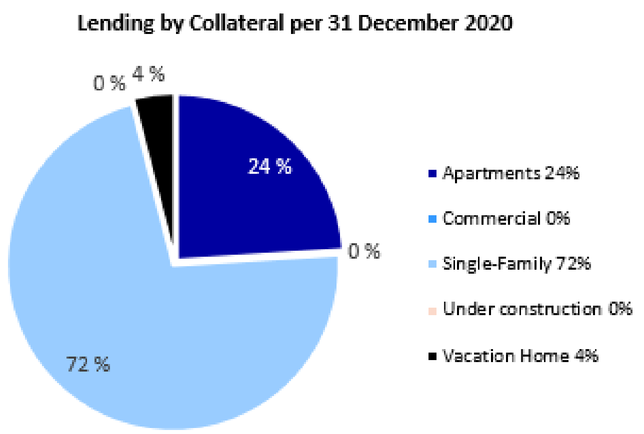
### Assets and lending activities

Gross lending to customers at 31 December 2020 amounted to NOK 266bn (NOK 246bn) and consists only of residential mortgage loans and loans to holiday homes including constructions loans, used as collateral in securing the covered bonds issued by the company. NOK 185bn of the loan portfolio is included in the collateral pool for the purposes of the calculation of the asset coverage requirement under the covered bond legislation. This represents surplus collateral of 30.5% in relation to the covered bonds issued. See note 11 Cover pool for further information.

The cover pool has a weighted indexed loan-to-value ratio of 50.4% at the end of 2020 (50.5%). The average loan size was NOK 1,831m (NOK 1,652m). The cover pool is split between 61% amortizing loans and 39% flex loans, same as at end of last year.

### Concentration risk in the loan portfolio

Nordea Eiendomskreditt's mortgage loans and collaterals have a good geographical spread with a major part concentrated around the 5 largest Norwegian cities. See the figures below for more detailed information on the loan portfolio split by collateral and geography.



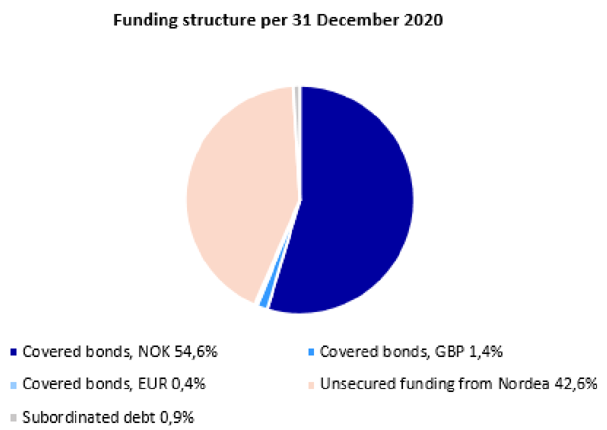

### Liabilities and funding activities

Nordea Eiendomskreditt's main funding source is issuance of covered bonds. Covered bonds are debt instruments, regulated by the Financial Undertakings Act (Act No. 17 of 10 April 2015), that gives investors a preferential claim into a pool of high-quality assets in case of the issuer's insolvency. Norwegian covered bonds can only be issued by mortgage credit institutions that hold a licence from the Norwegian FSA and whose articles of association comply with certain mandatory requirements. The cover pool in Nordea Eiendomskreditt consists only of Norwegian residential mortgage loans, loans to holiday homes in Norway and secured constructions loans for residential properties and holiday homes.

During 2020 Nordea Eiendomskreditt has issued covered bonds amounting to NOK 58.4bn in the Norwegian domestic market under its NOK 150bn domestic covered bond program, whereof NOK 36bn is retained in the parent bank. Issuance is done via taps of outstanding and new bonds via designated dealers. During 2020 bonds amounting to NOK 14.2bn have matured or been bought back. As of 31 December 2020, Nordea Eiendomskreditt had outstanding covered bonds totalling NOK 137.1bn in the Norwegian market, GBP 0.3bn in the British market and EUR 0.1bn in the European market. Nordea Eiendomskreditt had also subordinated debt outstanding to the amount of NOK 2.3bn.

In addition to the covered bond funding Nordea Eiendomskreditt also raised unsecured funding from the parent bank. At the end of 2020 such borrowings amounted to NOK 107bn.

See the below figure for breakdown of the company's funding.



### Equity
Shareholder's equity ended at NOK 19.8bn at 31 December 2020 (NOK 19.2bn). This includes net profit for the year of NOK 1,068m (NOK 970m).

## Allocation of net profit for the year
Nordea Eiendomskreditt AS reported an operating profit for the year of NOK 1,424m, and a net profit after tax for the year of NOK 1,068m. The Board of Directors will propose to the Annual General Meeting on 10 March 2021 that the company distributes 50% of net profit (NOK 534m) as dividend to the parent company Nordea Bank Abp and the other 50% (NOK 534m) of net profit to the company's equity reserves.

According to IFRS, distribution of group contributions and dividends will not be booked before formal decision is made in the Annual General Meeting. All net profit as of 31 December 2020 will therefore be distributed to retained earnings in the balance sheet as of 31 December 2020. The Board of Nordea Eiendomskreditt is of the view that total equity and capital adequacy following the allocation will be sound, and well in excess of the minimum requirements laid down by the Basel capital adequacy regulations and the Norwegian Capital Adequacy Regulation of 14 December 2006.

## Off-balance sheet commitments
The company's business operations include different off-balance sheet items. Interest rate and currency swaps are used to hedge interest rate and currency risk. At the close of 2020, the company was party to interest rate swaps with a nominal value of NOK 66.7bn.

Nordea Eiendomskreditt has covered bonds totalling GBP 0.3bn issued in the British market and EUR 0.1bn issued in the European market. In order to eliminate the foreign exchange risk, the company has entered into currency swaps of the same amount. Counterparties to all derivative contracts are Nordea Group internal. For total exposure regarding off-balance sheet commitments, see note 10 Derivatives and hedge accounting and note 15 Commitments.

## Other information
The Board's expectations for the year were, in all major respects, achieved.

The Board of Directors confirms the assumption that Nordea Eiendomskreditt AS is a going concern and the annual accounts have been prepared based on this assumption.

## Rating
The covered bonds issued by Nordea Eiendomskreditt are rated Aaa by Moody's Investors' Service.

## Risk, liquidity and capital management
Maintaining risk awareness in the organisation is ingrained in the business strategies. Nordea has defined clear risk, liquidity and capital management and control frameworks, including policies and instructions for different risk types, capital adequacy and capital structure. This section describes how risk, liquidity and capital management is handled in the Nordea Group. Nordea Eiendomskreditt is wholly integrated in the Nordea Group's risk and capital management in its applicable parts.

### Governing bodies for risk, liquidity and capital management in the Group
The Group Board, the Board Risk Committee (BRIC), the President of Nordea Bank Abp and Chief Executive Officer of the Nordea Group (Group CEO) in Group Leadership Team (GLT), and the Asset and Liability Committee (ALCO) and the Risk Committee (RC) are the key decision-making bodies for risk, liquidity and capital management in Nordea. In addition, the CEO Credit Committee, the Executive Credit Committee and Business Area Credit Committees are the key bodies for Credit decision-making.

### Group Board of Directors and Board Risk Committee
The Group Board has the following overarching risk management responsibilities:

- It decides on the Group risk strategy and the Risk Appetite Framework, including the Risk Appetite Statements, with annual reviews and additional updates when needed.
- It oversees and monitors the implementation of the Risk Strategy, Risk Appetite Framework and Risk Management Framework, including breaches of risk appetite.

The Group Board decides on the Group Board Directive on Capital including dividend policy, which ensures adequate capital levels within the Group, on an ongoing and forward looking basis in consistency with Nordea's business model, risk appetite and regulatory requirements and expectations.
The Board Risk Committee (BRIC) assists the Group Board in fulfilling its oversight responsibilities concerning management and control of the risk, risk frameworks, controls and processes associated with Nordea's operations, including credit, market, liquidity and operational risk.

### President and Chief Executive Officer
The Group CEO is responsible to the Group Board for the overall management of the Group's operations and risks. Responsibilities include ensuring that the risk strategy and risk management decided by the Group Board is implemented, the necessary practical measures are taken and risks are monitored and limited.

Group-wide committees have been established in order to promote coordination within the Group, thus ensuring commitment to and ownership of Group-wide prioritizations, decisions and implementation, the most essential for Nordea Eiendomskreditt being:

- The Asset and Liability Committee (ALCO) is sub-ordinated to the Group CEO in GLT and chaired by the Chief Financial Officer in the Nordea Group (Group CFO). ALCO decides on changes to the financial operations and the risk profile in the balance sheet, including asset and liability management (ALM), balance sheet management and liquidity management. ALCO also decides on certain issuances and capital injections for all wholly-owned legal entities within the group.

- The Risk Committee (RC) is sub-ordinated to the Group CEO in GLT and chaired by the Chief Risk Officer (CRO). It oversees the management and control of the Nordea Group's risks at an aggregate level and evaluates the sufficiency of the risk frameworks, controls and processes associated with various risks.

- The Liquidity Risk Oversight Committee (LROC) is a sub-committee of Risk Committee comprised of members from the first and second lines of defence. It is the first point of entry for the discussion of liquidity risk topics and framework enhancements. This includes reviewing liquidity risk positions of the Group and subsidiaries, limits and monitoring metrics, as well as internal liquidity documents. LROC is also responsible for reviewing and approving methodologies and assumptions relating to liquidity stress testing.

- The CEO Credit Committee is chaired by the Group CEO and its members include the members of the Executive Credit Committee (ECC), chaired by the Head of Group Credit Management (GCM). The Local Credit Committee in Norway is chaired by Head of Personal Banking Credit Norway.

## Governance of Risk Management and Compliance

Group Risk and Compliance (GRC) represents Nordea's independent second line of defence (2 LoD) function.

GRC is responsible for maintaining the Internal Control Framework and for monitoring the implementation of it across Nordea. GRC oversees the implementation of the risk policies, controls the Risk Management Framework and ensures that all material risks that Nordea is or could be exposed to, are identified, assessed and measured, responded to, mitigated, controlled and monitored and reported on.

The flow of risk related information is passed from the Business Areas and the Group Functions to the BoD through the RC and the BRIC. The flow of information starts with the divisions that monitor and analyse information on the respective risk types. The risks are presented and discussed in the RC and its sub-committees. Information on risk is then brought to the BRIC, where risk issues are discussed and challenged before presentation to the BoD.

GC within GRC is also responsible for identifying compliance risks and performs monitoring and controls to ensure that the risks are managed by the relevant functions. GC consists of central units as well as business area specific divisions, facilitating and overseeing the effectiveness and integrity of Nordea's compliance risk management. GC adds value to Nordea and its stakeholders by providing an independent view on compliance with applicable rules and regulations, based on monitoring activities. Furthermore, GC gives proactive support and constructively challenges the first line of defence on ways to effectively and efficiently manage compliance obligations. Reporting from GC is presented directly to the BoD and BRIC.

## Risk and Capital Management Processes

The Risk Management Framework (RMF) ensures consistent processes for identifying; assessing and measuring; responding to; mitigating; controlling and monitoring and reporting risks and to ensure informed decisions on risk-taking. The Risk Management Framework encompasses all risks to which Nordea is or could be exposed, including off-balance sheet risks and risks in a stressed situation.
The Risk Identification and Materiality Assessment Process starts with identifying potential risks to which Nordea is or could be exposed. Risks are then assessed for relevance, classified, and included in the Common Risk Taxonomy.

All risks within the Nordea Common Risk Taxonomy need to be classified as material or not material for risk management and capital purposes. Material risks are assessed as those that could lead to a material impact on Nordea. These risks will typically, though not always, refer to a higher-level risk within the Risk Taxonomy which captures a number of underlying risks in which losses arise from a common source.

## Risk Appetite

Regular controlling and monitoring of risk exposures compared to risk appetite limits, risk limits, and triggers are carried out to ensure that risk-taking activities remain within risk appetite. Risk appetite is defined as the aggregate level and types of risk Nordea is willing to assume within its risk capacity, and in line with its business model, to achieve its strategic objectives.

The BoD is responsible for Nordea's risk strategy and the Risk Appetite Framework (RAF). Nordea's RAF refers to the overall approach, including policies, processes, controls, and systems through which risk appetite is established, communicated, and monitored. It includes the Risk Appetite Statement (RAS), risk limits, and the outline of the roles and responsibilities of those overseeing the implementation and monitoring of the RAF. The RAS articulates the BoD's approved risk appetite and is comprised of high-level statements that link closely to the risk strategy.

BRIC assists the BoD in fulfilling its responsibilities in Nordea's risk strategy and the RAF by advising and supporting the BoD regarding the determination and monitoring of Nordea's actual and future risk appetite and risk strategy.

The levels and types of risk that Nordea is willing to assume within its risk appetite will change over time, depending on the development of Nordea's business strategy and business plans; Nordea's risk strategy; prevailing regulatory requirements and economic and market conditions. Risk appetite includes RAS for the main risk types to which Nordea is or could be exposed. Risk appetite triggers must also be set for these main risk types, to act as early indicators for key decision-makers that the risk profile for a particular risk type is moving towards being outside its risk appetite.

Regular controlling and monitoring of risk exposures compared to risk limits for financial and non-financial risks are carried out to ensure that risk-taking activity remains within risk appetite as follows:
<u>Green</u>: Risk level is within the defined risk appetite. No additional action required.
<u>Amber</u>: Risk level is within risk appetite, but the risk appetite trigger has been exceeded. Consideration of actions to be taken is required to ensure that the risk appetite limit is not breached.
<u>Red</u>: Risk level is outside Nordea's risk appetite and the risk appetite limit has been breached. Remediation actions must be taken to redress the breach. This is followed up on a monthly basis until the risk exposure is within appetite.

The RAF considers key risks relevant to Nordea's business activities and is at an aggregate level represented in terms of credit risk, market risk, liquidity risk, operational risk, solvency and compliance/non-negotiable risks. The RAF is further presented in the Capital and Risk Management Report.

### Monitoring and reporting

The Group Board Directive on Internal Governance describes Nordea's Internal Control Framework. The framework is designed to ensure effective and efficient operations, adequate identification, measurement and mitigation of risks, prudent conduct of business, sound administrative and accounting procedures, reliability of financial and non-financial information (both internally and externally) and compliance with laws, regulations, supervisory requirements and the Nordea Group Internal Rules.

The internal control process is carried out by Nordea's governing bodies that consist of the Group Board , CEO in GLT, senior management, risk management functions and other staff at Nordea. The internal control process is based on five main components: control environment, risk assessment, control activities, information and communication as well as monitoring. The internal control process aims to create the necessary fundamentals for the entire organisation to contribute to the effectiveness and high quality of internal control through, for instance, clear definitions, assignments of roles and responsibilities and common tools and procedures.

Management of risks includes all activities aiming at identifying, measuring, assessing, monitoring and controlling risks as well as measures to limit and mitigate the consequences of the risks. Management of risk is proactive, emphasising training and risk awareness. In order to support all employees in managing risks, Nordea has designed an electronic learning programme for all staff, called "Licence to Work". Licence to Work is a set of stepwise requirements for learning about risk and compliance and shall be renewed every year.

The control environment is, among other things, based on the principles for segregation of duties and independence. Monitoring and reporting of risk are conducted on a daily basis for market risk, counterparty credit risk, liquidity risk and on a monthly and quarterly basis for credit risk, operational risk, compliance risk, IT risk and overall capital adequacy.

Detailed risk information, covering all risks as well as capital adequacy, is regularly reported to the Risk Committee, GLT, BRIC and the Group Board. In addition to this, Nordea's compliance with regulatory requirements is reported to GLT and Group Board. The Board and the CEO in each legal entity regularly receive local risk reporting.

A separate risk description is reported to the Board of Directors in Nordea Eiendomskreditt once a year according to requirements in CCR/CRD IV chapter 8, adopted by the Norwegian FSA.

### Disclosure requirements of the CRR - Capital and risk management report

Additional information on risk and capital management is presented in the Capital and Risk Management Report, in accordance with the Capital Requirements Regulation (CRR). The report is available at www.nordea.com.

### Environmental, Social and Governance (ESG)

At Nordea, the Group Board has a leading role in driving the climate strategy and is assisted by the Board Operations and Sustainability Committee (BOSC) and the Board Risk Committee (BRIC) in the fulfilment of its oversight responsibilities concerning sustainability, related frameworks and processes, including Environmental, Social and Governance (ESG) factors as drivers of existing risks. Qualitative progress updates on the integration of ESG factors in the risk management frameworks form part of the regular Board Risk Appetite reporting. Organisationally, ESG is integrated in existing processes for decision-making, risk management and control, and escalation including committee structures.

### Governance in Nordea Eiendomskreditt AS

The Board of Directors in Nordea Eiendomskreditt is responsible for approving risk appetite limits and capital actions in the company. The proposals for such items are the joint responsibilities of relevant subsidiary management and Group Functions in the Nordea group.

The Board of Directors in Nordea Eiendomskreditt has oversight responsibilities concerning the management and control of risk, risk management frameworks as well as the processes associated with the company's operations. In addition, the company also has risk management functions responsible for the risk management framework and processes in place.

The CEO in Nordea Eiendomskreditt is part of the company's decision-making process and is responsible for its daily operations.

## Credit risk management

Credits granted within the Group shall conform to the common principles established for the Group. Nordea aims to have a well-diversified credit portfolio that is adapted to the structure of its home markets and economies.
The key principles for managing Nordea's risk exposures are:

- the three Lines of Defence (LoD), as further described in the Policy for Internal Control in the Nordea Group;
- independency, i.e. the risk control function should be independent of the business it controls; and
- risk based approach, i.e. the risk control functions should be aligned to the nature, size and complexity of Nordea's business, ensuring that efforts undertaken are proportional to the risks in question.

Group Credit Management in 1st LoD is responsible for the credit process and Industry Credit Policies. Group Credit Risk Control in 2nd LoD is responsible for the credit risk framework, consisting of policies and instructions for the Group. Group Credit Risk Control is also responsible for controlling and monitoring the quality of the credit portfolio and the credit process.

The basis of credit risk management in Nordea is limits to customers and customer groups that are aggregated and assigned to units responsible for their continuous monitoring and development. An additional dimension of concentration risk limits based on industries, segments, products or geographies shall likewise be aggregated, assigned to units responsible for their monitoring and development and serve as caps on those limits. Each division/unit is primarily responsible for managing the credit risks in its operations within the applicable framework and limits, including identification, control and reporting.

Within the powers to act granted by the Group Board, Internal credit risk limits are approved by credit decision making authorities on different levels in the organization constituting the maximum risk appetite on the customer in question. Individual credit decisions within the approved internal credit risk limit are taken within the customer responsible unit (CRU). The risk categorization and the exposure of the customer decide at what level the decision will be made.

Responsibility for a credit risk lies with a customer responsible unit. Customers are risk-categorized by a rating or score in accordance with Nordea's rating and scoring guidelines. The rating and scoring of customers aim to predict their probability of default and to consequently rank them according to their respective default risk. Rating and scoring are used as integrated parts of the credit risk management and decision-making process.

## Credit risk definition and identification

Credit risk is defined as the potential for loss due to failure of a borrower(s) to meet its obligations to clear a debt in accordance with agreed terms and conditions. The potential for loss is lowered by credit risk mitigation techniques. Credit risk stems mainly from various forms of lending, but also from issued guarantees and documentary credits and includes counterparty credit risk, transfer risk and settlement risk. Credit risk in Nordea Eiendomskreditt is mainly related to the lending portfolio. The lending portfolio is secured by collateral in real estate with average loan to value of 59.7% (62.5%). The risk of material losses in the portfolio is therefore considered to be limited.

## Credit risk mitigation

Credit risk mitigation is an inherent part of the credit decision process. In every credit decision and review, the valuation of collateral is considered as well as the adequacy of covenants and other risk mitigations. Pledge of collateral is a fundamental credit risk mitigation technique in the bank and collaterals are always sought, when reasonable and possible, to minimize the potential for credit losses. In every credit decision and review, the value of collaterals must be considered.

The collateral value shall always be based on the market value. The market value is defined as the estimated amount for which the asset would exchange between a willing buyer and willing seller in an arm's-length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion. From this market value, a haircut is applied. The haircut is defined as a percentage by which the asset's market value is reduced ensuring a margin against loss. The margin reflects the adjustments needed to assess the cash proceeds when the collateral is liquidated in a forced sale situation. A maximum collateral ratio is set for each collateral type.

The same principles of calculation must be used for all exposures. For High Risk customers, the foreclosure value may differ from the maximum collateral values and should be based on a realistic assessment for the particular asset at that time. Risk transfer to other creditworthy parties, through guarantees and insurance, shall be based on legally enforceable documentation.

## Individual and collective assessment of impairment

Requirements for impairment are set forth in IFRS 9, which are based on an expected loss model.

Assets tested for impairment are divided into three groups depending on the stage of credit deterioration. 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 defaulted assets. All assets are assessed individually for staging. Significant assets in stage 3 are tested for impairment individually. Assets in stage 1, stage 2 and insignificant assets in stage 3 are tested for impairment collectively. Impairment testing (individual and collective) is applying three forward looking and weighted scenarios.

Throughout the process of identifying and mitigating credit impairment, Nordea continuously reviews the quality of credit exposures. Weak and credit impaired exposures are closely monitored and reviewed at least on a quarterly basis in terms of current performance, business outlook, future debt service capacity, and the possible need for provisions.

### *Individual provisioning*

A need for individual provisioning is recognized 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 collaterals taken into account). Exposures with individually assigned provisions are considered as credit impaired. The size of the provision is equal to the estimated loss, which is the difference between the book value of the outstanding exposure and the discounted value of the expected future cash flow, including the value of pledged collateral. Nordea recognizes only specific credit risk adjustments (SCRA). SCRA comprise individually and collectively assessed provisions. SCRA during the year is referred to as loan losses, while SCRA in the balance sheet is referred to as allowances and provisions.

### *Default*

Customers with exposures that are past due more than 90 days, being in bankruptcy or considered unlikely to pay are regarded as defaulted and can be either servicing debt or non-servicing. If a customer recovers from being in default, the customer is seen as cured. Typically, this situation occurs if the customer succeeds in creating a balance in financials. In order to be cured the recovery should include the customer's total liabilities, an established satisfactory repayment plan and an assessment that the recovery is underway.

### *Collective provisioning*

The collective model is executed quarterly and assessed for each legal unit/branch. One important driver for provisions is the trigger for the transferring of assets from stage 1 to stage 2. For assets recognized from 1 January 2018, changes to the lifetime Probability of Default (PD) are used as the trigger. In addition, customers with forbearance measures and customers with payments more than thirty days past due are also transferred to stage 2. In stage 1, the provisions equal the 12 months expected loss. In stage 2 and 3, the provisions equal the lifetime expected loss. The output is complemented with an expert-based analysis process to ensure adequate provisioning. Defaulted customers without individual provisions have collective provisions.

### *Forbearance*

Forbearance is eased terms or restructuring due to the borrower experiencing or about to experience financial difficulties. The intention with granting forbearance for a limited time period is to ensure full repayment of the outstanding debt. Examples of negotiated terms are changes in amortization profile, repayment schedule, customer margin as well as ease of financial covenants. Forbearance is undertaken on a selective and individual basis, approved according to Powers to Act and followed by impairment testing. Forborne exposures can be servicing or non-servicing. Loan loss provisions are recognized if necessary.

Further information on credit risk is presented in Note 9 Loans and impairment and in Note 23 Credit risk disclosures.

### Credit portfolio

Including on- and off -balance sheet exposures and exposures related to securities, the total credit risk exposure at year end was NOK 297.8bn (NOK 274.1bn last year). More information and breakdown of exposure according to the CRR definition is presented in the Capital and Risk Management Report (Pillar 3 report) at www.nordea.com.

On-balance lending consists of fair value lending and amortized cost lending and constitutes the major part of the credit portfolio. Amortized cost lending is the basis for impaired loans allowances and loan losses. Credit risk in lending is measured and presented as the principle amount of on-balance sheet claims, i.e. loans to credit institutions and to the public-, and off-balance sheet potential claims on customers and counterparts, net after allowances. Credit risk exposure also includes the risk related to derivative contracts, which was NOK 1.4bn at year end (NOK 0.6bn).

Nordea Eiendomskreditt's total lending to the public increased to NOK 266bn at the end of 2020 (NOK 246bn). The portfolio includes residential mortgage loans as well as loans to holiday homes, secured by properties in Norway, and secured construction loans for residential properties and holiday homes. Including off-balance sheet exposures the total credit risk exposure at year end was NOK 290.7bn (NOK 267.9bn). Lending to credit institutions amounted to NOK 0.5bn at the end of the year (NOK 0.3bn), all of which was placed in the parent bank as cash accounts, payable on demand. Nordea Eiendomskreditt also has interest bearing securities amounting to NOK 5.2bn at the end of 2020 (NOK 5.2bn).

### Scoring distribution

One way of assessing credit quality is through analysis of the distribution across risk grades for scored household customers.

The average credit quality increased slightly in the scoring portfolio in Q4-2020. 25% of the number of customers migrated upwards while 14% were down-rated . Exposure-wise, 29% of the customer exposure migrated upwards while 16% were down-rated. By the end of 2020, 94.0% of the exposure were scored C- or higher compared to 93.1% at the end of Q3-2020.

Information on scoring distribution in the lending portfolio is shown in Note 9 Loans and impairment.

### Impaired loans (Stage 3)

Impaired loans gross in Nordea Eiendomskreditt decreased during the year from NOK 784m in 2019 to NOK 778m in 2020 despite the higher loan volume and the Covid-19 pandemic, and corresponded to 29bps (32bps) of total loans. 24% of impaired loans gross are servicing loans and 76% are non-servicing loans. Impaired loans net, after allowances for Stage 3 loans, amounted to NOK 702m (736m), corresponding to 26bps (30bps) of total loans. Allowances for Stage 3 loans amount to NOK 75.3m (NOK 47.7m). Allowances for Stages 1 and 2 amounted to NOK 114.9m (NOK 55.4m). The ratio of allowances in relation to impaired loans is 9.7% (6.1%) and the allowance ratio for loans in Stages 1 and 2 is 4.3bps (2.3bps) of total loans in Stages 1 and 2.

The volume of past due loans to household customers (excluding impaired loans) was NOK 1,238m at the end of 2020 (NOK 4,774m). The volume at the beginning of 2020 was abnormal especially for past due between 6 and 30 days, and the volume decreased rapidly the first 4 months in 2020 and has been stable on low levels for the rest of the year. Historically low interest rates on mortgages together with less spending in the households in general, in combination with instalment free periods for households directly impacted by the Covid-19 crisis has had positive impact on the volume of past due loans. Nordea Eiendomskreditt has not taken over any properties for protection of claims due to default.

Loan losses amounted to NOK 98.3 in 2020 (reversal of NOK 1.8m). This corresponds to a loan loss ratio of 3,8 basis points.

### Climate risk

Climate risk can be divided into:

- Physical impact risk - potential adverse impacts from climate change such as extreme weather, floods or droughts, and sea level rise.
- Policy risk - tightening of climate policies and regulations to shift the economy away from fossil fuels

Nordea Eiendomskreditt has done extensive work together with inter alia Sustainable Finance in Nordea to identify properties that are exposed to physical climate risk. Of the pledged assets 2.7% is assessed to be exposed to one of the physical risks at the end of 2020. The physical risk for Nordea Eiendomskreditt is assessed as minor due to that the mortgagor is well covered by good insurance arrangements in Norway.

EU Taxonomy set the standard for classification of economic activities and regulation in this area is under development.

## Counterparty credit risk

Counterparty credit risk is the risk that Nordea Eiendomskreditt's counterpart in an interest or currency derivative contract defaults prior to maturity of the contract and that Nordea Eiendomskreditt at that time has a claim on the counterpart. Counterparty credit risk can also exist in repurchasing agreements and other securities financing transactions. The exposure at the end of 2020 for Nordea Eiendomskreditt was NOK 341m (NOK 989m). 100% of the exposure and 100% of the current exposure net was towards financial institutions. Nordea Eiendomskreditt only uses counterparties in the Nordea group in derivative transactions. For information about financial instruments subject to master netting agreement, see note 19 Financial instruments set off on balance or subject to netting agreements.

## Market risk

Market risk is the risk of loss in a position in either the trading book or non-trading book as a result of changes in market rates and parameters that affect the market values or net interest income flows. Market risk exist irrespective of the accounting treatment of the positions.

The market risk appetite for Nordea Eiendomskreditt is expressed through risk appetite statements issued by NE Board. The statements are defined for the banking book as Nordea Eiendomskreditt does not have any trading book assets. The 2LoD ensures that the risk appetite is appropriately translated through relevant committees into specific risk appetite limits for Group Treasury and ALM (TALM). TALM is responsible for managing the market risk according to intra group outsourcing agreement.

As part of the overall RAF, holistic and bespoke stress tests are used to measure the market risk appetite and calibrate limits to monitor and control the full set of material market risk factors to which Nordea Eiendomskreditt is exposed.

### Non-traded market risk

Non-traded market risk principally arises from the core banking business of Nordea Eiendomskreditt, related hedges and regulatory or other external requirements (e.g. liquid asset buffer). TALM is responsible for the comprehensive risk management of all non-traded market risk exposures in the Nordea Group's balance sheet, including Nordea Eiendomskreditt.

For transparency and a clear division of responsibilities within TALM, the comprehensive banking book risk management is divided across several frameworks – each with a clear risk mandate and specific limits and controls.

The non-traded market risks that Nordea Eiendomskreditt is exposed to is interest rate risk in the banking book (IRRBB) defined as the current or prospective risk to Nordea Eiendomskreditt's capital and earnings arising from adverse movements in interest rates. The market risks are managed centrally by TALM from an earnings and Economic Value perspective and include gap risk, basis risks, credit spread risk and option risk stemming from floors in issued bonds and customer contracts.

Due to the lending structure in Nordea Eiendomskreditt's home market Norway, most of the contractual interest rate exposures are floating rate while fixed rate lending only constitutes a small part of the loan book. Consequently, wholesale funding is also issued in or swapped to floating rate format. The resulting residual repricing gap risk and fixing risk are managed by TALM for Nordea Eiendomskreditt. The net outright interest rate risk stemming from the repricing gaps, together with the limited fixed interest rate risk, are hedged with interest rate swaps (IRS).

Liquid assets held to satisfy liquidity buffer requirements are managed with minimal market risk exposure in accordance with the Liquidity Buffer frameworks.

### Measurement of market risk

Economic value (EV) stress tests look at the change in economic value of banking book assets, liabilities and interest-bearing derivative exposures resulting from interest rate movements, independently of the accounting classification and ignoring credit spreads and commercial margins. The model assumes a run-off balance sheet and includes behavioural modelling for pre-payments. Changes in the Economic Value of the Equity of the banking book are measured under the 6 standardised scenarios defined by the Basel Committee on Banking Supervision (BCBS). The exposure limit under this metric is measured against the worst outcome out of the 6 scenarios measured.

The earnings risk metric measures the change in net interest income relative to a base scenario, creating a Structural Interest Income Risk (SIIR) value over a one-year horizon. The model uses a constant balance sheet assumption, implied forward rates and behavioural modelling for pre-payments. The measurement of IRRBB is dependent on key assumptions applied in the models.

The most material assumptions relate to the modelling of embedded behavioural options in both assets and liabilities. The behavioural option held by Nordea Eiendomskreditt's lending customers to execute early loan pre-payments is estimated using pre-payment models. On the other hand Nordea has floor options towards customers stemming from the fact that customer rates are modelled to not go negative. Furthermore, issued bonds also contain floors because Nordea currently does not charge negative rates to investors in bonds issued by Nordea Eiendomskreditt.

### Market risk analysis

#### Structural Interest Income Risk (SIIR)/Economic Value (EV)

At the end of the year, the loss for SIIR was NOK 128.8m for the 50 bps down scenario (NOK 100.5m). The most severe impact from the Basel scenarios on EV was NOK 706.7m loss at end of year 2020 (NOK 66.0m).

## Operational risk

Nordea defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk.

Operational risks are inherent in all of Nordea's businesses and operations. Consequently, managers throughout Nordea are accountable for the operational risks related to their area of responsibility, and responsible for managing these risks within limits and risk appetite, in accordance with the operational risk management framework.

Group Operational Risk (GOR) within Group Risk and Compliance (GRC) constitutes the second line of defence (2nd LoD) risk control function for operational risk and is responsible for developing and maintaining the overall operational risk management framework as well as for monitoring and controlling the operational risk management of the 1st line of defence (1st LoD). GOR monitors and controls that operational risks are appropriately identified, assessed and mitigated. GOR also follows-up on risk exposures towards risk appetite, and assesses the adequacy and effectiveness of the operational risk management framework and framework implementation.

The focus areas of the monitoring and control work performed by GOR are decided during an annual planning process that includes business areas, key risk areas and operational risk processes. GOR is responsible for preparing and submitting regular risk reports on all material risk exposures including risk appetite limit utilization and operational risk incidents to the Chief Risk Officer (CRO), who thereafter reports to the Group CEO the Group Board and relevant committees..

The Risk Appetite Statement (RAS) for operational risk is expressed in terms of:

1) residual risk level in breach of risk appetite and requirements for mitigating actions for risks;
2) total loss amount of incidents and management of incidents; and
3) management of Key Risk Indicators (KRIs).

### Management of operational risk

Nordea's Group Board Directives on Risk, Risk Appetite and Internal Governance set the principles for the management of risks in Nordea. Based on these principles, Nordea has established supporting internal rules for operational and compliance risk that form the overall operational risk and compliance risk management frameworks. Management of operational and compliance risk includes all activities aimed at identifying, assessing and measuring, responding and mitigating, controlling and monitoring, and reporting on risks.

Risks are identified through various processes, for example through the processes detailed in the following section and it includes the reporting of incidents, approval of changes, as well as risk assessment processes.
Assessment and measurement of risks are done by using Nordea's common risk assessment grid for non-financial risk by assigning the probability of the risks occurring and the impact in case of materialization.

Nordea Eiendomskreditt operates an organizational structure with only 18 employees, and its operations are based to a very large extent on purchasing services from the Nordea Group. Contracts have been entered into in this respect with the relevant units. The company's risk management is based in part on the parent bank's management of operational risk in accordance with defined Group Board Directives and reporting requirements.

Further information on the management of operational risk in Nordea can be found in the Nordea Annual Report at www.nordea.com.

## Compliance risk

Nordea defines compliance risk as the risk of failure to comply with applicable Regulations and related internal rules governing Nordea's activities in any jurisdiction where Nordea operates. The primary governance principle in Nordea for internal control is the adherence to the three lines of defence model.

First line of defence (1st LoD) is represented by the Business Areas and Group Functions. All employees in the first line of defence have a role of understanding and adhering to prudent risk management and are accountable for managing Compliance Risk as part of performing their tasks. All managers are fully responsible for the risks they assume and are accountable for ensuring compliance with applicable Regulations within their respective area of responsibility. Hence, they are responsible for ensuring that the appropriate organization, procedures and support systems are implemented to ensure a sufficient system of internal controls.

Group Risk and Compliance (GRC) represents Nordea's independent second line of defence (2nd LoD) function. GRC oversees the implementation of the financial and the non-financial risk policies and according to a risk-based approach, monitors and controls the Risk Management Framework including the Compliance Risk Framework and oversees that all risks that Nordea is or could be exposed to, are identified, assessed, monitored, managed and reported on. GRC is organized in divisions with individual risk type responsibility. The following divisions are part of GRC; Group Credit Risk Control, Group Market and Counterparty Credit Risk, Group Operational Risk, Balance Sheet Risk Controls, Risk Models, Group Compliance, Chief Security Office and GRC COO.

Group Compliance (GC) within GRC constitutes the compliance function and is responsible for developing and maintaining the risk management framework for managing compliance risk in cooperation with other functions in GRC and for guiding the business in their implementation of the framework to ensure continuous adherence to the framework. GC is responsible for regular reporting to the Board and the CEO at least quarterly. GC reports on the status and development of Nordea Eiendomskreditt's compliance risks including information on major deficiencies along with consequence analyses of emerging risks and trends; status and key observations from monitoring activities and investigations; general updates on Financial Supervisory Authority interactions and impact; and preparations on regulatory change.
The reports shall also contain recommendations on actions to be undertaken to mitigate Compliance Risk.

Group Internal Audit (GIA) represents the third line of defence (3rd LoD). GIA conducts risk-based and general audits and reviews that the Internal Governance arrangements, processes and mechanisms are sound and effective, implemented and consistently applied. GIA is also in charge of the independent review of the first two lines of defence including ensuring that the segregation of duties is defined and established between risk management (first line) and risk control (second line).

## Liquidity risk

### Liquidity risk management

Liquidity risk is the risk that Nordea is unable to service its cash flow obligations when they fall due; or unable to meet its cash flow obligations without incurring significant additional funding costs. Nordea Eiendomskreditt's liquidity management is an integral part of the Nordea Group's liquidity risk management.

During 2020, Nordea continued to benefit from its prudent liquidity risk management, in terms of maintaining a diversified and strong funding base and a diversified liquidity buffer. Nordea maintained a strong liquidity position throughout the period of Covid-19-related market stress. Throughout 2020, Nordea, including Nordea Eiendomskreditt, remained compliant with the requirement in Liquidity Coverage Ratio (LCR).

Policy statements stipulate that Nordea's liquidity management reflects a conservative attitude towards liquidity risk. Nordea strives to diversify the Group's sources of funding and seeks to establish and maintain relationships with investors in order to manage the market access. Broad and diversified funding structure is reflected by the strong presence in the Group's four domestic markets in the form of a strong and stable retail customer base and the variety of funding programs.

Nordea's liquidity risk management includes stress testing and a business continuity plan for liquidity management. Stress testing is defined as the evaluation of potential effects on a bank's liquidity situation under a set of exceptional but plausible events. Group Treasury & ALM is responsible for managing the liquidity and for compliance with the group-wide limits from the Boards of Directors and CEO in GLT.

### Liquidity risk measurement

Liquidity risk management focuses on both short-term liquidity risk and long-term structural liquidity risk. Liquidity risk is limited by the Board of Directors via Liquidity Stress Coverage and Liquidity Stress Horizon metrics stipulating that the liquidity buffer needs to be sufficient to cover peak cumulative stressed outflows experienced over the first 90 days of financial stress.

Furthermore, short-term funding risk is measured and limited via the Liquidity Coverage Ratio (LCR) and a funding gap risk metric. The funding gap risk metric expresses the expected maximum accumulated need for raising liquidity in the course of the next 30 days.

To ensure funding in situations where Nordea is in urgent need of cash and the normal funding sources do not suffice, Nordea holds a liquidity buffer. Limit is set by the Board of Directors for the minimum size of the liquidity buffer, measured via the LCR.

The structural liquidity risk of Nordea is measured and limited by the Board of Directors through the Net Balance of Stable Funding (NBSF) and Net Stable Funding Ratio (NSFR), which are defined as the difference between stable liabilities and stable assets. The NSFR will become binding regulation in June 2021. Nordea Eiendomskreditt has internal guidance to remain compliant to NSFR regulation.

In addition to its own series of issued bonds, Nordea Eiendomskreditt AS has access to credit facilities from its parent bank at market rates and holds its own liquidity buffer. This means that the company's exposure to liquidity risk is low. Nordea Eiendomskreditt AS adjusts the volume of its short-term funding on a daily basis.

For additional information on maturity analysis, see Note 20 Maturity analysis for assets and liabilities.

### Liquidity risk analysis

The Liquidity Coverage Ratio (LCR) according to the EBA Delegated Act was 1262% (733%) at the end of the year. Nordea Eiendomskreditt does not have other significant currencies than Norwegian krone.

The Liquidity Stress Coverage (LSC) and Liquidity Stress Horizon (LSH) were at the end of the year 178% (220%) and 166 days (1.5 year) respectively.

Net Stable Funding Ratio (NSFR) was at the end of the year 112.5% (112.0%).

## Capital management

Nordea strives to be efficient in its use of capital and therefore actively manages its balance sheet with respect to assets, liabilities and risk. Nordea Eiendomskreditt reports risk exposure amounts according to applicable external regulations (CRR/CRD IV), which stipulate the limits for the minimum capital (the capital requirement). During 2020, several recommendations on dividends during the Covid-19 pandemic are published by EU regulators, as well as from the Norwegian Ministry of Finance. The most recent recommendation from European Systemic Risk Board (ESRB) on 15 December 2020, states that banks should refrain from or limit dividends until end of September 2021. The Norwegian Ministry of Finance agrees with the ESRB's assessments and recommends that banks apply extreme caution and, based on the ESRB's recommendation, find that if distributions are warranted, the banks should limit total distributions to maximum 30 per cent of cumulative annual profits for 2019 and 2020.

### Minimum capital requirements

Risk exposure amount (REA) is calculated in accordance with CRR/CRD IV. Nordea Eiendomskreditt had 99.3% of its REA for credit risk covered by internal rating based (IRB) approaches by the end of 2020. Rating and scoring are key components in the credit risk management. For operational risk the standardised approach is applied.

### Internal capital requirement

Nordea bases its internal capital requirements under the Internal Capital Adequacy Assessment Process (ICAAP) on risks defined by CRR/CRD IV, and risks internally defined under Pillar 2.

The following major risk types are included in the internal capital requirement: credit risk, market risk, operational risk, interest rate risk in the banking book and business risk.

The ICAAP also describes Nordea's management, mitigation and measurement of material risks and assesses the adequacy of internal capital by defining internal capital requirements reflecting the risk of the institution. As a complement to the ordinary credit risk quantification, comprehensive stress testing is performed at least annually in accordance with current requirements, after which capital requirements are measured. Regulatory buffers were introduced with the implementation of the CRR/CRD IV rules.

### Own funds

Own funds is the sum of tier 1 and tier 2 capital. Tier 1 capital consists of both common equity tier 1 (CET1) and additional tier 1 capital. CET1 capital is considered to be capital of the highest quality with ultimate loss-absorbance characteristics and consists predominately of paid in capital and retained earnings. Profit may only be included after permission from the financial supervisory authority and after deduction of proposed dividend.

Additional tier 1 and tier 2 capital consist mostly of undated and dated subordinated loans, respectively. Holdings of other financial sector entities' subordinated loans are deducted from the corresponding tier.

**Summary of items included in own funds**

| NOKm | 31 Dec[1] 2020 | 31 Dec[1] 2019 |
|---|---|---|
| Equity in the consolidated situation | 19 759 | 19 164 |
| Proposed/actual dividend | -534 | -485 |
| Common Equity Tier 1 capital before regulatory adjustments | 19 225 | 18 679 |
| Deferred tax assets | | |
| Intangible assets | | |
| IRB provisions shortfall (-) | -136 | -269 |
| Pension assets in excess of related liabilities | | |
| Other items, net | 39 | 52 |
| Total regulatory adjustments to Common Equity Tier 1 capital | -97 | -217 |
| **Common Equity Tier 1 capital (net after deduction)** | **19 128** | **18 462** |
| Additional Tier 1 capital before regulatory adjustments | | |
| Total regulatory adjustments to Additional Tier 1 capital | | |
| Additional Tier 1 capital | | |
| **Tier 1 capital (net after deduction)** | **19 128** | **18 462** |
| Tier 2 capital before regulatory adjustments | 2 300 | 2 300 |
| IRB provisions excess (+) | 61 | 27 |
| Deductions for investments in insurance companies | | |
| Other items, net | | |
| Total regulatory adjustments to Tier 2 capital | 61 | 27 |
| Tier 2 capital | 2 361 | 2 327 |
| **Own funds (net after deduction)[2]** | **21 489** | **20 789** |

[1] Including profit for the period
[2] Own Funds adjusted for IRB provision, i.e. adjusted own funds equal NOK 21,564m by 31 Dec 2020

### Capital position and risk-weighted exposure

Nordea Eiendomskreditt's Common Equity Tier 1 capital ratio was 30.6%, including profit at the end of 2020, a decrease of 3.9 percentage points from the end of last year. Total Capital ratio decreased 4.1 percentage points to 34.4%, including profit.

Risk Exposure Amount (REA) was NOK 62,546m, an increase of 7.8% compared to the end of last year (NOK 58,023m). The main driver for the increase in REA was the IRB retail portfolio, primarily stemming from a growth rate of loans to the public of 8% during 2020.

Own Funds was NOK 20,489m at the end of 2020, of which NOK 2,300m are subordinated loans.

The Tier 1 capital and the Common Equity Tier 1 capital were NOK 19,128m (no additional Tier 1 capital).

### Further information - Note 16 Capital adequacy and the Capital and Risk Management Report (Pillar 3 report)

Further information on capital management and capital adequacy is presented in Note 16 Capital adequacy and in the Capital and Risk Management Report at www.nordea.com.

## Regulatory development

The Capital Requirement Directive IV (CRD IV) and Capital Requirement Regulation (CRR) entered into force on 1 January 2014 followed by the Bank Recovery and Resolution Directive (BRRD) on 15 May 2014. The CRR became applicable in all EU countries from 1 January 2014 while the CRD IV and BRRD were implemented through national law within all EU member states from 2014. From 31 December 2019 the CRR and CRD IV were finally implemented in Norway.

In June 2019, the 'banking package' containing revisions to the BRRD, the CRD and the CRR was adopted. The revised CRD (CRD V) and BRRD (BRRD II) are applicable from 28 December 2020, while the majority of the changes in CRR (CRR II) are to be applied from 28 June 2021. The consultation on the 'banking package' ended on 6 January 2021 in Norway and implementation is pending.

The new European Covered Bond Directive and Regulation have been finalised. The rules include a harmonised EU framework for covered bonds, including common definitions, supervision and the rules for allowing the use of 'European Covered Bonds' label. Finally, it will include amendment to CRR regarding the conditions to be granted preferential capital treatment. The Directive entered into force on 8 January 2020, the national transposition period will last until 8 July 2021 and national measures shall be applied starting at the latest from 8 July 2022. The Regulation will apply only from 8 July 2022, in parallel with the deadline for the national measures of the Directive.

### Regulatory minimum capital requirements

The CRR requires banks to comply with the following minimum capital requirements in relation to REA:

- CET1 capital ratio of 4.5%
- Tier 1 capital ratio of 6%
- Total capital ratio of 8%

### Capital buffers

In addition to the minimum requirements, the CRD contains capital buffer requirements. The application and the levels are regulated and based on the institutions contribution to systemic risk and/or general macro prudential justifications. Each Member State requires the capital buffer levels applicable to the institutions within their jurisdiction. The capital buffer requirements are expressed in relation to REA to be covered by CET1 capital and represent additional capital to be maintained in addition to mini-mum regulatory requirements. The capital buffers comprises the capital conservation buffer (CCoB) of 2.5% applicable to all institutions. Depending on the characteristics of the institution and/or macroprudential justifications the following capital buffers may also be required: A countercyclical capital buffer (CCyB), a buffer for globally systemically important institutions (G-SII), a buffer for other systemically important institutions (O-SIIs), as well as a systemic risk buffer (SRB).
The institution specific CCyB will, under normal circumstances, be in the range of 0-2.5%, depending on the buffer rate in the countries where the institution has its relevant exposures. Under CRD V, the O-SII buffer can be set up to 3% and the SRB can be set up to 5% for all exposures or for specific sectors or domestic exposures, now also being additive with the O-SII buffer. All of these buffers are included in the so-called combined buffer requirement. The combined buffer requirement is currently the sum of the CCoB, CCyB, SRB and the highest of O-SII and G-SII buffer.

Breaching the combined buffer requirement will restrict banks' capital distribution, such as the payment of dividends, share buy-backs, remuneration and payments on AT1 instruments, in accordance with the regulations on maximum distributable amount (MDA).

In Norway, the applicable buffer levels comprise the CCoB of 2.5%, the SRB of 4.5% and the CCyB, which was reduced from 2.5% to 1% in March 2020 following the Covid-19. In addition, the O-SII is applied to the two largest institutions. To mitigate the effect of the Norwegian implementation of the CRR and CRD IV, the Norwegian Ministry of Finance adopted changes in banks' capital requirements by changing the systemic risk buffer (SRB) from the current 3% for all Norwegian banks to 4.5% for all Norwegian exposures. The changes apply from 31 December 2020 to all banks' exposures in Norway that are currently subject to the Advanced Internal Rating Based (IRB) approach. For all other banks, the changes to the SRB enters into force from 31 December 2022. New risk weight floors for residential real estates to 20% and for commercial real estates to 35% according to article 458 of the CRR apply from 31 December 2020. The Norwegian Ministry of Finance has stated that they will request the ESRB to issue a recommendation to other EEA states to reciprocate the measures. If reciprocity is accepted by the Finnish FSA, the change would also be applicable for Nordea Group. Regarding the new Covered Bonds Directive and Regulation in the EU, the Ministry of Finance has informed that the intention is also to implement the new framework in Norway at the same time as in the EU. The Norwegian consultation on covered bonds ended in August 2020.

### Finalisation of Basel III framework ("Basel IV")

Basel III is a 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 Covid-19, and includes revisions to credit risk, market risk, operational risk, credit valuation adjustment (CVA) risk, leverage ratio and intro-duces a new output floor.

On credit risk, the package 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 model approach and the standardised approach have been revised. For operational risk, the three existing approaches will be removed and replaced by one standardised approach to be used by all banks. On CVA risk, the internally modelled approach is removed and the standardised approach is revised. The package also includes the implementation of a minimum leverage ratio requirement of 3% to be met with Tier 1 capital with an additional leverage ratio buffer requirement for global systemically important banks (G-SIBs) of half the size of the G-SIB capital buffer requirement.

The output floor is to be set at 72.5% of the standardised approaches on an aggregate level, meaning that the capital requirement under the floor will be 72.5% of the total Pillar 1 REA calculated with the standardised approaches for credit, market and operational risk. The floor will be phased in, starting with 50% from 2023 to be fully implemented at 72.5% from 1 January 2028.

Before being applicable to Nordea, the Basel IV package needs to be implemented into EU regulations and will therefore be subject to negotiations between the European Commission, Council and Parliament, which might change the implementation and potentially also the timetable. It is expected that the Com-mission will publish its proposal in mid-2021 after which negotiations in the Council and Parliament will begin.

## Internal control and risk management regarding financial reporting

### Financial reporting risk

Financial reporting risk is defined as the risk of misstatements in external financial reporting and regulatory capital reporting. The risk arises from erroneous interpretation and implementation of accounting standards and regulation, the use of judgement in reporting, as well as from inadequate governance and control frameworks around valuation and financial reporting. The framework for managing financial reporting risk is designed as the Accounting Key Controls (AKC) framework, based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework, which provides the structure and guidance for designing, operating and evaluating the system for internal control over financial reporting across the Nordea group. The AKC framework is the mechanism through which management expresses its various assertions over its financial statements. GRC control function for financial reporting risk is responsible for the independent monitoring, assessment and oversight of the risks and the company's implementation of the AKC framework.

## Articles of association regulating the Board of Directors

Section 3-3b of the Norwegian Accounting Act (regnskapsloven) requires the composition and nomination of the Board of Directors to be disclosed.
According to Nordea Eiendomskreditt's articles of association, last amended at 12 March 2020, the Board comprises a minimum of 5 members who are elected by the Annual General Meeting. The chairman of the Board shall be elected by separate ballot. The elected directors serve for terms of 2 years. Each year minimum 2 and maximum 4 directors shall retire. If an elected director retires before the expiry of the election period, a new director shall be elected for the remaining period at the earliest opportunity. The directors might be re-elected.

According to section 8-5 of the Financial Undertakings Act (finansforetaksloven), at least one fourth of the board of directors must be external members. According to internal guidelines both genders shall be represented.

Further information on the composition of the Board of Directors is disclosed at page 70.

## People and working environment

Working in Nordea means working at a relationship bank in which everyone is responsible for supporting great customer experiences. This is why attracting, developing and maintaining highly motivated people are among our main priorities. Nordea Eiendomskreditt is part of the Nordea Group's processes for leadership and employee development, including training programmes, performance dialogues and employee satisfaction surveys. Gender diversity and equal opportunities are an integrated part of the development of the organisation and its employees.

At the end of 2020 Nordea Eiendomskreditt AS had 18 (17) employees. Staffing was equivalent to 17.5 (16.5) full time positions. Following the reorganisation of the company early in 2010, services related to management of the lending portfolio, customer contact, funding and risk management, accounting and reporting are purchased from other units in the Nordea Group. In line with the Nordea Group organisation, the company was again reorganized from 1 January 2017, as the company was assigned the product responsibility for Norwegian mortgage loans.

Absence due to sickness during 2020 was 1.52% (4.96%). A total of 70 (199) working days were lost to sickness in 2020. There are no reports of work-related personnel injuries as caused by accidents or other incidents in Nordea Eiendomskreditt in 2020. The working environment is considered to be good.

Information on remuneration to the company's employees and officers can be found in Note 5 Staff costs.

### Gender equality and diversity

50% of the full-time employees in Nordea Eiendomskreditt and 50% of the members of the management group are female. At the end of 2020 four of six board members were female. From 1 February 2021 the board composition has changed to a 50% split between women and men. The Board and management take aproactive approach to promoting equal opportunity in the Company. The working environment is considered to be good.

## Legal proceedings

There have been no disputes or legal proceedings in which material claims have been raised against the company.

## Subsequent events

No events have occurred after the balance sheet date, which may materially affect the assessment of the annual financial statements of Nordea Eiendomskreditt.

## Sustainability and environmental concerns

As part of the Nordea Group, Nordea Eiendomskreditt is committed to sustainable development by combining financial activity with responsibility for the environment and society. Nordea Eiendomskreditt's operations result in minimal pollution of the environment. Further information about how the Nordea Group works with sustainability is available in Nordea's Sustainability Report at www.nordea.com.

## Outlook for 2021

During 2021, Nordea Eiendomskreditt AS will work to ensure a successful merger with Nordea Direct Boligkreditt AS.
In the context of Covid-19, Nordea Eiendomskreditt AS will continuously monitor the economic outlook and the behaviour of own lending portfolios in order to react timely to adverse developments.

We expect that housing prices will continue with strong growth during 2021, but at a lower pace at the end of the year. Depending on the growth in housing prices and recovery from the pandemic, a rate increase from the Central Bank already during the fall 2021 is possible.

Nordea Eiendomskreditt AS

Oslo, 9 February 2021

Marte Kopperstad
Chair

Gro Elisabeth Lundevik
Vice Chair

Ola Littorin
Board member

Alex Madsen
Board member

Pål Ekberg
Board member

Anne Sofie Knoph
Employee representative

Børre S. Gundersen
Chief Executive Officer

# Income statement

| NOKt | Note | Year 2020 | Year 2019 |
|---|---|---|---|
| **Operating income** | | | |
| Interest income calculated using the effective interest rate method | 3, 21 | 5 491 474 | 5 448 036 |
| Other interest income | | 51 735 | 79 642 |
| Interest expense | 3, 21 | 3 144 447 | 3 648 236 |
| **Net interest income** | | **2 398 762** | **1 879 442** |
| | | | |
| Fee and commission income | | 94 830 | 81 572 |
| Fee and commission expense | | 20 578 | 16 003 |
| **Net fee and commission income** | | **74 252** | **65 569** |
| | | | |
| **Net result from items at fair value** | 4, 21 | **-34 092** | **-30 869** |
| **Other income** | | **555** | **301** |
| | | | |
| **Total operating income** | | **2 439 477** | **1 914 442** |
| | | | |
| Staff costs | 5, 13 | 22 954 | 19 440 |
| Other operating expenses | 6, 21 | 894 103 | 603 650 |
| Depr/amortisation and impairment charges | | 74 | 73 |
| **Total operating expenses before loan losses** | | **917 131** | **623 163** |
| | | | |
| **Profit before loan losses** | | **1 522 346** | **1 291 279** |
| Loan losses | 7 | 98 290 | -1 823 |
| **Operating profit** | | **1 424 056** | **1 293 102** |
| Income tax expense | 8 | 356 245 | 323 273 |
| **Net profit for the period** | | **1 067 811** | **969 829** |
| | | | |
| **Attributable to:** | | | |
| Shareholder of Nordea Eiendomskreditt AS | | 1 067 811 | 969 829 |
| **Total** | | **1 067 811** | **969 829** |

# Statement of comprehensive income

| NOKt | Year 2020 | Year 2019 |
|---|---|---|
| **Net profit for the period** | **1 067 811** | **969 829** |
| | | |
| **Items that may be reclassified subsequently to the income statement** | | |
| Cash flow hedges: | | |
| Valuation gains/losses | 19 470 | 28 890 |
| Tax on valuation gains/losses | -4 868 | -7 262 |
| **Items that may not be reclassified subsequently to the income statement** | | |
| Defined benefit plans: | | |
| Remeasurement of defined benefit plans | -4 852 | -8 443 |
| Tax on remeasurement of defined benefit plans | 1 213 | 2 106 |
| **Other comprehensive income, net of tax** | **10 964** | **15 292** |
| **Total comprehensive income** | **1 078 775** | **985 121** |
| | | |
| **Attributable to:** | | |
| Shareholders of Nordea Eiendomskreditt AS | 1 078 775 | 985 121 |
| **Total** | **1 078 775** | **985 121** |

# Balance sheet

| NOKt | Note | 31 Dec 2020 | 31 Dec 2019 |
|---|---|---|---|
| **Assets** | | | |
| Loans to credit institutions | 21 | 471 612 | 267 389 |
| Loans to the public | 7, 9, 11, 14 | 266 049 251 | 246 206 695 |
| Interest-bearing securities | 22 | 5 181 071 | 5 246 838 |
| Derivatives | 10, 19, 21 | 1 423 059 | 816 925 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | | 28 490 | 5 093 |
| Property and Equipment ow ned and RoU | | 191 | 265 |
| Other assets | | 0 | 23 |
| Accrued income and prepaid expenses | | 38 308 | 20 793 |
| **Total assets** | | **273 191 982** | **252 564 019** |
| | | | |
| **Liabilities** | | | |
| Deposits by credit institutions | 12, 21 | 106 938 866 | 131 968 421 |
| Debt securities in issue | 12, 14, 21 | 142 743 573 | 98 123 667 |
| Derivatives | 10, 19, 21 | 39 218 | 171 207 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | | 795 070 | 301 478 |
| Current tax liabilities | 8 | 383 359 | 309 145 |
| Other liabilities | | 9 050 | 9 257 |
| Accured expenses and prepaid income | 21 | 94 018 | 61 336 |
| Deferred tax liabilities | 8 | 96 236 | 128 020 |
| Provisions | | 4 582 | 1 543 |
| Retirement benefit liabilities | 13 | 27 703 | 22 889 |
| Subordinated loan capital | 21 | 2 301 732 | 2 302 654 |
| **Total liabilities** | | **253 433 406** | **233 399 617** |
| | | | |
| **Equity** | | | |
| Share capital | 21 | 1 717 662 | 1 717 662 |
| Share premium | 21 | 8 815 965 | 8 815 965 |
| Other reserves | | -59 451 | -70 414 |
| Retained earnings | | 9 284 400 | 8 701 190 |
| **Total equity** | | **19 758 576** | **19 164 403** |
| **Total liabilities and equity** | | **273 191 982** | **252 564 019** |
| | | | |
| Assets pledged as security for ow n liabilities | 14 | 184 644 537 | 166 219 860 |
| Contingent liabilities | 15 | 0 | 183 |
| Commitments | 15 | 24 650 647 | 21 686 623 |

Nordea Eiendomskreditt AS

Oslo, 9 February 2021

Marte Kopperstad
Marte Kopperstad
Chair

Gro Elisabeth Lundevik
Vice Chair

Ola Littorin
Board member

Alex Madsen
Alex Madsen
Board member

Pål Ekberg
Board member

Anne Sofie Knoph
Anne Sofie Knoph
Employee representative

Børre S. Gundersen
Chief Executive Officer

# Statement of changes in equity

| NOKt | Share capital[1] | Share premium | Other reserves: Cash flow hedges | Other reserves: Defined benefit plans | Retained earnings | **Total equity** |
|---|---|---|---|---|---|---|
| **Balance at 1 January 2020** | **1 717 662** | **8 815 965** | **-59 356** | **-11 058** | **8 701 191** | **19 164 403** |
| Net profit for the year | | | | | 1 067 811 | 1 067 811 |
| **Items that may be reclassified subsequently to the income statement** | | | | | | |
| Cash flow hedges: | | | 19 470 | | | 19 470 |
| Valuation gains/losses | | | -4 868 | | | -4 868 |
| Tax on valuation gains/losses | | | | | | |
| **Items that may not be reclassified subsequently to the income statement** | | | | | | |
| Defined benefit plans: | | | | | | |
| Remeasurement of defined benefit plans | | | | -4 852 | | -4 852 |
| Tax on remeasurement of defined benefit plans | | | | 1 213 | | 1 213 |
| Other comprehensive income, net of tax | 0 | 0 | 14 603 | -3 639 | 0 | 10 964 |
| Total comprehensive income | 0 | 0 | 14 603 | -3 639 | 1 067 811 | 1 078 775 |
| **Contribution and distribution** | | | | | | |
| Share Based Payment Programme EIP | | | | | 298 | 298 |
| Dividend paid | | | | | -484 900 | -484 900 |
| **Balance at 31 December 2020** | **1 717 662** | **8 815 965** | **-44 753** | **-14 697** | **9 284 400** | **19 758 576** |

| NOKt | Share capital[1] | Share premium | Other reserves: Cash flow hedges | Other reserves: Defined benefit plans | Retained earnings | **Total equity** |
|---|---|---|---|---|---|---|
| **Balance at 1 January 2019** | **1 702 326** | **3 731 301** | **-80 984** | **-4 722** | **8 089 279** | **13 437 200** |
| Net profit for the year | | | | | 969 829 | 969 829 |
| **Items that may be reclassified subsequently to the income statement** | | | | | | |
| Cash flow hedges: | | | 28 890 | | | 28 890 |
| Valuation gains/losses | | | -7 262 | | | -7 262 |
| Tax on valuation gains/losses | | | | | | |
| **Items that may not be reclassified subsequently to the income statement** | | | | | | |
| Defined benefit plans: | | | | | | |
| Remeasurement of defined benefit plans | | | | -8 443 | | -8 443 |
| Tax on remeasurement of defined benefit plans | | | | 2 106 | | 2 106 |
| Other comprehensive income, net of tax | 0 | 0 | 21 628 | -6 336 | 0 | 15 292 |
| Total comprehensive income | 0 | 0 | 21 628 | -6 336 | 969 829 | 985 121 |
| **Contribution and distribution** | | | | | | |
| Share Based Payment Programme EIP | | | | | 343 | 343 |
| Dividend paid | | | | | -358 260 | -358 260 |
| Increase of share capital | 15 336 | 5 084 664 | | | | 5 100 000 |
| **Balance at 31 December 2019** | **1 717 662** | **8 815 965** | **-59 356** | **-11 058** | **8 701 191** | **19 164 403** |

[1] The company's share capital at 31 December 2020 w as tNOK 1.717.662,-. The number of shares w as 15 366 269, each w ith a quota value of NOK 112.
All shares w ere ow ned by Nordea Bank AB (publ) until 30 September 2018, and by Nordea Bank Abp from 1 October 2018.
[2] Capital contribution due to a share based payments program in accordance w ith IFRS 2.

# Cash flow statement

| NOKt | Year 2020 | Year 2019 |
|---|---|---|
| **Operating activities** | | |
| Operating profit before tax | 1 424 056 | 1 293 102 |
| Adjustments for items not included in cash flow | 90 178 | -8 837 |
| Income taxes paid | -317 470 | -228 098 |
| **Cash flow from operating activities before changes in operating assets and liabilities** | **1 196 764** | **1 056 167** |
| | | |
| **Changes in operating assets** | | |
| Change in loans to the public | -19 929 696 | -134 001 237 |
| Change in interest-bearing securities | 65 767 | 1 407 193 |
| Change in derivatives, net | -738 123 | -1 071 366 |
| Change in other assets | -40 816 | -212 743 |
| | | |
| **Changes in operating liabilities** | | |
| Change in deposits by credit institutions | -25 029 556 | 110 937 479 |
| Change in debt securities in issue | 44 619 906 | 15 559 446 |
| Change in other liabilities | 545 502 | -167 762 |
| **Cash flow from operating activities** | **689 747** | **-6 492 823** |
| | | |
| **Financing activities** | | |
| Change in subordinated loan capital | -922 | 1 102 548 |
| Dividend paid | -484 900 | -358 260 |
| Share Based Payment Programme EIP | 299 | 343 |
| Increase in share capital and share premium | 0 | 5 100 000 |
| **Cash flow from financing activities** | **-485 523** | **5 844 631** |
| **Cash flow for the period** | **204 224** | **-648 192** |
| | | |
| Cash and cash equivalents at beginning of period | 267 389 | 915 581 |
| Cash and cash equivalents at end of period | 471 613 | 267 389 |
| **Change** | **204 224** | **-648 192** |

**Comments on the cash flow statement**

The cash flow statement shows inflows and outflows of cash and cash equivalents during the year. Nordea Eiendomskreditt's cash flow has been prepared in accordance with the indirect method, whereby operating profit is adjusted for effects of non-cash transactions such as loan losses. The cash flows are classified by operating, investing and financing activities.

**Operating activities** are the principal revenue-producing activities and cash flows are mainly derived from the operating profit for the year with adjustment for items not included in cash flow and income taxes paid. Items not included in cash flow relates to changes in impairment charges. Changes in operating assets and liabilities consist of assets and liabilities that are part of normal business activities, such as loans and receivables, deposits from credit institutions and debt securities in issue. Changes in derivatives are reported net.

**Financing activities** are activities that result in changes in equity and subordinated liabilities, such as new issues of shares, group contribution paid or received and issued/amortised subordinated liabilities.

**Cash and cash equivalents** comprise loans to finance institutions with no fixed maturity (bank deposits).

# Notes to the financial statements

## Note 1

## Accounting policies

### Table of contents



### 1.Basis for presentation

The financial statements of Nordea Eiendomskreditt AS are prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU Commission. In addition, certain complementary rules in the Norwegian Accounting Act with supported regulation have also been applied.

The disclosures required by the standards, recommendations and legislation above have been included in the notes, in the Risk, Liquidity and Capital management section or in other parts of the financial statements.

On 9 February 2021 the Board of Directors approved the financial statements, subject to final approval of the Annual General Meeting on 10 March 2021.

The accounting policies, basis for calculations and presentations are unchanged in comparison with the Annual Report 2019, except from changed accounting policies and presentation described below in the section “Changed accounting policies and presentation”.

### 2.Changed accounting policies and presentation

#### Reclassification of accrued interest on loans

Accrued interest on loans has previously been presented on the line “Prepaid expenses and accrued income” on the balance sheet. As from 2020, accrued income on loans is presented together with the loans on the lines “Loans to credit institutions” and “Loans to the public” on the balance sheet. Comparative figures have been restated accordingly. The impact on the balance sheet can be found in the table below.

| | 31 Dec 2020 | | |
|---|---|---|---|
| **NOKm** | Old policy | Change | New policy |
| Loans to credit institutions | 471 612 | | 471 612 |
| Loans to the public | 265 851 604 | 197 648 | 266 049 251 |
| Prepaid expenses and accrued income | 235 956 | - 197 648 | 38 308 |

| | 31 Dec 2019 | | |
|---|---|---|---|
| **NOKm** | Old policy | Change | New policy |
| Loans to credit institutions | 267 389 | 0 | 267 389 |
| Loans to the public | 245 874 963 | 331 732 | 246 206 695 |
| Prepaid expenses and accrued income | 352 524 | - 331 731 | 20 793 |

#### Amendments to IAS 39 and IFRS 7 “Interest rate benchmark reform"

In September 2019, IASB published amendments to IAS 39, IFRS 9 and IFRS 7 as a consequence of the coming reform of benchmark interest rates. The amendments give some relief in relation to hedge accounting. Under the amendments, the hedge accounting requirements should be evaluated assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Early application is permitted, and Nordea has exercised this option. The amendments has resulted in that the hedge relationships in Nordea Eiendomskreditt pass the effectiveness test and that hedge accounting can continue as before the relief period.

#### Other amended requirements

The following new and amended standards and interpretations were implemented 1 January 2020 but have not had any significant impact on the financial statements of Nordea Eiendomskreditt:

- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendments to IFRS 3: Definition of business
- Amendments to IAS 1 and IAS 8: Definition of material
- Annual Improvements to IFRS 16: Leases Covid-19 related rent concessions

### 3.Changes in IFRSs not yet applied

#### Interest rate benchmark reform - Phase 2

The IASB has published amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 in “Interest Rate Benchmark Reform – Phase 2”. Phase 2 of the IBOR reform includes three major areas; hedge accounting, modifications and disclosures.

The amendment clarifies that hedge accounting does not have to be discontinued just because hedged items and hedging instruments are modified due to the IBOR reform. Hedging relationships (and related documentation) must be amended to reflect modifications to the hedged item, hedging instrument and hedged risk. Any valuation adjustments resulting from the amendments are recognised as part of hedge ineffectiveness.

It is clarified that modifications required as a direct consequence of the IBOR reform and made on an economically equivalent basis are not accounted for as modifications for instruments measured at amortised cost. For such modifications, the effective interest rate is amended in line with the modified cash flows.

The amendment is effective for annual reporting periods beginning on or after 1 January 2021 with earlier application permitted. Nordea Eiendomskreditt does not expect to early adopt.

The amendment is expected to result in that hedge relationships in Nordea Eiendomskreditt can continue as before and that no material modification gains or losses will be recognised. For this reason the amendment is not assessed to have any significant impact on Nordea Eiendomskreditt's financial statements, capital adequacy or large exposures in the period of initial application of the amendments in comparison with the current situation.

### Other changes in IFRS

The IASB has published the following new or amended standards that are assessed to have no significant impact on Nordea's financial statements, capital adequacy or large exposures in the period of initial application:

- Amendments to IAS 1 Presentation of Financial Statements
- Amendments to IFRS 3 Business Combinations
- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets
- Annual improvement 2018-2020

## 4. 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 outcome 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 (hedging portfolio)
- the impairment testing of loans to the public
- the effectiveness testing of cash flow hedges
- critical judgements emphasized by Covid-19.

### Fair value measurement of certain financial instruments

Nordea Eiendomskreditt's accounting policy for determining the fair value of financial instruments is described in section 9 "Determination of fair value of financial instruments" and Note 18 Assets and liabilities at fair value.

Critical judgements that have a significant impact on the recognised amounts for financial instruments is exercised when determining fair value of OTC derivatives and other 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 that 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 Eiendomskreditt's accounting and valuation policies.

### Impairment testing on loans to the public

Nordea Eiendomskreditt's accounting policy for impairment testing of loans is described in section 11 "Loans to the public/credit institutions".

Management is required to exercise critical judgements and estimates when calculating loan impairment allowances. For more information, see Note 9 Loans and impairment. When calculating allowances for individually significant impaired loans, judgement is exercised to estimate the amount and timing of the expected cash flows to be received from the customers under different scenarios, including the valuation of any collateral received. Judgement is also applied when assigning the likelihood of the different scenarios occurring.

Judgement is exercised to assess when an exposure has experienced a significant increase in credit risk. If this is the case, the provision should reflect the lifetime expected losses, as opposed to a 12-month expected loss for exposures not having increased significantly in credit risk. Judgement is also exercised in the choice of modelling approaches covering other parameters used when calculating the expected losses, such as the expected lifetime used in stage 2, as well as in the assessment of whether the parameters based on historical experience are relevant for estimating future losses.

The statistical models used to calculate provisions are based on macro-economic 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.

### Effectiveness testing of cash flow hedges

Nordea Eiendomskreditt's accounting policies for cash flow hedges are described in section 8 "Hedge accounting".

One important judgement in connection to cash flow hedge accounting is the choice of method used for effectiveness testing.

Where Nordea Eiendomskreditt applies cash flow hedge accounting the hedging instruments used are predominantly cross currency interest rate swaps, which are always held at fair value. The currency component is designated as a cash flow hedge of currency risk and the interest component as a fair value hedge of interest rate risk. The hypothetical derivative method is used when measuring the effectiveness of these cash flow hedges, meaning that the change in a perfect hypothetical swap is used as proxy for the present value of the cumulative change in expected future cash flows on the hedged transaction (the currency component). Critical judgement has to be exercised when defining the characteristics of the perfect hypothetical swap.

### Critical judgements emphasized by Covid-19

Nordea Eiendomskreditt has applied significant critical judgements in the preparation of the annual report 2020 due to the significant uncertainties concerning the potential long-term impact of Covid-19 on Nordea Eiendomskreditt's financial statements. Areas particularly important are the fair value measurement of certain financial instruments and impairment testing of loans to the public.

Critical judgements are applied when determining the fair value of financial instruments that lack quoted prices or recently observed market prices. In all of these instances, decisions are based on professional judgement in accordance with Nordea's accounting and valuation policies. More information on financial instruments held at fair value on Nordea's balance sheet can be found in Note 18.

Critical judgement has been applied in the assessment of when loans have experienced a significant increase in credit risk (staging) and in the application of macro scenarios when estimating the increase in expected credit losses. More information on the impairment of loans to the public can be found in Note 9 Loans and impairment.

### Net fee and commission income

The company's fee income is treated as administration fees for maintaining customer accounts related to customers' mortgage loans, and is recognised to income as part of the item ”Fee and commission income” in accordance with standard Nordea policy.

Commission expenses are mainly transaction based and recognised in the period the services are received.

### Net result from items at fair value

Realised and unrealised gains and losses on financial instruments measured at fair value through profit or loss, include interest-bearing securities and derivatives and are recognised in the item “Net result from items at fair value”.

This item also includes realised gains and losses from financial instruments measured at amortised cost, such as interest compensation received and realised gains/losses on buy-backs of issued own debt.

Impairment losses from instruments within other categories than “Financial assets at fair value through profit or loss” are recognised in the item “Loan losses” (see also the sub-section “Loan losses” below).

### Loan losses

Impairment losses from financial assets classified into the category “Amortised cost” (see section 10 “Financial instruments”), in the item “Loans to the public” in the balance sheet, are reported as “Loan losses”. Losses are reported net of any collateral and other credit enhancements. Nordea Eiendomskreditt's accounting policies for the calculation of impairment losses on loans can be found in section 11 “Loans to the public/credit institutions”.

Counterparty losses on instruments classified into the category “Financial assets at fair value through profit or loss” are reported under “Net result from items at fair value”.

## 5. Recognition of operating income and impairment

### Net interest income

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. The effective interest includes fees considered to be an integral part of the effective interest rate of a financial instrument (generally fees received as compensation for risk). The effective interest rate equals the rate that discounts the estimated future cash flows to the net carrying amount of the financial asset or financial liability.

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

Interest income is presented on two rows in the income statement, Interest income calculated using the effective interest rate method and Other interest income. On the row Interest income calculated using the effective interest method, Nordea present interest income from financial assets measured at amortised cost or at fair value through other comprehensive income. This line items also includes the effect from hedge accounting relating to these assets. All other interest income is presented as on the income statement row Other interest income.

## 6. Recognition and derecognition of financial instruments on the balance sheet

Derivative instruments, quoted securities and foreign exchange spot transactions are recognised on and derecognised (and an asset or a liability is recognised as “Other assets” or ”Other liabilities” on the balance sheet between trade date and settlement date) from the balance sheet on the trade date. Other financial instruments are recognised in the balance sheet on settlement date.

Financial assets, other than those for which trade date accounting is applied, 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 counterpart has performed by e.g. repaying a loan to Nordea Eiendomskreditt, i.e. on settlement date.

Loans where cash flows are modified or part of a restructuring are derecognised, and a new loan recognised, if the terms and conditions of the new loan is substantially different from the old loan. This is normally the case if the present value of the cash flows of the new loan discounted by the original interest rate is more than 10% different from the present value of the remaining expected cash flows of the old loan. The same principles apply to financial liabilities.

Financial liabilities are derecognised from the balance sheet when the liability is extinguished. Normally this occurs when Nordea Eiendomskreditt performs, e.g. when Nordea Eiendomskreditt repays a deposit to the counterpart, i.e. on settlement date.

# 7. Translation of assets and liabilities denominated in foreign currencies

The functional currency for Nordea Eiendomskreditt is NOK. Foreign currency is defined as any currency other than the functional currency of the entity. Foreign currency transactions are recorded at the exchange rate on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate on the balance sheet date. Nordea Eiendomskreditt has items only in GBP and EUR in addition to Norwegian kroner. For exchange rates at 31 December 2020, see section 17 Exchange rates.

Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction, and unrealised translation differences on unsettled foreign currency monetary assets and liabilities, are recognised in the income statement in the item "Net result on items at fair value".

# 8. Hedge accounting

As a part of Nordea Eiendomskreditt's risk management policy, Nordea Eiendomskreditt has identified a series of risk categories with corresponding hedging strategies using derivative instruments, as set out in the Board of Directors' report.

When a hedging relationship meets the specified hedge accounting criteria set out in IAS 39, Nordea Eiendomskreditt applies two types of hedge accounting:

- Fair value hedge accounting
- Cash flow hedge accounting

Nordea Eiendomskreditt has elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with the carve out version of IAS 39.

The EU carve out version enables a group of derivatives (or proportions thereof) to be viewed in combination and be designated as the hedging instrument. It also removes some of the limitations in fair value hedge accounting relating to hedging core deposits and under-hedging strategies.

At inception, Nordea Eiendomskreditt formally documents how the hedging relationship meets the hedge accounting criteria, including the economic relationship between the hedged item and the hedging instrument, the nature of the risk, the risk management objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship on an ongoing basis.

The application of hedge accounting requires the hedge to be highly effective. A hedge is regarded as highly effective if at inception and throughout its life it can be expected that changes in fair value of the hedged item, as regards the hedged risk can be essentially offset by changes in fair value of the hedging instrument. The result should be within a range of 80–125 per cent.

Transactions that are entered into in accordance with Nordea Eiendomskreditt's hedging objectives but do not qualify for hedge accounting, are economic hedge relationships.

## Fair value hedge accounting

Fair value hedge accounting is applied when derivatives are hedging changes in fair value of a recognised asset or liability attributable to a specific risk. The risk of changes in fair value of assets and liabilities in Nordea Eiendomskreditt's financial statements originates from loans with a fixed interest rate, causing interest rate risk in accordance with Nordea Eiendomskreditt's risk management policies set out in the Board of Directors' report. The risk of changes in fair value of assets and liabilities in Nordea Eiendomskreditt's financial statements originates mainly from loans, securities and deposits with a fixed interest rate, causing interest rate risk. Changes in fair value from derivatives as well as changes in fair value of the hedged item attributable to the risks being hedged, are recognised separately in the income statement in the item "Net result on items at fair value". Given the hedge is effective, the changes in fair value of the hedged item and the hedging instrument will offset each other.

The changes in fair value of the hedged item attributable to the risks hedged with the derivative instrument are reflected in an adjustment to the carrying amount of the hedged item, which is also recognised in the income statement. The fair value change of the hedged items held at amortised cost in a portfolio hedge of interest rate risks is reported separately from the portfolio in the item "Fair value changes of the hedged items in portfolio hedge of interest rate risk in the balance sheet".

Fair value hedge accounting in Nordea Eiendomskreditt is performed mainly on a portfolio basis. Any ineffectiveness is recognised in the income statement under the item "Net result on items at fair value".

*Hedged items*
A hedged item in a fair value hedge can be a recognised single asset or liability, an unrecognised firm commitment, or a portion thereof. The hedged item can also be a group of assets, liabilities or firm commitments with similar risk characteristics. Hedged items in Nordea Eiendomskreditt consist of both individual and portfolios of assets and liabilities.

*Hedging instruments*
The hedging instruments used in Nordea Eiendomskreditt are interest rate swaps and cross currency interest rate swaps, which are always held at fair value.

*Hedge effectiveness*
When assessing hedge effectiveness retrospectively Nordea Eiendomskreditt measures the fair value of the hedging instruments and compares the change in fair value of the hedging instrument to the change in fair value of the hedged item. The effectiveness measurement is made on a cumulative basis.

If the hedging relationship does not fulfil the hedge accounting requirements, the hedge accounting is terminated. For fair value hedges the hedging instrument is reclassified to a trading derivative and the change in the fair value of the hedged item, up to the point when the hedge relationship is terminated, is amortised to the income statement on a straight-line basis over the remaining maturity of the hedged item.

Hedge ineffectiveness can arise from:

- Differences in timing of cash flows of hedged items and hedging instruments

- Different interest rate curves applied to discount the hedged items and hedging instruments
- The effect of changes in Nordea's or a counterparty's credit risk on the fair value of the hedging instrument or hedged items
- Disparity between expected and actual prepayments of the loan portfolio

### Cash flow hedge accounting

In accordance with Nordea's risk management policies cash flow hedge accounting is applied when hedging the exposure to variability in future interest payments on instruments with variable interest rates and for the hedging of currency exposures. The portion of the gain or loss on the hedging instrument, that is determined to be an effective hedge, is recognised in other comprehensive income and accumulated in the cash flow hedge reserve in equity. The ineffective portion of the gain or loss on the hedging instrument is recycled to the item "Net result from items at fair value in the income statement".

Gains or losses on hedging instruments recognised in the cash flow hedge reserve in equity through other comprehensive income are recycled through other comprehensive income and recognised in the income statement in the same period as the hedged item affects profit or loss, normally in the period that interest income or interest expense is recognised.

*Hedged items*

A hedged item in a cash flow hedge can be highly probable floating interest rate cash flows from recognised assets or liabilities or from future assets or liabilities. Nordea Eiendomskreditt uses cash flow hedges when hedging currency risk in future payments of interest and principal in foreign currency.

*Hedging instruments*

The hedging instruments used in Nordea Eiendomskreditt are cross currency basis swaps which are always held at fair value, where the currency component is designated as a cash flow hedge of currency risk and the interest component as a fair value hedge of interest rate risk.

*Hedge effectiveness*

The hypothetical derivative method is used when measuring the effectiveness retrospectively of cash flow hedges, meaning that the change in a perfect hypothetical swap is used as proxy for the present value of the cumulative change in expected future cash flows from the hedged transaction (the currency component).

If the hedging relationship does not fulfil the hedge accounting requirements, the hedge accounting is terminated. Changes in the unrealised value of the hedging instrument will prospectively from the last time it was proven effective be accounted for in the income statement. The cumulative gain or loss on the hedging instrument that has been recognised in the cash flow hedge reserve in equity through other comprehensive income from the period when the hedge was effective is reclassified from equity to "Net result from items at fair value" in the income statement if the expected transaction no longer is expected to occur.

If the expected transaction no longer is highly probable, but is still expected to occur, the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income from the period when the hedge was effective remains in other comprehensive income until the transaction occurs or is no longer expected to occur.

The possible sources of ineffectiveness for cash flow hedges are generally the same as for those for fair value hedges described above. However, for cash flow hedges, prepayment risk is less relevant, and the causes of hedging ineffectiveness arise from the changes in the timing and the amount of forecast future cash flows.

## 9. Determination of fair value of financial instruments

Financial assets and liabilities classified into the categories "Financial assets/liabilities at fair value through profit or loss" (including derivative instruments) are recorded at fair value in the balance sheet with changes in fair value recognised in the income statement in the item "Net result from items at fair value".

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 the fair value of 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 on-going basis. The absolute level for liquidity and volume required for a market to be considered 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.

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, e.g. quoted prices from exchange, the counterparty´s valuations, price data from consensus services etc. Nordea Eiendomskreditt is using valuation techniques to establish fair value for interest bearing securities and OTC-derivatives.

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 Eiendomskreditt considers data that can be collected from generally available external sources and where this data is judged to represent realistic market prices. If non-observable data has 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 becomes observable.

Note 18 Assets and liabilities at fair value provides a breakdown of fair values of financial instruments measured on the basis of:
• quoted prices in active markets for the same instrument (level 1),
• valuation techniques using observable data (level 2), and
• valuation techniques using non-observable data (level 3).

The valuation models applied by the Nordea Group are consistent with accepted economic methodologies for pricing financial instruments, and incorporate the factors that market participants consider when setting a price. New valuation models are subject to approval by Model Risk Management Committee and all models are reviewed on a regular basis.

# 10. Financial instruments

## Classification of financial instruments

Each financial instrument in Nordea Eiendomskreditt has been classified into one of the following categories:

Financial assets:
• Amortised cost
• Financial assets at fair value through profit or loss:
– Mandatorily measured at fair value through profit and loss

• Financial asset at fair value through other comprehensive income

Financial liabilities:
• Amortised cost
• Financial liabilities at fair value through profit or loss:
– Mandatorily measured at fair value through profit and loss
– Designated at fair value through profit or loss (fair value option)

The classification of a financial assets is dependent on the business model for the portfolio where 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 principle and interest (SPPI) are measured at fair value through profit and loss. All other assets are classified based on the business model. Instruments included in a portfolio with a business model where the intention is to keep the instruments and collect contractual cash flows are measured at amortised cost. Instruments included in a business model where the intention is to both keep the instruments to collect the contractual cash flows and sell the instruments are measured at fair value through other comprehensive income. Financial assets included in any other business model are measured at fair value through profit and loss.

In order to assess the business model, Nordea Eiendomskreditt has divided its financial assets into portfolios and/or sub-portfolios based on how groups of financial assets are managed together to achieve a particular business objective. To derive the right level on which portfolios are determined, Nordea has taken the current business area structure into account. When determining the business model for each portfolio Nordea has analysed the objective with the financial assets as well as for instance past sales behaviour and management compensation.

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. In the table "Classification of assets and liabilities under IFRS 9" above the classification of the financial instruments on Nordea Eiendomskreditt's balance sheet into the different categories under IFRS 9 is presented.

*Amortised cost*

Financial assets and liabilities measured at amortised cost are initially recognised on the balance sheet at fair value, including transaction costs. Subsequent to initial recognition, the instruments within this category are measured at amortised cost. In an amortised cost measurement, the difference between acquisition cost and redemption value is amortised in the income statement over the remaining term using the effective interest rate method. Amortised cost is defined as the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and for financial assets, adjusted for any loss allowance. For more information about the effective interest rate method see section 5, "Recognition of operating income and impairment". For information about impairment under IFRS 9, see section 11 below.

Interest on assets and liabilities classified at amortised cost is recognised in the item "Interest income" and "Interest expense" in the income statement.

*Financial assets and financial liabilities at fair value through profit or loss*

Financial assets and financial liabilities at fair value through profit or loss are measured at fair value, excluding transaction costs. All changes in fair values are recognised directly in the income statement in the item "Net result from items at fair value".

The category consists of two sub-categories; Mandatorily measured at fair value through profit and loss and Designated at fair value through profit or loss (fair value option).

The sub-category Mandatorily measured at fair value through profit and loss consist of interest-bearing securities and derivative instruments.

## Derivatives

All derivatives are recognised in 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 "Derivatives" on the asset side. Derivatives with total negative fair values, including any accrued interest, are recognised as liabilities in the item "Derivatives" on the liability side.

Realised and unrealised gains and losses from derivatives are recognised in the income statement in the item "Net result on items at fair value".

## Offsetting of financial assets and liabilities

Nordea Eiendomskreditt 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 bankruptcy, and if the intent is to settle the items net or realise the asset and settle the liability simultaneously.

# 11. Loans to the public/credit institutions

*Scope*
Financial instruments classified as Amortised cost or Fair value through other comprehensive income are in scope for recognising impairment due to credit risk. This includes assets recognized on the balance sheet as "Loans to central banks", Loans to credit institutions", "Loans to the public" and "Interest-bearing securities". These balance sheet lines also include assets classified as Fair value through profit or loss, which are not in scope for impairment calculations. See section 5 above and Note 17 on "Classification of financial instruments".

Off-balance sheet commitments, contingent liabilities and loan commitments are also in scope for impairment calculations.

*Recognition and presentation*
Amortised cost assets are recognised gross with an offsetting allowance for the expected credit losses if the loss is not regarded as final. 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 "Loan losses".

If the impairment loss is regarded as final, it is reported as a realised loss and the carrying amount of the loan and the related allowance for impairment loss are derecognised. An impairment loss is regarded as final when the obligor is filed for bankruptcy and the administrator has declared the economic outcome of the bankruptcy procedure, or when Nordea Eiendomskreditt forgives its claims either through a legal based or voluntary reconstruction, or when Nordea, for other reasons, deem it unlikely that the claim will be recovered.

Provisions for off-balance sheet exposures are classified as "Provisions" on the balance sheet, with changes in provisions classified as "Loan losses".

*Impairment testing*
Nordea Eiendomskreditt 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 defaulted assets. Nordea 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 applies the same definition of default as the Capital Requirements Regulation. More information on the identification of loss events can be found in the Risk, Liquidity and Capital management section of the Board of Director's report. Exposures without individually calculated allowance will be covered by the model based impairment calculation.

For significant exposures that have been individually identified as credit impaired, the measurement of the impairment loss is made on an individual basis. The carrying amount of the exposure is compared with the sum of the net present value of expected future cash flows. If the carrying amount is higher, the difference is recognised as an impairment loss. The expected cash flows are discounted with the original effective interest rate and include the fair value of the collaterals and other credit enhancements. The estimate is based on three different forward-looking scenarios that are probability weighted to derive the net present value.

For insignificant exposures that have been individually identified as credit impaired, the measurement of the impairment loss is measured using the model described below, based on the fact that the exposures are already in default.

*Model based allowance calculation*
For exposures not impaired on an individual basis, a statistical model is used for calculating impairment losses. The provisions are calculated as the exposure at default times the probability of default times the loss given default. For assets in stage 1 this calculation is only based on the coming 12 months, while it for assets in stage 2 and 3 are based on the expected lifetime of the asset.

The provisions for exposures where there has been no significant increase in credit risk since initial recognition are based on the 12-month expected loss (stage 1). Provisions for exposures where there has been a significant increase in credit risk since initial recognition, but that are not credit impaired, are based on the lifetime expected losses (stage 2). This is also the case for the insignificant credit impaired exposures in stage 3.

Nordea Eiendomskreditt uses two different models to identify whether there has been a significant increase in credit risk or not. For assets held at transition 1 January 2018, the change in internal rating and scoring data is used to determine whether there has been a significant increase in credit risk or not.

Internal rating/scoring information is used to assess the risk of the customers and a deterioration in rating/scoring indicates an increase in the credit risk of the customer. Nordea has concluded it is not possible to calculate the lifetime PDs at origination without the use of hindsight for assets already recognised on the balance sheet at transition. Changes to the lifetime Probability of Default (PD) is used as the trigger for assets recognised after transition.

For assets evaluated based on lifetime PDs, Nordea Eiendomskreditt uses a mix of absolute and relative changes in PD as the transfer criterion. Assets where the relative increase in lifetime PD is more than 250 percent is considered as having a significant increase in credit risk, or if the absolute increase in lifetime PD is more than 150 basis points. For assets where rating and scoring models are used, the change in rating/scoring notches is calibrated to match the significant increase in credit risk based on lifetime PD. In addition, customers with forbearance measures and customers with payments more than thirty days past due are also transferred to stage 2, unless already identified as credit impaired (stage 3). Exposures with forbearance measures will stay in stage 2 for a probation period of 24 months from when the measures were introduced. Once transferred back to stage 1, after the probation period, the exposures are treated as any other stage 1 exposure when assessing significant increase in credit risk. Exposures more than 90 days past due will normally be classified as stage 3, but this classification will be rebutted if there is evidence the customer is not in default. Such exposures will be classified as stage 2.

Nordea Eiendomskreditt does not use the "low credit risk exemption" in the banking operations, however uses it for a minor portfolio of interest-bearing securities in the insurance operations.

When calculating provisions, including the staging assessment, the calculation is based on probability weighted forward looking information. Nordea applies three macro-economic 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 provisions.

*Write-offs*
A write-off is a de-recognition of a loan or receivable from the balance sheet and a final realisation of a credit loss provision. When assets are considered as uncollectable they should be written off as soon as possible, regardless of whether the legal claim remains or not. A write-off can take place before legal actions against the borrower to recover the debt have been concluded in full. Although an uncollectable asset is removed or written-off from the balance sheet, the customer remains legally obligated to pay the outstanding debt. When assessing the recoverability of non-performing loans and determining if write-offs are required, exposures with the following characteristics are in particular focus (list not exhaustive):

- Exposures past due more than 90 days. If, following this assessment, an exposure or part of an exposure is deemed as unrecoverable, it is written-off.
- Exposures under insolvency procedure where the collateralisation of the exposure is low.
- Exposures where legal expenses are expected to absorb proceeds from the bankruptcy procedure and therefore estimated recoveries are expected to be low.
- A partial write-off may be warranted where there is reasonable financial evidence to demonstrate an inability of the borrower to repay the full amount, i.e. a significant level of debt which cannot be reasonably demonstrated to be recoverable following forbearance treatment and/or the execution of collateral.
- Restructuring cases.

*Discount rate*
The discount rate used to measure impairment is the original effective interest rate for loans attached to an individual customer or, if applicable, to a group of loans. If considered appropriate, the discount rate can be based on a method that results in an impairment that is a reasonable approximation of using the effective interest rate method as basis for the calculation.

*Restructured loans and modifications*
In this context a restructured loan is defined as a loan where Nordea has granted concessions to the obligor due to its financial difficulties and where this concession has resulted in an impairment loss for Nordea. After a reconstruction the loan is normally regarded as not impaired if it performs according to the new conditions. In the event of a recovery the payment is reported as a recovery of loan losses.

Modifications of the contractual cash flows for loans to customers in financial difficulties (forbearance) reduce the gross carrying amount of the loan. Normally this reduction is less than the existing provision and no loss is recognized in the income statement due to modifications. If significant, the gross amounts (loan and allowance) are reduced.

*Assets taken over for protection of claims*
In a financial reconstruction the creditor may concede loans to the obligor and in exchange for this concession acquire an asset pledged for the conceded loans, shares issued by the obligor or other assets. Assets taken over for protection of claims are reported on the same balance sheet line as similar assets already held by Nordea. For example, a property taken over, not held for Nordea's own use, is reported together with other investment properties.

At initial recognition, all assets taken over for protection of claims are recognized at fair value and the possible difference between the carrying amount of the loan and the fair value of the assets taken over is recognized as "Loan losses". The fair value of the asset on the date of recognition becomes its cost or amortised cost value, as applicable. In subsequent periods, assets taken over for protection of claims are valued in accordance with the valuation principles for the appropriate type of asset. Financial assets that are foreclosed are generally classified into the categories Fair value through profit or loss and measured at fair value. Changes in fair values are recognized in the income statement under the line "Net result from items at fair value".

Any change in value, after the initial recognition of the asset taken over, is presented in the income statement in line with the Group's presentation policies for the appropriate asset. "Loan losses" in the income statement is, after the initial recognition of the asset taken over, consequently not affected by any subsequent remeasurement of the asset.

## 12. Taxes

The item "Income tax expense" in the income statement comprises current and deferred income tax. The income tax expense is recognised in the income statement, except to the extent that 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 or substantially 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 amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

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 loss 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.

## 13. Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to shareholders of Nordea Eiendomskreditt by the weighted average number of ordinary shares outstanding during the period.

## 14. Employee benefits

All forms of consideration given by Nordea Eiendomskreditt to its employees as compensation for services performed are employee benefits. Short-term benefits are to be settled within twelve 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 in the company consist only of pensions.

### 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 Eiendomskreditt. More information can be found in Note 5 Staff costs.

### Post-employment benefits

*Pension plans*

The company's liabilities in respect of its retirement benefit obligations to its employees are mainly funded schemes covered by assets in pension funds. If the fair value of plan assets, associated with a specific pension plan, is lower than the gross present value of the defined benefit obligation, determined using the projected unit credit method, the net amount is recognised as a liability ("Retirement benefit obligations"). If not, the net amount is recognised as an asset ("Retirement benefit assets"). Non-funded pension plans are recognised as "Retirement benefit obligations".

*Pension costs*

Obligations for defined contribution pension plans are recognised as an expense as the employee renders services to the entity and the contribution payable in exchange for that service becomes due. Nordea Eiendomskreditt's net obligation for defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned for their service in the current and prior periods. That benefit is discounted to determine its present value. Actuarial calculations including the projected unit credit method are applied to assess the present value of defined benefit obligations and related costs, based on several actuarial and financial assumptions (as disclosed in Note 13 Retirement benefit obligations).

When establishing the present value of the obligation and the fair value of any plan assets, remeasurement effects may arise as a result of changes in actuarial assumptions and experience effects (actual outcome compared to assumptions). The remeasurement effects are recognised immediately in equity through other comprehensive income.

When the calculation results in a benefit, the recognised asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan.

Social security contribution is calculated and accounted for based on the net recognized surplus or deficit by the plan and is included in the balance sheet as "Retirement benefit obligations" or "Retirement benefit assets".

*Discount rate in Defined Benefit Plans*

The discount rate is determined by reference to high quality corporate bonds, where a deep enough market for such bonds exists. Covered bonds are in this context considered to be corporate bonds. In Norway, the discount rate is determined with reference to covered bonds.

## 15. Equity

### Share premium reserve

The share premium reserve consists of the difference between the subscription price and the quota value of the shares in Nordea Eiendomskreditt's rights issue. Transaction costs in connection to the rights issue have been deducted.

### Other reserves

Other reserves comprise income and expenses, net after tax effects, which are reported in equity through other comprehensive income. These reserves include reserves for cash flow hedges and accumulated remeasurements of defined benefit pension plans.

### Retained earnings

Apart from undistributed profits from previous years, retained earnings may also include the equity portion of untaxed reserves. Untaxed reserves according to national rules are accounted for as equity net of deferred tax at prevailing tax rates in the respective country.

## 16. Related party transactions

Nordea Eiendomskreditt defines related parties as:

- Shareholders with significant influence

- Other Nordea Group companies

- Key management personnel

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

### Shareholders with significant influence

At 31 December 2020 Nordea Bank Abp owned 100% of the share capital of Nordea Eiendomskreditt AS and has significant influence.

### Other Nordea Group Companies

Other Nordea Group Companies means the group parent company Nordea Bank Abp and its subsidiaries.

### Key management personnel

Key management personnel include the following positions:

- The Board of Directors

- The Chief Executive Officer (CEO)

For information about compensation, pensions and other transactions with key management personnel, see Note 5 Staff costs.

Information concerning transactions between Nordea Eiendomskreditt and other companies in the group is found in Note 21 Related-party transactions.

## 17. Exchange rates

| GBP 1 = NOK | 2020 | 2019 |
|---|---|---|
| Income statement (average) | 12,0664 | 11,2403 |
| Balance sheet (at end of period) | 11,6589 | 11,5975 |

| EUR 1 = NOK | | |
|---|---|---|
| Income statement (average) | 10,7291 | 9,8521 |
| Balance sheet (at end of period) | 10,4703 | 9,8463 |

# Note 2
# Segment information

The activities of Nordea Eiendomskreditt AS represent a single segment. This is a result of the manner in which the company is organised and managed, including the system for internal reporting whereby the business is to all practical purposes managed as a single segment. The services provided by Nordea Eiendomskreditt AS are judged to be subject to the same risks and yield requirements. Nordea Eiendomskreditt AS is part of the Personal Banking segment of the Nordea group.

# Note 3
# Net interest income

| NOKt | 2020 | 2019 |
|---|---|---|
| Interest income calculated using the effective interest rate method | 5 491 474 | 5 448 036 |
| Other interest income | 51 735 | 79 642 |
| Interest expense | -3 144 447 | -3 648 236 |
| **Net Interest income** | **2 398 762** | **1 879 442** |
| | | |
| **Interest income calculated using the effective interest rate method** | | |
| Loans to credit institutions | 2 186 | 6 512 |
| Loans to customers | 5 449 585 | 5 418 416 |
| Yield fees and interest on hedges of assets | 39 703 | 23 108 |
| **Interest income calculated using the effective interest rate method** | **5 491 474** | **5 448 036** |
| | | |
| **Other interest income** | | |
| Interest-bearing securities measured at fair value | 51 735 | 79 642 |
| **Other interest income[1]** | **51 735** | **79 642** |
| | | |
| **Interest expense** | | |
| Deposits by credit institutions | -1 498 762 | -1 793 429 |
| Debt securities in issue | -1 831 671 | -1 942 580 |
| Subordinated loan capital | -61 820 | -69 644 |
| Other interest expenses[1] | 247 806 | 157 418 |
| **Interest expense** | **-3 144 447** | **-3 648 236** |

**Interest from categories of financial instruments**

| NOKt | 2020 | 2019 |
|---|---|---|
| Financial assets at amortised cost | 5 505 765 | 5 455 624 |
| Financial assets at fair value through profit or loss (related to hedging instruments)[1] | -14 291 | -7 588 |
| Financial assets at fair value through profit or loss | 51 735 | 79 642 |
| Financial liabilities at amortised cost | -3 482 636 | -3 857 803 |
| Financial liabilities at fair value through profit or loss | 338 189 | 209 568 |
| **Net interest income** | **2 398 762** | **1 879 442** |

[1] Includes net interest income from derivatives, measured at fair value and related to Nordea Eiendomskreditt's funding. This can have both a positive and negative impact on other interest expense, for further information see Note 1 Accounting policies.

# Note 4
# Net result from items at fair value

**Net gains/losses for categories of financial instruments**

| NOKt | 2020 | 2019 |
|---|---|---|
| Financial instruments at FVPL - Mandatorily[1] | -21 292 | -21 278 |
| Financial instruments under hedge accounting | -12 800 | -9 591 |
| - of which net gains/losses on hedged items | -504 547 | 154 902 |
| - of which net gains/losses on hedging instruments | 491 747 | -164 493 |
| Other financial instruments | 0 | 0 |
| **Total** | **-34 092** | **-30 869** |

[1]Financial Instruments at "Fair value through profit and loss (FVPL) - Mandatorily" comprises of interest bearing securities and derivatives held for economic hedging, which do not meet the requirements for hedge accounting according to IAS 39.

# Note 5
## Staff costs

| NOKt | 2020 | 2019 |
|---|---|---|
| Salaries and remunerations | 16 406 | 14 345 |
| Pension costs (note 13) | 2 509 | 2 112 |
| Social security contributions | 3 566 | 3 099 |
| Allocation to profit-sharing [1] | 149 | 112 |
| Other staff costs | 324 | -228 |
| **Total** | **22 954** | **19 440** |

[1] Allocation to profit-sharing foundation in 2020 consisted of a new allocation of NOK 303t and release of NOK 154t related to prior years. In 2019 new allocation amounted to NOK 255t and NOK 143t w as related to prior years.

| **Number of employees/full time positions** | **2020** | **2019** |
|---|---|---|
| Number of employees at 31 Dec | 18 | 17 |
| Number of full time equivalents at 31 Dec | 17,5 | 16,5 |
| | | |
| **Gender distribution of Board members** (percentage at year end) | | |
| - Men | 33 % | 50 % |
| - Women | 67 % | 50 % |

**Explanations of individually specified remuneration in the table below.**

**Fixed salary and fees** - relates to received regular salary for the financial year paid by Nordea Eiendomskreditt AS.

**Variable salary -** includes profit sharing and executive bonuses. All employees receive profit sharing according to common Nordea strategy.

**Benefits** - includes insurance and electronic communication allow ance.

**Pensions -** includes changes in the individual's accrued rights under the pension plan during the financial year. The amount stated is the annual change in the present value of the pension obligations (PBO) exclusive of social security tax, w hich best reflects the change in pension rights for the financial year.

| **31 Dec 2020, NOKt**<br>**Executive management of Nordea Eiendomskreditt AS** | **Fixed salary and fees** | **Variable salary** | **Other benefits** | **Pensions** | **Total remunerations** |
|---|---|---|---|---|---|
| Børre Sten Gundersen, CEO | 1 577 | 630 | 292 | 223 | 2 722 |
| **Total for the executive management** | **1 577** | **630** | **292** | **223** | **2 722** |
| | | | | | |
| **Board of Directors of Nordea Eiendomskreditt AS** | | | | | |
| Gro Elisabeth Lundevik | 27 | | | | 27 |
| Alex Madsen | 130 | | | | 130 |
| **Total for the directors of Nordea Eiendomskreditt AS** | **157** | **-** | **-** | **-** | **157** |
| | | | | | |
| **Total remuneration of executive management and elected officers of Nordea Eiendomskreditt AS** | **1 734** | **630** | **292** | **223** | **2 879** |

No director's fee is paid to directors w ho are employees of the Nordea group. The fees show n in the table are fees paid in 2020 for services provided in 2019.

Nordea Eiendomskreditt has provided mortgage loans to its employees, but loans to the executive management are made from the balance sheet of Nordea Bank Norw ay.

The company has not entered into any agreements that entitle the Managing Director or the Chairman of the Board to spesific compensation in the event of any change in their employment or office.

| **31 Dec 2019, NOKt**<br>**Executive management of Nordea Eiendomskreditt AS** | **Fixed salary and fees** | **Variable salary** | **Other benefits** | **Pensions** | **Total remunerations** |
|---|---|---|---|---|---|
| Børre Sten Gundersen, CEO | 1 570 | 589 | 180 | 213 | 2 553 |
| **Total for the executive management** | **1 570** | **589** | **180** | **213** | **2 553** |
| | | | | | |
| **Board of Directors of Nordea Eiendomskreditt AS** | | | | | |
| Eva I. E. Jarbekk | 19 | | | | 19 |
| Alex Madsen | 100 | | | | 100 |
| **Total for the directors of Nordea Eiendomskreditt AS** | **119** | **-** | **-** | **-** | **119** |
| | | | | | |
| **Total remuneration of executive management and elected officers of Nordea Eiendomskreditt AS** | **1 689** | **589** | **180** | **213** | **2 672** |

# Note 6
## Other expenses

| NOKt | 2020 | 2019 |
|---|---|---|
| Information technology | 5 210 | 5 256 |
| Services bought from Group companies | 863 495 | 572 390 |
| Auditor's fee | 1 016 | 985 |
| Resolution fees | 15 849 | 19 870 |
| Other operating expenses | 8 533 | 5 150 |
| **Total** | **894 103** | **603 650** |

Auditor's fee for 2020 comprise NOKt 1 016 incl.VAT, of w hich NOKt 997 relates to audit w ork and NOKt 19 relates to other services.

# Note 7
## Loan losses

**Based on IFRS 9**

| NOKt | 2020 | 2019 |
|---|---|---|
| Net loan losses, Stage 1 | 28 779 | 1 768 |
| Net loan losses, Stage 2 | 33 737 | -2 904 |
| **Total loan losses, non-defaulted** | **62 515** | **-1 136** |
| **Stage 3, defaulted** | | |
| Net loan losses, individually assessed, collectively calculated | 34 123 | -2 495 |
| Realised loan losses | 8 103 | 7 514 |
| Decrease of provisions to cover realised loan losses | -4 026 | -3 766 |
| Recoveries on previous realised loan losses | 0 | 0 |
| New /increase in provisions | 0 | 1 312 |
| Reversals of provisions | -2 426 | -3 251 |
| **Net loan losses, defaulted** | **35 775** | **-686** |
| **Net loan losses** | **98 290** | **-1 823** |

**Key ratios**

| | 2020 | 2019 |
|---|---|---|
| Loan loss ratio, basis points | 3,82 | -0,09 |
| - of w hich stage 1 | 1,12 | 0,09 |
| - of w hich stage 2 | 1,31 | -0,15 |
| - of w hich stage 3 | 1,39 | -0,03 |

# Note 8
# Taxes

**Income tax expense**

| NOKt | 2020 | 2019 |
|---|---|---|
| Current tax[1] | 391 569 | 309 179 |
| Deferred tax[2] | -35 324 | 14 094 |
| **Total** | **356 245** | **323 273** |
| [1] of which relating to prior years | 8 210 | -34 |
| [2] of which relating to prior years | -8 143 | |
| Total | 67 | -34 |

| **Current and deferred tax recognised in Other comprehensive income** | | |
|---|---|---|
| Deferred tax on remeasurements of pension obligations DBP | 1 213 | 2 106 |
| Deferred tax relating to cash flow hedges | -4 868 | -7 262 |
| **Total** | **-3 655** | **-5 156** |

Tax on the company's operating profit may differ from the theoretical amount that w ould arise using the tax rate in Norw ay, as follow s:

| NOKt | 2020 | 2019 |
|---|---|---|
| Profit before tax | 1 424 056 | 1 293 102 |
| Tax calculated at a tax rate of 25% | -356 014 | -323 276 |
| Tax exempt income | 0 | 46 |
| Change of tax rate [1] | 0 | 0 |
| Adjustments related to prior years | -67 | -34 |
| **Total tax charge** | **-356 245** | **-323 273** |
| Average effective tax rate | -25,0 % | 25,0 % |

**Deferred tax**

| NOKt | 2020 | 2019 |
|---|---|---|
| **Deferred tax expense (-) / income (+)** | | |
| Deferred tax due to temporary differences | 27 184 | -14 094 |
| **Income tax expense, net** | **27 184** | **-14 094** |

| | Deferred tax assets | | Deferred tax liabilities | |
|---|---|---|---|---|
| NOKt | 2020 | 2019 | 2020 | 2019 |
| **Deferred tax assets/liabilities related to:** | | | | |
| Financial instruments and derivatives | | | -103 004 | -125 291 |
| Retirement benefit obligations | 6 926 | 5 722 | | |
| Property and equipment | , | | -158 | -196 |
| Other | | | | -8 255 |
| Netting betw een deferred tax assets and liabilities | -6 926 | -5 722 | 6 926 | 5 722 |
| **Total deferred tax assets/liabilities** | **0** | **0** | **-96 236** | **-128 020** |

| **Movements in deferred tax assets/liabilities net, are as follows:** | 2020 | 2019 |
|---|---|---|
| Balance at 1 January | -128 020 | -108 770 |
| Deferred tax relating to items recognised in Other comprehensive income | -3 655 | -5 156 |
| Adjustments relating to prior years | 8 255 | 0 |
| Deferred tax in the income statement | 27 185 | -14 094 |
| **Balance at 31 December** | **-96 236** | **-128 020** |

Deferred income tax assets and liabilities are offset w hen there is a legally enforceable right to offset current tax assets against current tax liabilities and w hen the deferred tax income taxes relates to the same fiscal authority.

Deferred tax totalling tNOK 96.236 is carried in the balance sheet in full since the company expects to be able to offset this against future earnings. Nordea Eiendomskreditt had no tax losses carried forw ard at 31 December 2020.

# Note 9
# Loans and impairment

| NOKt | 31 Dec 2020 | 31 Dec 2019 |
|---|---|---|
| Loans measured at amortised cost, impaired (Stage 1 and 2) | 265 461 969 | 245 194 065 |
| Impaired loans (Stage 3) | 777 534 | 784 011 |
| - Servicing | 183 567 | 238 464 |
| - Non-servicing | 593 967 | 545 547 |
| **Loans before allowances** | **266 239 503** | **245 978 076** |
| | | |
| Allowances for individually assessed impaired loans (Stage 3) | -75 304 | -47 718 |
| - Servicing | -9 092 | -5 640 |
| - Non-servicing | -66 213 | -42 078 |
| Allowances for collectively assessed impaired loans (Stage 1 and 2) | -114 948 | -55 396 |
| **Allowances** | **-190 252** | **-103 114** |
| | | |
| **Loans, carrying amount** | **266 049 251** | **245 874 963** |

Accrued interest on loans to the public is included with NOKt 197.648 at 31 December 2020.

**Reconciliation of allowance accounts for impaired loans**

| NOKt | Individually calculated | Collectively calculated | Total |
|---|---|---|---|
| **Opening balance at 1 January 2020** | **19 699** | **83 414** | **103 114** |
| Provisions | 0 | 93 592 | 93 592 |
| Reversals of previous provisions | -2 427 | 0 | -2 427 |
| Allowances used to cover realised loan losses | -4 026 | 0 | -4 026 |
| **Changes through the income statement** | **-6 453** | **93 592** | **87 139** |
| Changes due to acquisition | 0 | 0 | **0** |
| **Closing balance at 31 December 2020** | **13 246** | **177 006** | **190 252** |

[1] See also Note 7 Loan losses

| NOKt | Individually calculated | Collectively calculated | Total |
|---|---|---|---|
| **Opening balance at 1 January 2019** | **25 404** | **31 037** | **56 441** |
| Provisions | 1 312 | -5 157 | -3 845 |
| Reversals of previous provisions | -3 251 | 0 | -3 251 |
| Allowances used to cover realised loan losses | -3 766 | 0 | -3 766 |
| **Changes through the income statement** | **-5 705** | **-5 157** | **-10 862** |
| Changes due to acquisition | 0 | 57 535 | 57 535 |
| **Closing balance at 31 December 2019** | **19 699** | **83 414** | **103 114** |

# Note 9

## Loans and impairment cont.

**Carrying amount of loans measured at amortised cost, before allowances**

| | Central banks and credit institutions | | | | The public | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| **Balance as at 1 January 2020** | **267 389** | **-** | **-** | **267 389** | **231 280 284** | **13 913 779** | **784 011** | **245 978 075** |
| Changes due to origination and acquisition | - | - | - | - | 84 259 107 | 929 799 | 3 193 826 | 88 382 732 |
| Changes due to transfers between Stage 1 and Stage 2, (net) | - | - | - | - | -4 409 879 | 4 409 879 | - | - |
| Changes due to transfers between Stage 2 and Stage 3, (net) | - | - | - | - | - | 541 533 | -541 533 | - |
| Changes due to transfers between Stage 1 and Stage 3, (net) | - | - | - | - | 340 362 | - | -340 362 | - |
| Changes due to repayments and disposals | 204 223 | - | - | 204 223 | -83 652 692 | -2 034 273 | -1 239 507 | -86 926 473 |
| Changes due to write-offs | - | - | - | - | - | - | -8 111 | -8 111 |
| Other changes | - | - | - | - | 27 746 310 | -7 862 241 | -1 070 790 | 18 813 280 |
| Translation differences | - | - | - | - | - | - | - | - |
| **Closing balance at 31 December 2020** | **471 612** | **-** | **-** | **471 612** | **255 563 493** | **9 898 476** | **777 534** | **266 239 503** |

| | Central banks and credit institutions | | | | The public | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| **Balance as at 1 January 2019** | **915 581** | **-** | **-** | **915 581** | **105 022 486** | **6 369 356** | **528 112** | **111 919 954** |
| Changes due to origination and acquisition | - | - | - | - | 158 259 910 | 9 264 061 | 445 788 | 167 969 759 |
| Changes due to transfers between Stage 1 and Stage 2, (net) | - | - | - | - | -298 529 | 298 529 | - | -0 |
| Changes due to transfers between Stage 2 and Stage 3, (net) | - | - | - | - | - | 22 784 | -22 784 | 0 |
| Changes due to transfers between Stage 1 and Stage 3, (net) | - | - | - | - | -21 650 | - | 21 650 | 0 |
| Changes due to repayments and disposals | -648 192 | - | - | -648 192 | -33 821 003 | -2 193 617 | -230 885 | -36 245 505 |
| Changes due to write-offs | - | - | - | - | - | - | -7 506 | -7 506 |
| Other changes | - | - | - | - | 2 139 070 | 152 666 | 49 636 | 2 341 373 |
| Translation differences | - | - | - | - | - | - | - | - |
| **Closing balance at 31 December 2019** | **267 389** | **-** | **-** | **267 389** | **231 280 284** | **13 913 779** | **784 011** | **245 978 075** |

**Movements of allowance accounts for loans measured at amortised cost**

| | The public | | | |
|---|---|---|---|---|
| NOKt | Stage 1 | Stage 2 | Stage 3 | Total |
| **Balance as at 1 January 2020** | **-15 559** | **-39 837** | **-47 718** | **-103 114** |
| Changes due to origination and acquisition | -171 518 | -28 846 | -54 438 | -254 802 |
| Changes due to transfers from Stage 1 to Stage 2 | 2 327 | -233 261 | - | -230 933 |
| Changes due to transfers from Stage 1 to Stage 3 | 75 | - | -50 363 | -50 288 |
| Changes due to transfers from Stage 2 to Stage 1 | -8 027 | 38 388 | - | 30 361 |
| Changes due to transfers from Stage 2 to Stage 3 | - | 5 949 | -40 408 | -34 459 |
| Changes due to transfers from Stage 3 to Stage 1 | -366 | - | 1 396 | 1 030 |
| Changes due to transfers from Stage 3 to Stage 2 | - | -39 009 | 208 211 | 169 202 |
| Changes due to changes in credit risk without stage transfer | 144 388 | 209 861 | -121 018 | 233 231 |
| Changes due to repayments and disposals | 6 733 | 13 752 | 25 008 | 45 493 |
| Write-off through decrease in allowance account | - | - | 4 026 | 4 026 |
| Changes due to update in the institution's methodology for estimation (net) | - | - | - | - |
| Other changes | - | - | - | - |
| Translation differences | - | - | - | - |
| **Closing balance at 31 December 2020** | **-41 946** | **-73 003** | **-75 304** | **-190 252** |

| | The public | | | |
|---|---|---|---|---|
| NOKt | Stage 1 | Stage 2 | Stage 3 | Total |
| **Balance as at 1 January 2019** | **-4 503** | **-14 124** | **-37 814** | **-56 441** |
| Changes due to origination and acquisition | -10 158 | -5 955 | -9 336 | -25 449 |
| Changes due to transfers from Stage 1 to Stage 2 | 303 | -20 662 | - | -20 359 |
| Changes due to transfers from Stage 1 to Stage 3 | 20 | - | -3 260 | -3 240 |
| Changes due to transfers from Stage 2 to Stage 1 | -130 | 4 801 | - | 4 671 |
| Changes due to transfers from Stage 2 to Stage 3 | - | 236 | -3 884 | -3 648 |
| Changes due to transfers from Stage 3 to Stage 1 | -75 | - | 795 | 719 |
| Changes due to transfers from Stage 3 to Stage 2 | - | -517 | 1 950 | 1 433 |
| Changes due to changes in credit risk without stage transfer | -5 218 | -3 445 | -1 488 | -10 150 |
| Changes due to repayments and disposals | 1 186 | 4 147 | 4 890 | 10 223 |
| Write-off through decrease in allowance account | - | - | 3 766 | 3 766 |
| Changes due to update in the institution's methodology for estimation (net) | 3 017 | -4 319 | -3 336 | -4 638 |
| Other changes | - | - | - | - |
| Translation differences | - | - | - | - |
| **Closing balance at 31 December 2019** | **-15 559** | **-39 837** | **-47 718** | **-103 114** |

# Note 9

# Loans and impairment cont.

| Rating /scoring grade | Gross carrying amounts 31 Dec 2020 Stage 1 | Stage 2 | Stage 3 | Total | Gross carrying amounts 31 Dec 2019 Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|---|---|---|---|
| A+ | 115 074 603 | 323 664 | 12 973 | 115 411 240 | 89 823 851 | 197 158 | 11 087 | 90 032 097 |
| A | 34 548 224 | 246 969 | 14 611 | 34 809 805 | 33 605 232 | 209 118 | 9 918 | 33 824 269 |
| A- | 26 541 648 | 406 095 | 8 931 | 26 956 674 | 28 958 342 | 453 413 | 7 262 | 29 419 017 |
| B+ | 18 479 711 | 450 443 | 2 942 | 18 933 097 | 18 678 811 | 620 358 | 14 181 | 19 313 350 |
| B | 14 450 051 | 632 559 | 4 468 | 15 087 079 | 14 651 474 | 1 010 720 | 6 716 | 15 668 909 |
| B- | 8 881 723 | 777 392 | 3 211 | 9 662 327 | 9 967 688 | 1 218 400 | 9 620 | 11 195 707 |
| C+ | 5 525 272 | 820 068 | 18 880 | 6 364 221 | 6 183 404 | 1 150 321 | 7 243 | 7 340 968 |
| C | 4 468 485 | 1 033 051 | 3 311 | 5 504 847 | 5 559 163 | 1 393 397 | 6 094 | 6 958 653 |
| C- | 3 604 566 | 737 568 | 5 251 | 4 347 385 | 3 786 934 | 956 994 | 13 963 | 4 757 890 |
| D+ | 2 581 706 | 682 785 | 7 230 | 3 271 721 | 3 534 004 | 772 373 | 2 247 | 4 308 624 |
| D | 1 974 176 | 658 678 | 5 514 | 2 638 368 | 3 229 817 | 988 751 | 25 135 | 4 243 704 |
| D- | 7 688 333 | 727 600 | 17 898 | 8 433 831 | 2 041 910 | 997 145 | 10 706 | 3 049 761 |
| E+ | 4 112 305 | 588 092 | 18 940 | 4 719 337 | 7 835 808 | 984 357 | 17 244 | 8 837 408 |
| E | 720 237 | 374 441 | 3 307 | 1 097 984 | 844 143 | 640 200 | 12 600 | 1 496 942 |
| E- | 709 359 | 351 069 | 4 478 | 1 064 906 | 935 459 | 692 385 | 15 141 | 1 642 985 |
| F+ | - | - | - | - | 466 646 | 467 931 | 48 507 | 983 084 |
| F | 86 564 | 129 129 | 3 174 | 218 867 | 162 110 | 209 337 | 4 241 | 375 688 |
| F- | - | - | - | - | 545 736 | 727 993 | 11 304 | 1 285 033 |
| 0+ / 0 / 0- | 967 907 | 881 371 | 628 708 | 2 477 986 | 231 485 | 188 900 | 546 623 | 967 007 |
| Internal[1)] | - | - | - | - | 267 389 | - | - | 267 389 |
| Standardised/Unrated | 5 620 235 | 77 499 | 13 707 | 5 711 441 | 237 093 | 34 456 | 4 177 | 275 727 |
| **Total** | **256 035 105** | **9 898 476** | **777 534** | **266 711 115** | **231 547 750** | **13 913 707** | **784 008** | **246 245 465** |

[1] Exposures towards Nordea entities.

| Key ratios | 31 Dec 2020 | 31 Dec 2019 |
|---|---|---|
| Impairment rate, (stage 3) gross, basis points [1)] | 29,2 | 31,9 |
| Impairment rate (stage 3), net, basis points [2)] | 26,4 | 29,9 |
| Total allowance rate (stage 1, 2 and 3), basis points [3)] | 7,1 | 4,2 |
| Allowances in relation to credit impaired loans (stage 3), % [4)] | 9,7 | 6,1 |
| Allowances in relation to loans in stage 1 and 2 , basis points [5)] | 4,3 | 2,3 |

[1] Impaired loans (Stage 3) before allowances divided by total loans measured at amortised cost before allowances.

[2] Impaired loans (Stage 3) after allowances divided by total loans measured at amortised cost before allowances.

[3] Total allowances divided by total loans measured at amortised cost before allowances.

[4] Allowances for impaired loans (stage 3) divided by impaired loans measured at amortised cost (stage 3) before allowances.

[5] Allowances for not impaired loans (stage 1and 2) divided by not impaired loans measured at amortised cost (stage 1and 2) before allowances.

# Note 9
# Loans and impairment cont.

### Forbearance

Forbearance is eased terms or restructuring due to the borrower experiencing or about to experience financial difficulties. The intention with granting forbearance for a limited time period is to ensure full repayment of the outstanding debt. Examples of eased terms are changes in amortisation profile, repayment schedule, customer margin or eased financial covenants. Forbearance is undertaken on a selective and individual basis, approved according to Powers to Act and followed by impairment testing. Forborne exposures can be servicing or non-servicing. Individual loan loss provisions are recognised if necessary.

During 2020 Nordea Eiendomskreditt has offered Covid-19 related instalment-free periods to customers. These were generally granted to customers experiencing only short-term liquidity issues due solely to Covid-19 and were not registered as forbearance due to the temporary nature. Nordea Eiendomskreditt has now returned to the normal forbearance registration procedures, while still continuing to support customers through the crisis.

The carrying amount of loans where Nordea Eiendomskreditt had granted instalment-free periods at the end of the fourth quarter of 2020 amounted to NOK 26bn, which corresponds to 10.7% of the loan portfolio. The main part is granted as support to our customers during the Covid-19 pandemic.

| NOKt | 31 Dec 2020 | 31 Dec 2019 |
|---|---|---|
| Forborne loans | 979 611 | 783 476 |
| -of which defaulted | 116 072 | 81 571 |
| Allowances for forborne loans | 8 378 | 3 165 |
| -of which defaulted | 2 375 | 1 079 |

| Key ratios | | |
|---|---|---|
| Forberance ratio, basis points [6)] | 36,8 | 31,9 |
| Forberance coverage ratio, % [7)] | 0,9 | 0,4 |
| -of which defaulted, % | 2,0 | 1,3 |

[6] Forborne loans/Loans before allowances.

[7] Individual allowances/Forborne loans.

### Forward looking information

Forward looking information is used both for assessing significant increases in credit risk and in the calculation of expected credit losses. Nordea Eiendomskreditt uses three macroeconomic scenarios, a base scenario, a favourable scenario and an adverse scenario. For the fourth quarter of 2020 the scenarios have been weighted into the final expected credit losses (ECL) using baseline 50%, adverse 45% and favourable 5% (baseline 60%, adverse 20% and favourable 20% at year-end 2019). The weight on the adverse scenario was increased in the third quarter of 2020 to give more weight to the downside risks surrounding the expiry of customer support measures and the continuation of the pandemic. The baseline scenario was still maintained as the most probable one.

The macroeconomic scenarios are provided by Group Risk and Compliance (GRC) in Nordea, based on the Oxford Economics model. The forecast is a combination of modelling and expert judgement, subject to thorough checks and quality control processes. The model has been built to give a good description of the historical relationships between economic variables and to capture the key linkages between those variables. The forecast period in the model is ten years, and for periods beyond, a long-term average is used in the ECL calculations.

The macro scenarios reflect Nordea’s view of how the Covid-19 virus and lock-downs potentially can impact the economic outlook. The scenarios also reflect the macroeconomic effects of the government and central bank support measures. The labour market support scheme has played a significant role in supporting the Norwegian economy during last year's lock-down phases, and the support to household incomes and cost relief to companies from the labour market scheme has been substantial throughout the whole 2020. Although the economic recovery during the second half of 2020 appeared to be relatively strong, growth in 2021 is predicted to be slow, as the outlook is still clouded by a very high level of uncertainty. The roll-out of vaccines and the willingness of the Norwegian government to extend special support measures for sectors hit by new lock-downs, point to a continued but modest recovery in the baseline.

# Note 9
# Loans and impairment cont.

Some of the management judgement of NOK 121m recognized in the second quarter has been reduced to NOK 108m at the end of 2020. The calculation is based on model scenarios for stressed simulation of the ECL (Expected Credit Loss) including a downside scenario with a decline in gross domestic product (GDP) in 2021 followed by slow recoveries in 2022 and 2023. The total loan loss allowances as of 31 December 2020 was NOK 190m.

| Real GDP, % y/y | 2021 | 2022 | 2023 |
|---|---|---|---|
| Favourable scenario | 2,9 | 3,2 | 2,8 |
| Baseline scenario | 1,9 | 3,3 | 2,9 |
| Adverse scenario | -0,7 | 3,1 | 3,7 |

# Note 10
# Derivatives and hedge accounting

Nordea Eiendomskreditt enters into derivatives for risk management purposes. Derivatives held for risk management purposes include hedges that either meet the hedge accounting requirements or hedges that are economic hedges, but do not meet the hedge accounting requirements. The table below shows the fair values of derivative financial instruments together with their notional amounts. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of either the market or credit risk.

| | Fair value | | Total nominal |
|---|---|---|---|
| **31 Dec 2020, NOKt** | **Positive** | **Negative** | **amount** |
| **Derivatives at FVPL - Mandatorily [1]:** | | | |
| Interest rate swaps | 4 454 | 46 751 | 44 000 000 |
| **Total** | **4 454** | **46 751** | **44 000 000** |
| **Derivatives used for hedge accounting:** | | | |
| Interest rate swaps | 991 179 | -7 533 | 22 714 000 |
| Currency and interest rate swaps | 427 426 | 0 | 4 340 730 |
| **Total** | **1 418 605** | **-7 533** | **27 054 730** |
| -of which fair value hedges[2] | 991 179 | -7 533 | 22 714 000 |
| -of which cash flow hedges[2] | 427 426 | 0 | 4 340 730 |
| **Total derivatives** | **1 423 059** | **39 218** | **71 054 730** |

| | Fair value | | Total nominal |
|---|---|---|---|
| **31 Dec 2019, NOKt** | **Positive** | **Negative** | **amount** |
| **Derivatives at FVPL - Mandatorily [1]:** | | | |
| Interest rate swaps | 0 | 60 479 | 32 000 000 |
| **Total** | **0** | **60 479** | **32 000 000** |
| **Derivatives used for hedge accounting:** | | | |
| Interest rate swaps | 550 459 | 34 207 | 21 853 000 |
| Currency and interest rate swaps | 266 466 | 76 522 | 5 866 256 |
| **Total** | **816 925** | **110 729** | **27 719 256** |
| -of which fair value hedges | 550 459 | 34 207 | 21 853 000 |
| -of which cash flow hedges | 266 466 | 76 522 | 5 866 256 |
| **Total derivatives** | **816 925** | **171 207** | **59 719 256** |

[1]Derivatives at "Fair value through profit and loss (FVPL) - Mandatorily" consists of derivatives held for economic hedging, which do not meet the requirements for hedge accounting according to IAS 39.

# Note 10
# Derivatives and hedge accounting cont.

## Hedge Accounting

### Risk management

Nordea Eiendomskreditt manages its identified market risks according to the risk management framework and strategy described in the Market risk section in the chapter "Risk, liquidity and capital management" in the Board of Directors' report. Nordea Eiendomskreditt's exposure to market risk is non-trading (the Banking Book), and includes all hedges qualifying for hedge accounting. The hedging instruments and risks hedged are further described below per risk and hedge accounting relationship.

### Interest rate risk

Nordea Eiendomskreditt's primary business model is to grant mortgage loans and fund these by issuing covered bonds. Interest rate risk is the impact that changes in interest rates could have on Nordea Eiendomskreditt's margins, profit or loss, and equity. Interest rate risk arises from mismatch of interest from interest-bearing liabilities and interest-bearing assets such as the loan portfolio and the liquidity portfolio.

As part of Nordea Eiendomskreditt's risk management strategy, the Board has established limits on the non–trading interest rate gaps for the interest rate sensitivities. These limits are consistent with Nordea Eiendomskreditt's risk appetite and the company aligns its hedge accounting objectives to keep exposures within those limits. Nordea Eiendomskreditt's policy is to monitor positions on a daily basis. For further information on measurement of risks, see the Market risk section in the chapter "Risk, liquidity and capital management" in the Board of Directors' report.

For hedge accounting related to interest rate risk, the hedge relationship is mainly on a portfolio basis and is established by matching the notional of the derivatives against the principle of the hedged items.

The benchmark rate is determined as a change in present value of the future cash flows using benchmark rate discount curves. The benchmark rate is separately identifiable and reliably measurable and is typically the most significant component of the overall change in fair value or cash flows.

### Fair value hedges

In order to reduce or eliminate changes in the fair value of financial assets and financial liabilities due to movements in interest rates, Nordea Eiendomskreditt enters into fair value hedge relationships as described in Note 1 section 8 Hedge accounting. Nordea Eiendomskreditt uses pay floating/receive fixed interest rate swaps to hedge its fixed rate liabilities.

There is an economic relationship between the hedged item and the hedging instrument as the terms of the interest rate swap match the terms of the fixed rate loan (i.e., notional amount, maturity, payment and reset dates).

The below table presents the accumulated fair value adjustments arising from continuing hedge relationships, irrespective of whether or not there has been a change in hedge designation during the year.

### Hedged items

| | Interest rate risk | |
|---|---|---|
| NOKt | 31 Dec 2020 | 31 Dec 2019 |
| **Fair value hedges** | | |
| Carrying amount of hedged assets[1] | 2 044 490 | 1 396 093 |
| - of which accumulated amount of fair value hedge adjustment[3] | 28 490 | 5 093 |
| Carrying amount of hedged liabilities[2] | 21 536 002 | 32 837 551 |
| - of which accumulated amount of fair value hedge adjustment[3] | 795 070 | 301 478 |

[1] Presented on the balance sheet rows Loans to the public and Fair value changes of the hedged items in portfolio hedge of interest rate risk.

[2] Presented on the balance sheet rows Debt securities in issue and Fair value changes of the hedged items in portfolio hedge of interest rate risk.

[3] Of which all relates to continuing portfolio hedges of interest rate risk.

### Hedging instruments

| | Fair value | | |
|---|---|---|---|
| 31 Dec 2020, NOKt | Positive | Negative | Total nom amount |
| **Fair value hedges** | | | |
| Interest rate risk | 991 179 | -7 533 | 22 714 000 |

| | Fair value | | |
|---|---|---|---|
| 31 Dec 2019, NOKt | Positive | Negative | Total nom amount |
| **Fair value hedges** | | | |
| Interest rate risk | 550 459 | 34 207 | 21 853 000 |

# Note 10
# Derivatives and hedge accounting cont.

The below table presents the changes in the fair value of the hedged items and changes in fair value of the hedging instruments used as the basis for recognising ineffectiveness. These changes are recognised on the row "Net result from items at fair value" in the income statement.

### Hedge ineffectiveness

| | Interest rate risk | |
|---|---|---|
| NOKt | 31 Dec 2020 | 31 Dec 2019 |
| **Fair value hedges** | | |
| Changes in fair value of hedging instruments | 490 980 | -164 281 |
| Changes in fair value of hedged items used as basis for recognising hedge ineffectiveness | -489 666 | 177 929 |
| Hedge ineffectiveness recognised in the income statement | 1 314 | 13 648 |

### Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Nordea Eiendomskreditt operates with a policy of hedging all currency risk (fx risk). All assets and liabilities of any material amount that are denominated in foreign currencies are hedged through currency swaps. A change in foreign exchange rate will therefore not have any impact on the net result for the year or on the equity.

### Cash flow hedges

For hedge accounting relationships related to currency risk, the hedged item is a foreign currency component. The hedging ration is one-to-one and is established by matching the notional of the derivatives against the principle of the hedged item.

The below tables provide information about the hedging instruments addressing currency risk including the notional and the carrying amounts of the hedging instruments as well as the cash flow hedge reserve.

### Hedging instruments

| | Fair value | | |
|---|---|---|---|
| 31 Dec 2020, NOKt | Positive | Negative | Total nom amount |
| **Cash flow hedges** | | | |
| Interest rate risk | 427 426 | 0 | 4 340 730 |

| | Fair value | | |
|---|---|---|---|
| 31 Dec 2019, NOKt | Positive | Negative | Total nom amount |
| **Cash flow hedges** | | | |
| Interest rate risk | 266 466 | 76 522 | 5 866 256 |

In the below table, the fair value adjustments arising from continuing hedging relationships, irrespective of whether there has been a change in hedge designation during the year, are specified.

### Cash flow hedge reserve

| | Foreign exchange risk | |
|---|---|---|
| NOKt | 31 Dec 2020 | 31 Dec 2019 |
| **Balance at 1 January** | **-59 357** | **-81 144** |
| **Cash flow hedges:** | | |
| Valuation gains/losses during the year | 175 526 | 1 290 312 |
| Tax on valuation gains/losses during the year | -43 881 | -322 578 |
| Transferred to the income statement during the year | -156 055 | -1 261 263 |
| Tax on transfers to the income statement during the year | 39 014 | 315 316 |
| Other comprehensive income, net of tax | **14 603** | **21 787** |
| **Balance at 31 December** | **-44 754** | **-59 357** |

# Note 10
# Derivatives and hedge accounting cont.

### Maturity profile of the nominal amount of hedging instruments – Fair value hedges

| **31 Dec 2020** | **Payable on demand** | **Maximum 3 months** | **3-12 months** | **1-5 years** | **More than 5 years** | **Total** |
|---|---|---|---|---|---|---|
| Instrument hedging interest rate risk | 0 | 178 000 | 9 742 000 | 6 332 000 | 6 462 000 | 22 714 000 |
| **Total** | **0** | **178 000** | **9 742 000** | **6 332 000** | **6 462 000** | **22 714 000** |

| **31 Dec 2019** | Payable on demand | Maximum 3 months | 3-12 months | 1-5 years | More than 5 years | **Total** |
|---|---|---|---|---|---|---|
| Instrument hedging interest rate risk | | 305 000 | 184 000 | 14 813 000 | 6 551 000 | 21 853 000 |
| **Total** | **0** | **305 000** | **184 000** | **14 813 000** | **6 551 000** | **21 853 000** |

### Maturity profile of the nominal amount of hedging instruments – Cash flow hedges

| **31 Dec 2020** | **Payable on demand** | **Maximum 3 months** | **3-12 months** | **1-5 years** | **More than 5 years** | **Total** |
|---|---|---|---|---|---|---|
| Instrument hedging foreign exchange risk | 0 | 0 | 132 730 | 3 270 000 | 938 000 | 4 340 730 |
| **Total** | | **0** | **132 730** | **3 270 000** | **938 000** | **4 340 730** |

| **31 Dec 2019** | **Payable on demand** | **Maximum 3 months** | **3-12 months** | **1-5 years** | **More than 5 years** | **Total** |
|---|---|---|---|---|---|---|
| Instrument hedging foreign exchange risk | | 1 525 526 | | 3 402 730 | 938 000 | 5 866 256 |
| **Total** | **0** | **1 525 526** | **0** | **3 402 730** | **938 000** | **5 866 256** |

# Note 11
# Cover pool

| | **31 Dec 2020** | | **31 Dec 2019** | |
|---|---|---|---|---|
| NOKt | **Nominal value** | **Net Present Value** | **Nominal value** | **Net Present Value** |
| Loans to the public | 266 041 856 | 265 907 572 | 245 978 073 | 245 624 036 |
| - whereof pool of eligible loans | 184 644 537 | 184 551 339 | 166 219 860 | 165 980 963 |
| Supplementary assets and derivates: | | | | |
| - whereof CIRS | 343 862 | 457 787 | 168 125 | 213 629 |
| - whereof IRS | 0 | 1 113 390 | 0 | 738 171 |
| **Total cover pool** | **184 988 400** | **186 122 516** | **166 387 985** | **166 932 763** |
| Debt securities in issue (net outstanding amount) | 141 793 592 | 143 152 487 | 97 504 719 | 98 490 764 |
| Over-collateralization calculated on net outstanding covered bonds | 30,5% | 30,0% | 70,6% | 69,5% |
| Debt securities in issue (issue amount) | 141 793 592 | 143 152 487 | 97 504 719 | 98 490 764 |
| Over-collateralization calculated on issued covered bonds (gross outstanding covered bonds)[1] | 30,5% | 30,0% | 70,6% | 69,5% |

[1]without deduction for holdings of own bonds.

The guidelines for calculating the over-collateralization requirement in the Norwegian legislation is given in the Financial Undertakings Act (Act No.17 of 10 April 2015) Chapter 11 Bonds secured on a loan portfolio (covered bonds), and appurtenant regulations. The calculation shall be based on gross outstanding covered bonds and by use of Market values or Net present values. Due to different calculation methods, these may differ from Fair values disclosed in other notes to this Annual Report.

# Note 12

## Debt securities in issue and loans from financial institutions

| | 31 Dec 2020 | | | 31 Dec 2019 | | |
|---|---|---|---|---|---|---|
| **NOKt** | **Nominal value** | **Other [1]** | **Carrying amount** | **Nominal value** | **Other [1]** | **Carrying amount** |
| Covered bonds issued in Norwegian kroner | 137 109 000 | | | 91 452 000 | | |
| Holdings of own covered bonds in Norwegian kroner | 0 | | | 0 | | |
| **Outstanding covered bonds issued in Norwegian kroner** | **137 109 000** | | | **91 452 000** | | |
| Covered bonds issued in GBP (in NOK) | 3 637 567 | | | 5 068 094 | | |
| Covered bonds issued in EUR (in NOK) | 1 047 025 | | | 984 625 | | |
| **Total outstanding covered bonds** | **141 793 592** | **949 980** | **142 743 573** | **97 504 719** | **618 947** | **98 123 667** |
| Loans and deposits from financial institutions for a fixed term | 106 838 952 | 99 914 | 106 938 866 | 131 589 951 | 378 470 | 131 968 421 |
| Subordinated loan | 2 300 000 | 1 732 | 2 301 732 | 2 300 000 | 2 654 | 2 302 654 |
| **Total** | **250 932 544** | **1 051 626** | **251 984 170** | **231 394 670** | **1 000 071** | **232 394 742** |

[1] Related to accrued interest and premium/discount on issued bonds.

| **Maturity information** | | |
|---|---|---|
| Maximum 1 year | 112 534 209 | 45 174 334 |
| More than 1 year | 138 398 335 | 186 220 336 |
| **Total** | **250 932 544** | **231 394 670** |

**Norwegian covered bonds (NOKt) at 31 December 2020**

| ISIN code | Issue date | Final payment date | Interest | Interest rate in % | Currency | Outstanding nominal amount |
|---|---|---|---|---|---|---|
| NO0010584345 | 02.09.2010 | 16.06.2021 | Fixed | 4,25 | NOK | 9 383 000 |
| NO0010593064 | 22.12.2010 | 18.06.2025 | Fixed | 4,80 | NOK | 550 000 |
| NO0010729817 | 26.01.2015 | 16.06.2021 | Float | 3M Nibor + 0.20% | NOK | 6 011 000 |
| NO0010758931 | 08.03.2016 | 15.06.2022 | Fixed | 1,80 | NOK | 4 615 000 |
| NO0010759632 | 17.03.2016 | 15.06.2022 | Float | 3M Nibor + 0.78% | NOK | 19 050 000 |
| NO0010766827 | 21.06.2016 | 18.06.2031 | Fixed | 2,20 | NOK | 500 000 |
| NO0010812084 | 11.12.2017 | 17.09.2043 | Fixed | 2,20 | NOK | 300 000 |
| NO0010819717 | 21.02.2018 | 21.06.2023 | Float | 3M Nibor + 0.30% | NOK | 18 550 000 |
| NO0010821986 | 04.05.2018 | 04.05.2048 | Fixed | 2,60 | NOK | 300 000 |
| NO0010843626 | 26.02.2019 | 19.06.2024 | Float | 3M Nibor + 0.34% | NOK | 18 900 000 |
| NO0010852650 | 22.05.2019 | 22.05.2026 | Fixed | 2,17 | NOK | 5 050 000 |
| NO0010873334 | 22.02.2020 | 19.03.2025 | Float | 3M Nibor + 0.26% | NOK | 11 400 000 |
| NO0010878374 | 03.04.2020 | 15.12.2021 | Float | 3M Nibor + 0.20% | NOK | 36 000 000 |
| NO0010893282 | 16.09.2020 | 16.09.2025 | Float | 3M Nibor + 1.50% | NOK | 6 500 000 |
| **Total** | | | | | | **137 109 000** |

**Covered bonds issued in foreign currency (NOKt) at 31 December 2020**

| ISIN code | Issue date | Final payment date | Interest | Interest rate in % | Currency | Outstanding nominal amount |
|---|---|---|---|---|---|---|
| XS1487838291 | 09.09.2016 | 09.09.2021 | Float | 3M GBP Libor + 0.42% | GBP | 12 000 |
| XS1837099339 | 18.06.2018 | 18.06.2023 | Float | 3M GBP Libor + 0.33% | GBP | 300 000 |
| XS1451306036 | 19.07.2016 | 15.07.2031 | Fixed | 0,74 | EUR | 100 000 |
| **Total (in NOKt equivalent)** | | | | | | **4 684 592** |

# Note 13
## Retirement benefit obligations

| NOKt | 31 Dec 2020 | 31 Dec 2019 |
|---|---|---|
| Defined benefit plans, net | -27 703 | -22 889 |
| **Total** | **-27 703** | **-22 889** |

Nordea Eiendomskreditt sponsors both defined contribution plans (DCP) and defined benefit plans (DBP).

Nordea Eiendomskreditt is obliged to have an occupational pension scheme pursuant to the Mandatory Occupational Pension Plan Act. Nordea Eiendomskreditt's pension schemes meet the demands required by this act. The company has funded its pension obligations through Nordea Norge Pensjonskasse (pension fund), which is managed by Gabler AS, and are final salary and service based pension plans providing pension benefits on top of the statutory systems. The company also has retirement benefit obligations in connection with supplementary pensions and early retirement pensions, which are not covered by the pension fund. The defined benefit plan (DBP) is closed for new employees as from 2011, and pensions for new employees are instead based on defined contribution plan (DCP) arrangements. From 01 January 2017 employees born later than 1957 were converted to DCP. For employees effected by this change, all earned benefit will retain as paid-up premiums. The DCP arrangements are administered by Nordea Liv. Nordea Eiendomskreditt is also member of Fellesordningen for AFP (Avtalefestet Pensjon) established with effect from 2011. DCPs are not reflected in the balance sheet, unless when earned pension rights have not been paid for.

Defined benefit plans may impact Nordea Eiendomskreditt via changes in the net present value of obligations and/or changes in the market value of plan assets. Changes in the obligation are most importantly driven by changes in assumptions on discount rates (interest rates and credit spreads), salary increases, turnover and mortality as well as relevant experience adjustments where the actual outcome differs from the assumption. Assets are invested in diversified portfolios as further disclosed below, with bond exposures mitigating the interest rate risk in the obligations and a fair amount of real assets (inflation protected) to reduce the long term inflationary risk in liabilities.

In 2016 the Board of Directors of Nordea Eiendomskreditt approved of changing the pension plan for employees born after 1957, and they were converted from DBP to DCP from 1 January 2017.

During 2020 employees in the DCP have had the following contribution rates:

* Pensionable salary representing 0-7.1 times G: 7%

* Pensionable salary representing 7.1-12 times G: 18%

The pension cost recognised in Nordea Eiendomskreditt's income statement (as staff costs) for the DCP is NOKt 1.520 in 2020.

**IAS 19 Pension calculations and assumptions**

Calculations are performed by external actuaries and are based on different actuarial assumptions.

| Assumptions[1] | 2020 | 2019 |
|---|---|---|
| Discount rate[2] | 1,80 % | 2,20 % |
| Salary increase | 1,75 % | 2,75 % |
| Inflation | 1,50 % | 1,75 % |
| Social Security increase | 1,75 % | 3,00 % |
| Expected adjustments of current pensions | 1,00 % | 1,00 % |

[1] The assumptions disclosed for 2020 have an impact on the liability calculation by year-end 2020, while the assumptions disclosed for 2019 are used for calculating the pension expense in 2020.

[2] More information on the discount rate can be found in Note 1 Accounting policies, section 14 Employee benefits. The sensitivities to changes in the discount rate can be found below.

# Note 13
## Retirement benefit obligations cont.

| Sensitivities - Impact on Pension Benefit Obligation (PBO) | 2020 | 2019 |
|---|---|---|
| Discount rate - Increase 50bps | -8,1% | -8,1% |
| Discount rate - Decrease 50bps | 9,2% | 9,0% |
| Salary increase - Increase 50bps | 0,4% | 0,3% |
| Salary increase - Decrease 50bps | -0,3% | -0,3% |
| Inflation - Increase 50bps | 8,4% | 8,0% |
| Inflation - Decrease 50bps | -8,0% | -7,7% |

The sensitivity analyses are prepared by changing one actuarial assumption while keeping the other assumptions unchanged. This is a simplified approach since the actuarial assumptions usually are correlated. However, it enables the reader to isolate one effect from another. The method used for calculating the impact on the obligation is the same as when calculating the obligation accounted for in the financial statements. The 2020 sensitivity analysis now include the impact on the liabilities held for future SSC (social security contributions).

**Net retirement benefit liabilities/assets**

| NOKt | 2020 | 2019 |
|---|---|---|
| Obligations | 60 355 | 54 103 |
| Plan assets | 32 651 | 31 214 |
| **Net liability (-)/asset (+)** | **-27 703** | **-22 889** |

**Movements in the obligation**

| NOKt | 2020 | 2019 |
|---|---|---|
| Opening balance | 54 103 | 43 148 |
| True up opening balance | 0 | 18 |
| Current service cost | 214 | 229 |
| Interest cost | 1 103 | 1 216 |
| Pensions paid | -856 | -678 |
| Past service cost | 0 | 0 |
| Settlements | 0 | 0 |
| Transfers between entities | 0 | 0 |
| Remeasurement from changes in financial assumptions | 5 838 | 6 324 |
| Remeasurement from experience adjustments | -40 | 3 842 |
| Closing balance before social security contribution | **60 361** | **54 098** |
| Change in provision for social security contribution [1] | -6 | 4 |
| **Closing balance** | **60 355** | **54 103** |

[1] Calculated on recognised amounts in the balance sheet.

The average duration of the PBO is 15 years based on discounted cash flows. The fact that all DBPs are closed for new entrants leads to lower duration. The increase in average duration during the year is due to changed assumptions.

**Movements in the fair value of plan assets**

| NOKt | 2020 | 2019 |
|---|---|---|
| Opening balance | 31 214 | 28 729 |
| Interest income (calculated using the discount rate) | 687 | 810 |
| Pensions paid | -195 | -66 |
| Settlements | 0 | 0 |
| Contributions by employer | 0 | 0 |
| Transfers between entities | 0 | 0 |
| Remeasurement (actual return less interest income) | 946 | 1 740 |
| **Closing balance** | **32 651** | **31 214** |

# Note 13
# Retirement benefit obligations cont.

**Asset composition**

The combined return on assets in 2020 was 4,6% (5,5%). All asset classes generated positive return with equities as the main driver. At the end of the year, the equity exposure in the foundation represented 21% (17%) of total assets.

**Asset composition in funded schemes**

| | 2020 | 2019 |
|---|---|---|
| Equity | 18 % | 17 % |
| Bonds | 66 % | 68 % |
| Real estate | 15 % | 15 % |
| Other assets | 1 % | 0 % |

**Defined benefit pension costs and Defined contribution plan cost**

The total net pension cost recognised in Nordea Eiendomskreditt's income statement (as staff costs) for 2020 is NOKt 2.509. The amount covers both funded and unfunded pension plans, DCP as well as AFP premium.

| Recognised in the income statement, NOKt | 2020 | 2019 |
|---|---|---|
| Current service cost | 214 | 229 |
| Net interest | 416 | 406 |
| Past service cost and settlements | 0 | 0 |
| Social Security Contribution | 120 | 121 |
| **Pension cost on defined benefit plans** | **750** | **757** |

| Recognised in other comprehensive income, NOKt | 2020 | 2019 |
|---|---|---|
| Remeasurement from changes in financial assumptions | 5 798 | 10 165 |
| Remeasurement from experience adjustments | 0 | 0 |
| Remeasurement of plan assets (actual return less interest income) | -946 | -1740 |
| Social security contribution | 0 | 0 |
| **Pension cost on defined benefit plans** | **4 852** | **8 425** |

The defined benefit pension plan cost for 2021 is expected to be NOKt 792.

# Note 14
## Assets pledged as security for own liabilities

| NOKt | 31 Dec 2020 | 31 Dec 2019 |
|---|---|---|
| **Assets pledged as security for own liabilities:** | | |
| Loans to the public | 184 644 537 | 166 219 860 |
| **Total** | **184 644 537** | **166 219 860** |
| **The above pledges pertain to the following liability and committment items:** | | |
| Debt securities in issue (carrying amount) | 142 743 573 | 98 123 667 |
| **Total** | **142 743 573** | **98 123 667** |

Assets pledged as security for own liabilities contain mortgage loans to the public that have been registered as collateral for issued covered bonds. Counterpart is the public. These transactions are long term with maturity 3-6 years.

The terms and conditions that apply to the collateral pledged are regulated by the Financial Undertakings Act (Act No. 17 of 10 April 2015) Chapter 11 Bonds secured on a loan portfolio (covered bonds), and appurtenant regulations.

# Note 15
## Commitments

| NOKt | 31 Dec 2020 | 31 Dec 2019 |
|---|---|---|
| Accepted, not disbursed loans (unutilised portion of granted limit on flex loans) | 24 650 647 | 21 686 623 |
| Other commitments, excluding derivatives [1, 2] | 0 | 183 |
| **Total** | **24 650 647** | **21 686 806** |

[1] The amount represent the remaining joint guarantee for bearer bonds issued by De Norske Bykredittforeninger in the period 1941-1950.

[2] For information about derivatives, see Note 10 Derivatives and hedge accounting.

# Note 16
# Capital adequacy

Capital adequacy is a measure of the financial strength of a bank, usually expressed as a ratio of capital to assets. There is a worldwide capital adequacy standard (Basel III) drawn up by the Basel Committee on Banking Supervision. Within the EU, the capital adequacy requirements outlined in the Capital Requirement Directive IV (CRD IV) and Capital Requirement Regulation (CRR), entered into force on 1 January 2014. In Norway, CRR and CRD IV entered finally into force on 31 December 2019.

Over the years, amendments have been made to the first version of the capital adequacy regulation. In 2014, revised rules for calculating capital adequacy required higher capitalisation levels and better quality of capital, better risk coverage, the introduction of a leverage ratio as a backstop to the risk based requirement, measures to promote the build-up of capital to be drawn in periods of stress and new liquidity standards were introduced. The CRD IV and the BRRD were implemented through national law within all EU countries during 2014, while the CRR entered into force in all EU countries from the first of January 2014. In June 2019, the 'Banking package' containing revisions to the BRRD, the CRD and the CRR was adopted. The implementation of the 'banking package' in Norway is pending.

The Basel III framework is implemented in the EU through the CRR and the CRD IV and is built on three Pillars;

- Pillar I – requirements for the calculation of REA and capital requirements
- Pillar II – rules for the Supervisory Review Process (SRP), including the Internal Capital Adequacy Assessment Process (ICAAP)
- Pillar III – rules for the disclosure on risk and capital management, including capital adequacy

Nordea Eiendomskreditt performs an ICAAP with the purpose to review the management, mitigation and measurement of material risks within the business environment in order to assess the adequacy of capitalisation and to determine an internal capital requirement reflecting the risks of the institution.

The ICAAP is a continuous process which increases awareness of capital requirements and exposure to material risks throughout the organisation, both in the business area and legal entity dimensions. Stress tests are important drivers of risk awareness, looking at capital and risk from a firm-wide perspective on a regular basis and on an ad-hoc basis for specific areas or segments. The process includes a regular dialogue with supervisory authorities, rating agencies and other external stakeholders with respect to capital management, measurement and mitigation techniques used.

Nordea Eiendomskreditt's capital levels continue to be adequate to support the risks taken, both from an internal perspective as well as from the perspective of supervisors. Heading into 2020, Nordea will continue to closely follow the development of the new capital requirement regime as well as maintain its open dialogue with the supervisory authorities.

# Note 16
## Capital adequacy cont.

**Summary of items included in own funds**

| NOKm | 31 Dec[1] 2020 | 31 Dec[1] 2019 |
|---|---|---|
| Equity | 19 759 | 19 164 |
| Proposed/actual dividend | -534 | -485 |
| Common Equity Tier 1 capital before regulatory adjustments | 19 225 | 18 679 |
| Deferred tax assets | | |
| Intangible assets | | |
| IRB provisions shortfall (-) | -136 | -269 |
| Pension assets in excess of related liabilities | | |
| Other items, net | 40 | 52 |
| Total regulatory adjustments to Common Equity Tier 1 capital | -97 | -217 |
| **Common Equity Tier 1 capital (net after deduction)** | **19 128** | **18 462** |
| Additional Tier 1 capital before regulatory adjustments | | |
| Total regulatory adjustments to Additional Tier 1 capital | | |
| Additional Tier 1 capital | | |
| **Tier 1 capital (net after deduction)** | **19 128** | **18 462** |
| Tier 2 capital before regulatory adjustments | 2 300 | 2 300 |
| IRB provisions excess (+) | 61 | 27 |
| Deductions for investments in insurance companies | | |
| Other items, net | | |
| Total regulatory adjustments to Tier 2 capital | 61 | 27 |
| Tier 2 capital | 2 361 | 2 327 |
| **Own funds (net after deduction)[2]** | **21 489** | **20 789** |

[1] Including profit for the period

[2] Own Funds adjusted for IRB provision, i.e. adjusted own funds equal NOK 21564m by 31Dec 2020

**Own Funds, excluding profit**

| NOKm | 31 Dec 2020 | 31 Dec 2019 |
|---|---|---|
| Common Equity Tier 1 capital, excluding profit | 18 591 | 17 967 |
| Total Own Funds, excluding profit | 20 952 | 20 294 |

# Note 16
# Capital adequacy cont.

**Common Equity Tier 1 capital and Tier 1 capital**
Common Equity Tier (CET) 1 capital is defined as eligible capital including eligible reserves, net of regulatory required deductions made directly to CET 1 capital. The capital recognised as CET 1 capital holds the ultimate characteristics for loss absorbance defined from a going concern perspective and represents the most subordinated claim in the event of liquidation. The Tier 1 capital is defined as the sum of CET 1 capital and Additional Tier 1 (AT1) capital where AT1 capital is the total of instruments (hybrids) issued by the bank that meet the transitional regulatory criteria and not included in the CET1 net after AT1 deductions. All AT1 capital instruments are undated subordinated capital loans.

**Eligible capital and eligible reserves**
Paid up capital is the share capital contributed by shareholders, including the share premium paid. Eligible reserves consist primarily of retained earnings, other reserves and income from current year. Retained earnings are earnings from previous years reported via the income statement. Positive income from current year is included as eligible capital after verification by the external auditors; however negative income must be deducted. Repurchased own shares or own shares temporary included in trading portfolios are deducted from eligible reserves.

**Additional Tier 1 instruments**
The inclusion of undated subordinated loans in additional Tier 1 capital is restricted and repurchase can normally not take place until five years after original issuance of the instrument. Undated subordinated loans may be repaid only upon decision by the Board of Directors in Nordea Eiendomskreditt and with the permission of the Norwegian FSA. Further, there are restrictions related to step-up conditions, order of priority, and interest payments under constraint conditions. Additional Tier 1 instruments issued that fulfil the regulatory requirements are fully included whereas remaining instruments are phased out according to transitional rules.

For the additional Tier 1 instruments, conditions specify appropriation in order to avoid being obliged to enter into liquidation. To the extent that may be required to avoid liquidation, the principal amounts of additional Tier 1 instruments (together with accrued interest) would be written down and converting such amount into a conditional capital contribution.

**Tier 2 capital**
Tier 2 capital must be subordinated to depositors and general creditors of the bank. It cannot be secured or covered by a guarantee of the issuer or related entity or include any other arrangement that legally or economically enhances the seniority of the claim vis-á-vis depositors and other bank creditors.

**Tier 2 instruments**
Tier 2 instruments consist mainly of subordinated debt. Tier 2 instruments include two different types of subordinated loan capital; undated loans and dated loans. Tier 2 instruments issued that fulfil the regulatory requirements are fully included whereas remaining instruments are phased out according to transitional rules.

The basic principle for subordinated debt in own funds is the order of priority in case of a default or bankruptcy situation. Under such conditions, the holder of the subordinated loan would be repaid after other creditors, but before shareholders. The share of outstanding loan amount possible to include in the Tier 2 capital related to dated loans is reduced if the remaining maturity is less than five years.

# Note 16
## Capital adequacy cont.

**Minimum capital requirement and REA, Risk Exposure Amount**

| NOKm | 31 Dec 2020 Minimum Capital requirement | 31 Dec 2020 REA | 31 Dec 2019 Minimum Capital requirement | 31 Dec 2019 REA |
|---|---|---|---|---|
| **Credit risk** | **4 807** | **60 091** | **4 471** | **55 883** |
| - of which counterparty credit risk | 27 | 341 | 16 | 198 |
| | | | | |
| IRB | 4 773 | 59 658 | 4 451 | 55 632 |
| - sovereign | | | | |
| - corporate | | | | |
| *- advanced* | | | | |
| *- foundation* | | | | |
| - institutions | 14 | 180 | 14 | 180 |
| - retail | 4 758 | 59 477 | 4 435 | 55 432 |
| *- secured by immovable property collateral* | 4 172 | 52 146 | 3 742 | 46 779 |
| *- other retail* | 586 | 7 330 | 692 | 8 653 |
| - other | 0 | 1 | 2 | 20 |
| | | | | |
| Standardised | 35 | 434 | 20 | 251 |
| - central governments or central banks | | | | |
| - regional governments or local authorities | | | | |
| - public sector entities | | | | |
| - multilateral development banks | | | | |
| - international organisations | | | | |
| - institutions | 35 | 434 | 20 | 251 |
| - corporate | | | | |
| - retail | | | | |
| - secured by mortgages on immovable properties | | | | |
| - in default | | | | |
| - associated with particularly high risk | | | | |
| - covered bonds | | | | |
| - institutions and corporates with a short-term credit assessment | | | | |
| - collective investments undertakings (CIU) | | | | |
| - equity | | | | |
| - other items | | | | |
| | | | | |
| **Credit Value Adjustment Risk** | | | | |
| | | | | |
| **Market risk** | | | | |
| - trading book, Internal Approach | | | | |
| - trading book, Standardised Approach | | | | |
| - banking book, Standardised Approach | | | | |
| | | | | |
| **Settlement risk** | | | | |
| | | | | |
| **Operational risk** | **195** | **2 434** | **169** | **2 116** |
| Standardised | 195 | 2 434 | 169 | 2 116 |
| | | | | |
| **Additional risk exposure amount related to Finnish RW floor due to Article 458 CRR** | | | | |
| **Additional risk exposure amount related to Swedish RW floor due to Article 458 CRR** | **2** | **21** | **2** | **24** |
| | | | | |
| **Additional risk exposure amount due to Article 3 CRR** | | | | |
| | | | | |
| **Sub total** | **5 004** | **62 546** | **4 642** | **58 023** |

# Note 16
## Capital adequacy cont.

**Capital ratios**

| Percentage | 31 Dec 2020 | 31 Dec 2019 |
|---|---|---|
| Common Equity Tier 1 capital ratio, including profit | 30,6 | 31,8 |
| Tier 1 capital ratio, including profit | 30,6 | 31,8 |
| Total capital ratio, including profit | 34,4 | 35,8 |
| Common Equity Tier 1 capital ratio, excluding profit | 29,7 | 31,0 |
| Tier 1 capital ratio, excluding profit | 29,7 | 31,0 |
| Total capital ratio, excluding profit | 33,5 | 35,0 |

| Leverage ratio | 31 Dec[1] 2020 | 31 Dec[1] 2019 |
|---|---|---|
| Tier 1 capital, transitional definition, NOKm | 19 128 | 18 462 |
| Leverage ratio exposure, NOKm | 285 725 | 263 381 |
| Leverage ratio, percentage | 6,7 | 7,0 |

[1] Including profit for the period

# Note 17
# Classification of assets and liabilities

Of the assets listed below, Loans to credit institutions, Loans to the public, Interest-bearing securities, Derivatives, as well as accrued interest on these items, are exposed to credit risk. The exposure equals the book value presented in the tables below.

| 31 December 2020 | | Fair value through profit or loss (FVPL) | | | |
|---|---|---|---|---|---|
| NOKt | Amortised cost (AC) | Mandatorily | Derivatives used for hedging | Non-financial assets | Total |
| **Assets** | | | | | |
| Loans to credit institutions | 471 612 | | | | 471 612 |
| Loans to the public | 266 049 251 | | | | 266 049 251 |
| Interest-bearing securities | | 5 181 071 | | | 5 181 071 |
| Derivatives | | 4 454 | 1 418 605 | | 1 423 059 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 28 490 | | | | 28 490 |
| Equipment owned and RoU | | | | 191 | 191 |
| Prepaid expenses and accrued income | 36 755 | | | 1 553 | 38 308 |
| **Total Assets** | **266 586 109** | **5 185 524** | **1 418 605** | **1 744** | **273 191 982** |

| | | Fair value through profit or loss (FVPL) | | | |
|---|---|---|---|---|---|
| NOKt | Amortised cost (AC) | Mandatorily | Derivatives used for hedging | Non-financial liabilities | Total |
| **Liabilities** | | | | | |
| Deposits by credit institutions | 106 938 866 | | | | 106 938 866 |
| Debt securities in issue | 142 743 573 | | | | 142 743 573 |
| Derivatives | | 46 751 | -7 533 | | 39 218 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 795 070 | | | | 795 070 |
| Current tax liabilities | | | | 383 359 | 383 359 |
| Other liabilities | 1 447 | | | 7 603 | 9 050 |
| Accrued expenses and prepaid income | 351 | | | 93 667 | 94 018 |
| Deferred tax liabilities | | | | 96 236 | 96 236 |
| Provisions | | | | 4 582 | 4 582 |
| Retirement benefit obligations | | | | 27 703 | 27 703 |
| Subordinated loan capital | 2 301 732 | | | | 2 301 732 |
| **Total Liabilities** | **252 781 038** | **46 751** | **-7 533** | **613 151** | **253 433 406** |

# Note 17

## Classification of assets and liabilities cont.

| **31 December 2019** | | Fair value through profit or loss | | | |
|---|---|---|---|---|---|
| NOKt | Amoritsed cost (AC) | Mandatorily | Derivatives used for hedging | Non-financial assets | Total |
| **Assets** | | | | | |
| Loans to credit institutions | 267 389 | | | | 267 389 |
| Loans to the public | 246 206 695 | | | | 246 206 695 |
| Interest-bearing securities | | 5 246 838 | | | 5 246 838 |
| Derivatives | | 0 | 816 925 | | 816 925 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 5 093 | | | | 5 093 |
| Equipment owned and RoU | | | | 265 | 265 |
| Other assets | | | | 23 | 23 |
| Prepaid expenses and accrued income | 19 539 | | | 1 254 | 20 793 |
| **Total Assets** | **246 498 716** | **5 246 838** | **816 925** | **1 542** | **252 564 019** |

| | | Fair value through profit or loss (FVPL) | | | |
|---|---|---|---|---|---|
| NOKt | Amortised cost (AC) | Mandatorily | Derivatives used for hedging | Non-financial liabilities | Total |
| **Liabilities** | | | | | |
| Deposits by credit institutions | 131 968 421 | | | | 131 968 421 |
| Debt securities in issue | 98 123 667 | | | | 98 123 667 |
| Derivatives | | 60 479 | 110 728 | | 171 207 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 301 478 | | | | 301 478 |
| Current tax liabilities | | | | 309 145 | 309 145 |
| Other liabilities | 1 282 | | | 7 975 | 9 257 |
| Accrued expenses and prepaid income | 2 | | | 61 334 | 61 336 |
| Deferred tax liabilities | | | | 128 020 | 128 020 |
| Provisions | | | | 1 543 | 1 543 |
| Retirement benefit obligations | | | | 22 889 | 22 889 |
| Subordinated loan capital | 2 302 654 | | | | 2 302 654 |
| **Total Liabilities** | **232 697 504** | **60 479** | **110 728** | **530 906** | **233 399 617** |

# Note 18
# Assets and liabilities at fair value

## Fair value of financial assets and liabilities

| | 31 Dec 2020 | | 31 Dec 2019 | |
|---|---|---|---|---|
| NOKt | **Carrying amount** | **Fair value** | **Carrying amount** | **Fair value** |
| **Financial assets** | | | | |
| Loans | 266 549 354 | 266 415 070 | 246 147 445 | 245 793 916 |
| Interest-bearing securities | 5 181 071 | 5 181 071 | 5 246 838 | 5 246 838 |
| Derivatives | 1 423 059 | 1 423 059 | 816 925 | 816 925 |
| Other financial assets | 0 | 0 | 0 | 0 |
| Prepaid expenses and accrued income | 36 755 | 36 755 | 352 524 | 352 524 |
| **Total financial assets** | **273 190 239** | **273 055 955** | **252 563 732** | **252 210 203** |

| | Carrying amount | Fair value | Carrying amount | Fair value |
|---|---|---|---|---|
| **Financial liabilities** | | | | |
| Deposits and debt instruments | 252 779 239 | 254 196 841 | 232 696 220 | 233 464 348 |
| Derivatives | 39 218 | 39 218 | 171 207 | 171 207 |
| Other financial liabilities | 1 447 | 1 447 | 0 | 0 |
| Accrued expenses and prepaid income | 351 | 351 | 2 236 | 2 236 |
| **Total financial liabilities** | **252 820 255** | **254 237 857** | **232 869 663** | **233 637 791** |

For information about valuation of items measured at fair value on the balance sheet, see Note 1 Accounting policies and the section "Determination of fair values for items measured at fair value on the balance sheet" below. For information about valuation of items not measured at fair value on the balance sheet, see the section "Financial assets and liabilities not held at fair value on the balance sheet".

## Assets and liabilities held at fair value on the balance sheet

**Categorisation into fair value hierarchy**

| 31 Dec 2020, NOKt | Quoted prices in active markets for same instrument (Level 1) | Valuation technique using observable data (Level 2) | Valuation technique using non-observable data (Level 3) | Total |
|---|---|---|---|---|
| **Financial assets** [1] | | | | |
| Interest-bearing securities | | 5 181 071 | | 5 181 071 |
| Derivatives | | 1 122 645 | 300 414 | 1 423 059 |
| **Total assets** | **0** | **6 303 716** | **300 414** | **6 604 130** |
| **Financial liabilities** [1] | | | | |
| Derivatives | | 39 218 | | 39 218 |
| **Total liabilities** | **0** | **39 218** | **0** | **39 218** |

| 31 Dec 2019, NOKt | Quoted prices in active markets for same instrument (Level 1) | Valuation technique using observable data (Level 2) | Valuation technique using non-observable data (Level 3) | Total |
|---|---|---|---|---|
| **Financial assets** [1] | | | | |
| Interest-bearing securities | | 5 246 838 | | 5 246 838 |
| Derivatives | | 816 925 | | 816 925 |
| **Total assets** | **0** | **6 063 763** | **0** | **6 063 763** |
| **Financial liabilities** [1] | | | | |
| Derivatives | | 171 207 | | 171 207 |
| **Total liabilities** | **0** | **171 207** | **0** | **171 207** |

[1] All items are measured at fair value on a recurring basis at the end of each reporting period.

# Note 18
# Assets and liabilities at fair value cont.

**Determination of fair values for items measured at fair value on the balance sheet**

Fair value measurements of assets and liabilities carried at fair value have been categorised under the three levels of the IFRS fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The categorisation of these instruments is based on the lowest level input that is significant to the fair value measurement in its entirety.

Level 1 in the fair value hierarchy consists of assets and liabilities valued using unadjusted quoted prices in active markets for identical assets or 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 on-going basis. Nordea Eiendomskreditt AS has no financial assets or financial liabilities measured according to level 1.

Level 2 in the fair value hierarchy consists of assets and liabilities that do not have directly quoted market prices available from active markets. The fair values are based on quoted prices for similar assets or liabilities in active markets or quoted prices for identical or similar assets or liabilities in markets that are not active. Alternatively, the fair values are estimated using valuation techniques or valuation models based on market prices or rates prevailing at the balance sheet date, and where any unobservable inputs have had an insignificant impact on the fair values. This is the case for interest-bearing securities and derivatives in Nordea Eiendomskreditt AS.

Level 3 in the fair value hierarchy consists of those types of assets and liabilities which fair values cannot be obtained directly from quoted market prices or indirectly using valuation techniques or models supported by observable market prices or rates. For Nordea Eiendomskreditt this is relevant for derivatives with maturity longer than 20 years.

All valuation models, both complex and simple models, make use of market parameters. These parameters comprise interest rates, volatilities, correlations etc. Some of these parameters are observable while others are not. For most non-exotic currencies the interest rates are all observable, and the volatilities and the correlations of the interest rates and FX rates are observable up to a certain maturity. For each instrument the sensitivity towards unobservable parameters is measured. If the impact from unobservable parameters on the valuation is significant the instrument is categorised as Level 3 in the fair value hierarchy.

For interest-bearing securities the categorisation into the three levels are based on the internal pricing methodology. These instruments can either be directly quoted in active markets (Level 1) or measured using a methodology giving a quote based on observable inputs (Level 2). If the impact from unobservable parameters on the valuation of the bond is significant the bond is categorised as Level 3 in the fair value hierarchy.

For OTC derivatives valuation models are used for establishing fair value. The models are usually in-house developed, and based on assumptions about the behaviour of the underlying asset and statistical scenario analysis. Most OTC derivatives are categorised as Level 2 in the fair value hierarchy implying that all significant model parameters are observable in active markets.

Fair value of financial assets and liabilities are generally calculated as the theoretical net present value of the individual instruments. This calculation is supplemented by a portfolio adjustment.

Nordea Eiendomskreditt incorporates credit valuation adjustments (CVA) and debit valuation adjustments (DVA) into derivative valuations. CVA and DVA reflect the impact on fair value of the counterparty´s credit risk and Nordea Eiendomskreditt's own credit quality, respectively. Calculations are based on estimates of exposure at default, probability of default and recovery rates, on a counterparty basis. Generally, exposure at default for CVA and DVA is based on expected exposure and estimated through the simulation of underlying risk factors. Where possible, Nordea obtains credit spreads from the credit default swap (CDS) market, and probabilities of defaults (PDs) are inferred from this data. For counterparties that do not have a liquid CDS, PDs are estimated using a cross sectional regression model, which calculates an appropriate proxy CDS spread given each counterparty's rating region and industry.

**Transfers between Level 1 and Level 2**

There has not been any transfers between Level 1 and Level 2 in 2020. When transfers between levels occur, these are considered to have occurred at the end of the reporting period.

# Note 18
# Assets and liabilities at fair value cont.

**Movements in Level 3**

| 31 Dec 2020, NOKt | 1 Jan 2020 | Transfers into Level 3 | Transfers out of Level 3 | 31 Dec 2020 |
|---|---|---|---|---|
| Derivatives (net) | 0 | 300 414 | | 300 414 |

Unrealised gains and losses relates to those assets and liabilities held at the end of the reporting period. During the period Nordea Eiendomskreditt AS had transfers from level 2 to level 3 of the fair value hierarchy. The reason for the transfer into level 3, was that observable market data was no longer available for maturities longer than 20 years. Fair value gains and losses in the income statement during the year are included in Net result from items at fair value, see Note 4 "Net result from items at fair value".

**Valuation techniques and inputs used in the fair value measurements in Level 3**

| 31 Dec 2020, NOKt | Fair value | Valuation techniques | Unobservable input |
|---|---|---|---|
| **Derivatives** | | | |
| Interest rate derivatives | 106 960 | Option model | Correlation, volatilities |
| Foreign exchange derivatives | 193 453 | Option model | Correlation, volatilities |
| **Total** | **300 414** | | |

The tables above shows, for each class of assets and liabilities categorised in level 3, the fair value, the valuation techniques used to estimate the fair value, significant unobservable inputs used in the valuation techniques and for financial assets and liabilities the fair value sensitivity to changes in key assumptions.

Fair value of assets and liabilities in level 3 are estimated using valuation techniques based on assumptions that are not supported by market observable prices or rates. There may be uncertainty about a valuation, resulting from the choice of valuation technique or model used, the assumptions embedded in those models, the extent to which inputs are not market observable, or as a result of other elements affecting the valuation technique. For financial instruments portfolio adjustments are applied to reflect such uncertainties and are deducted from the fair values produced by the models or other valuation techniques (for further information see the Annual report 2020, Note 1 section 10 "Determination of fair value of financial instruments").

## Financial assets and liabilities not held at fair value on the balance sheet

| | 31 Dec 2020 | | 31 Dec 2019 | | |
|---|---|---|---|---|---|
| NOKt | **Carrying amount** | **Fair value** | **Carrying amount** | **Fair value** | **Level in fair value hierarchy** |
| **Assets not held at fair value on the balance sheet** | | | | | |
| Loans | 266 549 354 | 266 415 070 | 246 147 445 | 245 793 916 | 3 |
| Other financial assets | 0 | 0 | 0 | 0 | 3 |
| Prepaid expenses and accrued income | 36 755 | 36 755 | 352 524 | 352 524 | 3 |
| **Total assets** | **266 586 109** | **266 451 825** | **246 499 969** | **246 146 440** | |
| **Liabilities not held at fair value on the balance sheet** | | | | | |
| Deposits and debt instruments | 252 779 239 | 254 196 841 | 232 696 220 | 233 464 348 | 3 |
| Other financial liabilities | 1 447 | 1 447 | 0 | 0 | 3 |
| Accrued expenses and prepaid income | 351 | 351 | 2 236 | 2 236 | 3 |
| **Total liabilities** | **252 781 037** | **254 198 639** | **232 698 456** | **233 466 584** | |

# Note 18
## Assets and liabilities at fair value cont.

**Loans**
The fair value of  "Loans to credit institutions" and "Loans to the public" have been estimated by discounting the expected future cash flows with an assumed customer interest rate that would have been used on the market if the loans had been issued at the time of the measurement. The assumed customer interest rate is calculated as the benchmark interest rate plus the average margin on new lending in Personal Banking. The fair value measurement is categorised into Level 3 in the fair value hierarchy.

**Other assets and prepaid expenses and accrued income**
The balance sheet items "Other assets" and "Prepaid expenses and accrued income" consist of short receivables, mainly accrued interest receivables. The fair value is therefore considered to equal the carrying amount and is categorised into Level 3 in the fair value hierarchy.

**Deposits and debt instruments**
The fair value of  “Deposits by credit institutions”, “Debt securities in issue” and “Subordinated liabilities” has been calculated as the carrying amount adjusted for fair value changes in interest rate risk and in own credit risk. The fair value is categorised into Level 3 in the fair value hierarchy. The fair value changes related to interest rate risk is based on changes in relevant interest rates compared with corresponding nominal interest rate in the portfolios. The fair value changes in the credit risk is calculated as the difference between the credit spread in the nominal interest rate compared with the current spread that is observed in the market. This calculation is performed on an aggregated level for all long term issuance recognised in the balance sheet items “Debt securities in issue” and “Subordinated liabilities”. As the contractual maturity is short for “Deposits by credit institutions” the changes in own credit risk related to these items is assumed not to be significant. This is also the case for short term issuances recognised in the balance sheet items “Debt securities in issue” and “Subordinated liabilities”.

**Other liabilities and accrued expenses and prepaid income**
The balance sheet items "Other liabilities" and "Accrued expenses and prepaid income" consist of short-term liabilities, mainly liabilities on securities settlement. The fair value is therefore considered to be equal to the carrying amount and is categorised into Level 3 in the fair value hierarchy.

# Note 19

## Financial instruments set off on balance or subject to netting agreements

| 31 Dec 2020, NOKt | Gross recognised financial assets[1] | Gross recognised financial liabilities set off on the balance sheet | Net carrying amount on the balance sheet[2] | Amounts not set off but subject to master netting agreements and similar agreements: Financial instruments | Financial collateral received | Cash collateral received | Net amount |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Derivatives | 1 423 059 | 0 | 1 423 059 | -39 218 | 0 | 0 | 1 383 841 |
| **Total** | **1 423 059** | **0** | **1 423 059** | **-39 218** | **0** | **0** | **1 383 841** |

| 31 Dec 2020, NOKt | Gross recognised financial liabilities[1] | Gross recognised financial assets set off on the balance sheet | Net carrying amount on the balance sheet[2] | Amounts not set off but subject to master netting agreements and similar agreements: Financial instruments | Financial collateral pledged | Cash collateral pledged | Net amount |
|---|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | | |
| Derivatives | 39 218 | 0 | 39 218 | -39 218 | 0 | 0 | 0 |
| **Total** | **39 218** | **0** | **39 218** | **-39 218** | **0** | **0** | **0** |

[1] All amounts are measured at fair value.

[2] Reverse repurchase agreements and Securities borrowing agreements are on the balance sheet classified as Loans to central banks, Loans to credit institutions or Loans to the public. Repurchase agreements and Securities lending agreements are on the balance sheet classified as Deposits by credit institution or as Deposits and borrowings from the public.

| 31 Dec 2019, NOKt | Gross recognised financial assets[1] | Gross recognised financial liabilities set off on the balance sheet | Net carrying amount on the balance sheet[2] | Amounts not set off but subject to master netting agreements and similar agreements: Financial instruments | Financial collateral received | Cash collateral received | Net amount |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Derivatives | 816 925 | 0 | 816 925 | -171 207 | 0 | 0 | 645 718 |
| **Total** | **816 925** | **0** | **816 925** | **-171 207** | **0** | **0** | **645 718** |

| 31 Dec 2019, NOKt | Gross recognised financial liabilities[1] | Gross recognised financial assets set off on the balance sheet | Net carrying amount on the balance sheet | Amounts not set off but subject to master netting agreements and similar agreements: Financial instruments | Financial collateral pledged | Cash collateral pledged | Net amount |
|---|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | | |
| Derivatives | 171 207 | 0 | 171 207 | -171 207 | 0 | 0 | 0 |
| **Total** | **171 207** | **0** | **171 207** | **-171 207** | **0** | **0** | **0** |

[1] All amounts are measured at fair value.

### Enforceable master netting arrangements and similar agreements

The fact that financial instruments are being accounted for on a gross basis on the balance sheet, would not imply that the financial instruments are not subject to master netting agreements or similar arrangements. Generally financial instruments (derivatives, repos and securities lending transactions), would be subject to master netting agreements, and as a consequence Nordea would be allowed to benefit from netting in the case of default by its counter parties, in any calculations involving counterparty credit risk.

For a description of counterparty risk see section Risk, Liquidity and Capital management, in the Board of Directors' report.

# Note 20
# Maturity analysis for assets and liabilities

**Contractual undiscounted cash flows**

| 31 Dec 2020, NOKt | < 1 month | 1-3 month | 3-12 month | 1-2 years | 2-5 years | 5-10 years | >10 years | Total |
|---|---|---|---|---|---|---|---|---|
| Loans to the public | 1 324 160 | 2 704 329 | 11 884 131 | 14 353 008 | 47 996 436 | 107 188 895 | 162 457 878 | 347 908 837 |
| Loans to credit institutions | 471 611 | 0 | 0 | 0 | 0 | 0 | 0 | 471 611 |
| Interest-bearing securities | 10 006 | 714 | 2 496 037 | 2 351 467 | 407 015 | 0 | 0 | 5 265 238 |
| Other non-derivative financial assets | 0 | 0 | 66 790 | 0 | 0 | 0 | 0 | 66 790 |
| **Total non-derivative financial assets** | **1 805 778** | **2 705 043** | **14 446 957** | **16 704 475** | **48 403 451** | **107 188 895** | **162 457 878** | **353 712 476** |
| | | | | | | | | |
| Deposits by credit institutions | 34 877 | 2 201 837 | 634 595 | 45 225 122 | 61 866 448 | 0 | 0 | 109 962 879 |
| Debt secuirities in issue | 0 | 229 092 | 53 219 879 | 24 792 099 | 61 629 780 | 5 359 124 | 2 406 498 | 147 636 472 |
| - of which covered bonds | 0 | 229 092 | 53 219 879 | 24 792 099 | 61 629 780 | 5 359 124 | 2 406 498 | 147 636 472 |
| Subordinated liabilities | 0 | 16 834 | 1 231 322 | 24 331 | 1 136 156 | 0 | 0 | 2 408 643 |
| Other non-derivative financial liabilities and equity | 0 | 0 | 0 | 0 | 0 | 0 | 20 373 327 | 20 373 327 |
| **Total non-derivative financial liabilities** | **34 877** | **2 447 763** | **55 085 796** | **70 041 552** | **124 632 384** | **5 359 124** | **22 779 825** | **280 381 322** |
| | | | | | | | | |
| Derivatives, cash inflows | 631 | 43 233 | 912 995 | 429 622 | 4 179 769 | 290 820 | 1 291 952 | 7 149 022 |
| Derivatives, cash outflows | 23 532 | 72 128 | 393 148 | 307 349 | 3 822 499 | 273 107 | 1 120 925 | 6 012 689 |
| **Derivatives, net cash flows** | **-22 901** | **-28 895** | **519 847** | **122 273** | **357 270** | **17 713** | **171 027** | **1 136 333** |
| | | | | | | | | |
| **Credit commitments** | | | | | | | | 24 650 647 |

| 31 Dec 2019, NOKt | < 1 month | 1-3 month | 3-12 month | 1-2 years | 2-5 years | 5-10 years | >10 years | Total |
|---|---|---|---|---|---|---|---|---|
| Loans to the public | 1 727 214 | 3 122 116 | 13 577 105 | 16 317 661 | 48 256 370 | 98 932 781 | 158 665 323 | 340 598 570 |
| Loans to credit institutions | 267 385 | 0 | 0 | 0 | 0 | 0 | 0 | 267 385 |
| Interest-bearing securities | 14 729 | 1 917 | 0 | 4 035 326 | 1 352 694 | 0 | 0 | 5 404 667 |
| Other non-derivative financial assets | 0 | 0 | 357 911 | 0 | 0 | 0 | 0 | 357 911 |
| **Total non-derivative financial assets** | **2 009 328** | **3 124 033** | **13 935 016** | **20 352 988** | **49 609 064** | **98 932 781** | **158 665 323** | **346 628 533** |
| | | | | | | | | |
| Deposits by credit institutions | 264 280 | 512 580 | 306 444 | 37 874 639 | 90 488 108 | 7 350 730 | 0 | 136 796 781 |
| Debt secuirities in issue | 0 | 1 883 903 | 9 566 483 | 22 686 288 | 63 210 041 | 5 782 074 | 2 375 152 | 105 503 941 |
| - of which covered bonds | 0 | 1 883 903 | 9 566 483 | 22 686 288 | 63 210 041 | 5 782 074 | 2 375 152 | 105 503 941 |
| Subordinated liabilities | 0 | 14 222 | 62 603 | 1 273 725 | 1 187 972 | 0 | 0 | 2 538 522 |
| Other non-derivative financial liabilities and equity | 0 | 0 | 0 | 0 | 0 | 0 | 19 998 078 | 19 998 078 |
| **Total non-derivative financial liabilities** | **264 280** | **2 410 705** | **9 935 530** | **61 834 652** | **154 886 121** | **13 132 805** | **22 373 230** | **264 837 323** |
| | | | | | | | | |
| Derivatives, cash inflows | 1 949 | 1 619 379 | 1 001 969 | 1 107 940 | 4 313 240 | 401 346 | 1 261 758 | 9 707 580 |
| Derivatives, cash outflows | 72 684 | 1 770 282 | 808 331 | 923 788 | 4 166 160 | 435 743 | 1 225 851 | 9 402 840 |
| **Derivatives, net cash flows** | **-70 736** | **-150 903** | **193 637** | **184 152** | **147 080** | **-34 398** | **35 907** | **304 740** |
| | | | | | | | | |
| **Credit commitments** | | | | | | | | 21 686 623 |

# Note 21
## Related-party transactions

| NOKt | 2020 | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | Nordea Bank Abp, filial i Norge | Nordea Bank Abp, filial i Sverige | Nordea Bank Abp | Other group companies | Nordea Bank Abp, filial i Norge | Nordea Bank Abp, filial i Sverige | Nordea Bank Abp | Other group companies |
| **Profit and loss account** | | | | | | | | |
| Interest income on loans with financial institutions | 2 186 | | | | 6 512 | | | |
| Other interest income | 35 771 | | | | | | | |
| Net gains/losses on items at fair value | 400 198 | 75 284 | | | | 110 319 | | |
| Other operating income | | | | 555 | | | | 301 |
| **Total income** | **438 156** | **75 284** | **-** | **555** | **6 512** | **110 319** | **-** | **301** |
| | | | | | | | | |
| Interest expenses on liabilities to financial institutions | 1 498 762 | | | | 1 793 430 | | | |
| Interest and related expense on securities issued incl. hedging | -156 221 | 21 700 | 22 696 | | -236 314 | 34 334 | 48 042 | |
| Other interest expenses | | | 89 725 | | | | 52 146 | |
| Net gains/(losses) on items at fair value | | | | | 278 835 | | | |
| Interest and related expense on subordinated loan capital | | | 61 820 | | | | 69 644 | |
| Commission and fee expense for banking services | 13 299 | | | | 8 472 | | | |
| Other operating expenses | 860 531 | 1 105 | 1 589 | 546 | 569 958 | 1 455 | 478 | 500 |
| **Total expenses** | **2 216 372** | **22 805** | **175 829** | **546** | **2 414 381** | **35 789** | **170 311** | **500** |
| | | | | | | | | |
| **Balance sheet** | | | | | | | | |
| Loans and receivables to credit institutions | 471 612 | | | | 267 389 | | | |
| Derivatives | 995 633 | 427 426 | | | 550 459 | 266 466 | | |
| Accrued income and prepaid expenses | 35 771 | | | | | | | |
| **Total assets** | **1 503 016** | **427 426** | **-** | **-** | **817 848** | **266 466** | **-** | **-** |
| | | | | | | | | |
| Deposits by credit institutions | 106 935 366 | | | | 131 962 116 | | | |
| Issued bonds | 36 009 350 | | 877 006 | | - | | 1 561 193 | |
| Derivatives | 34 984 | 4 234 | | | 165 253 | 5 954 | | |
| Accrued expenses and prepaid income | 2 003 | 3 512 | 85 793 | 1 046 | | 3 756 | 52 146 | 500 |
| Subordinated loan capital | | | 2 301 732 | | | | 2 302 654 | |
| Share capital and share premium | | | 10 533 627 | | | | 10 533 627 | |
| **Total libilities and equity** | **142 981 703** | **7 746** | **13 798 157** | **1 046** | **132 127 369** | **9 710** | **14 449 620** | **500** |
| | | | | | | | | |
| **Off balance sheet items** | | | | | | | | |
| Interest rate swaps (nominal value) | 66 714 000 | 4 340 730 | | | 55 378 526 | 4 340 730 | | |

From May 2019 mortgage loans are originated directly from the company's own balance sheet, thus there has not been any purchase of loan portfolios from the parent bank Nordea Bank Abp, filial i Norge in 2020. In 2019 loans amounting to NOK 148.6 billion were transferred from the parent bank to Nordea Eiendomskreditt AS.

Nordea Eiendomskreditt AS has from 1 October 2018 been a wholly owned subsidiary of Nordea Bank Abp. Transactions between Nordea Eiendomskreditt AS and other legal entities or branches in the Nordea Group are performed according to market based principles in conformity with OECD requirements on transfer pricing.

# Note 22
## Interest-bearing securities

| | 31 Dec 2020 | | 31 Dec 2019 | |
|---|---|---|---|---|
| **NOKt** | Aquired amount | Carrying amount | Aquired amount | Carrying amount |
| **Financial assets** | | | | |
| States, municipalities and other public bodies | 2 008 294 | 1 952 579 | 2 004 450 | 2 006 600 |
| Mortgage institutions | 3 226 028 | 3 228 492 | 3 226 028 | 3 240 238 |
| **Total** | **5 234 322** | **5 181 071** | **5 230 478** | **5 246 838** |

Provisions for credit risks amount to NOKt 0 (NOKt 0).

# Note 23
## Credit risk disclosures

Credit risk management and credit risk analysis is described in the Risk, Liquidity and Capital management section of the Board of Directors´ Report. Additional information on credit risk is also disclosed in the Capital and Risk Management Report (Pillar 3) 2020, which is available on www.nordea.com. Much of the information in this note is collected from the Pillar 3 report in order to fulfil the disclosure requirement regarding credit risk in the Annual Report.

The Pillar 3 report contains the disclosures required by the Capital Requirements Regulation (CRR). The Pillar 3 disclosure is aligned to how Nordea manages credit risk and is believed to be the best way to explain the credit risk exposures in Nordea Eiendomskreditt. Credit risk exposures occur in different forms and are divided into the following types: On-balance sheet items, Off-balance sheet items and derivatives.

Credit risk is defined as the risk of loss if counterparts fail to fulfil their agreed obligations and that the pledged collateral does not cover the claims. Credit risk stems mainly from various forms of lending, but also from counterparty credit risk in derivatives contracts.

### Allowances for credit risk

| NOKm | Note | 31 Dec 2020 | 31 Dec 2019 |
|---|---|---|---|
| Loans to the public | 9 | 190 | 103 |
| **Total** | | **190** | **103** |

The figures in the table represents maximum exposure for credit risk in the company, presented as Exposure At Default (EAD). EAD is the exposure after applying credit conversion factors (CCF).

### Maximum exposure to credit risk

| | | 31 Dec 2020 | | 31 Dec 2019 | |
|---|---|---|---|---|---|
| NOKm | Note | Amortised cost and Fair value through other comprehensive income | Financial assets at fair value through profit or loss | Amortised cost and Fair value through other comprehensive income | Financial assets at fair value through profit or loss |
| Loans to credit institutions | | 472 | | 267 | |
| Interest-bearing securities | 22 | | 5 181 | | 5 247 |
| Loans to the public incl accrued interest | 9 | 266 088 | | 246 227 | |
| Derivatives | | | 1 384 | | 646 |
| - of which household | | | | | |
| **Total loans and receivables (on-balance exposure)** | | **266 559** | **6 565** | **246 495** | **5 893** |
| Off balance credit exposure: | | | | | |
| - of which lending to the public | 15 | 24 651 | | 21 687 | |
| **Off balance credit exposure** | | **24 651** | **0** | **21 687** | **0** |
| **Exposure At Default (EAD)** | | **291 210** | **6 565** | **268 181** | **5 893** |

# Note 23
# Credit risk disclosures cont.

### Loans-to-value distribution and loans to the public[1]

| | 31 Dec 2020 | | 31 Dec 2019 | |
|---|---|---|---|---|
| | NOKm | in % | NOKm | in % |
| <50% | 188 846 | 71,0 % | 169 391 | 68,9 % |
| 50-70% | 30 950 | 11,6 % | 28 500 | 11,6 % |
| 70-80% | 7 099 | 2,7 % | 6 937 | 2,8 % |
| 80-90% | 3 417 | 1,3 % | 3 512 | 1,4 % |
| >90% | 35 731 | 13,4 % | 37 637 | 15,3 % |
| **Total** | **266 042** | **100 %** | **245 977** | **100 %** |

[1] The LTV distribution is based on the Basel rules, where each portion of a loan is allocated to the appropriate bucket.

### Past due loans excluding impaired loans

The table below shows loans past due 6 days or more that are not considered impaired.

| NOKm | 31 Dec 2020 | 31 Dec 2019 |
|---|---|---|
| 6-30 days | 980 | 4 093 |
| 31-60 days | 135 | 466 |
| 61-90 days | 59 | 135 |
| >90 days | 64 | 79 |
| **Total** | **1 238** | **4 774** |
| Past due not impaired loans divided by loans to the public after allowances | 0,5 % | 1,9 % |

The volume at the beginning of 2020 was abnormal especially for past due between 6 and 30 days, and the volume decreased rapidly the first 4 months in 2020 and has been stable on low levels for the rest of the year. Historically low interest rates on mortgages together with less spending in the households in general, in combination with instalment free periods for households directly impacted by the Covid-19 crisis has had positive impact on the volume of past due loans.

**Interest-bearing securities**

For more information about credit risk related to interest-bearing securities, see Note 22 where the carrying amount of interest-bearing securities is split on different types of counterparties.

To the General Meeting of Nordea Eiendomskreditt AS

## *Independent Auditor's Report*

### *Report on the Audit of the Financial Statements*

#### *Opinion*

We have audited the financial statements of Nordea Eiendomskreditt AS, which comprise the balance sheet as at 31 December 2020, the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are prepared in accordance with law and regulations and give a true and fair view of the financial position of the Company as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

#### *Basis for Opinion*

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. 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 |
|---|---|
| *Compliance with requirements related to loans to the public*<br><br>The mortgage company has loans to the public amounting to NOK 266 049 million secured by real estate and has issued covered bonds. Processes and controls have been established to ensure that the company complies with the various requirements the mortgage | In order to comply with the requirements in the regulations applicable to covered bonds, the mortgage company has established controls in the process of granting loans. These controls ensure the mortgage company has reviewed the applications for loans and associated documentation. The process includes formal controls and division of responsibilities, which are |

*PricewaterhouseCoopers AS, Sandviksbodene 2A, Postboks 3984 - Sandviken, NO-5835 Bergen*
*T: 02316, org. no.: 987 009 713 VAT, www.pwc.no*
*State authorised public accountants, members of The Norwegian Institute of Public Accountants, and authorised accounting firm*

company is subject to, including that the value of the collateral consistently backs the covered bonds.

The value of the collateral at any time shall be above 75% of the loan value and for vacation property, above 60% of the loan value. As the requirements and the processes and controls are of fundamental importance for the mortgage company's operations and compliance with the regulations, we have focused our attention on the subject.

*We refer to Note 7 – Loan losses, Note 9 – Loans and impairment, Note 11 – Cover Pool and Note 14 – Assets pledged as security for own liabilities to the financial statements.*

directed at ensuring that the process has been carried out prior to granting of loans.

Further, in accordance with applicable regulations the company has engaged an independent inspector. The inspector controls, on a quarterly basis, that the mortgage company complies with the various requirements, including the required coverage over the loan portfolio of the value of the collateral. Our audit includes review and verification of the investigator's work and that we examine and assess the mortgage company's documentation and whether the process has been conducted appropriately and timely. Further, we assess if the underlying documentation that the mortgage company has collected, supports the conclusions drawn by the company that the requirements in legislation and regulations have been met.

Furthermore, we place reliance on IT general controls for the applications, systems and related platforms that support the mortgage company's accounting and financial reporting. For relevant IT systems and controls relating to financial reporting we assessed and tested the design and operating effectiveness. We examined the framework of governance over the bank's IT organization and the controls over program development and changes, access to programs and data and IT operations.

Our testing gave us sufficient evidence to enable us to rely on the operation of the bank's IT systems that the regulations in this area are complied with.

We evaluated the appropriateness of the related disclosures in the notes and found that they satisfied the requirements in IFRS.

---

*Impairment of loans to the public*

Loans to the public represent NOK 266 049 million (97% of total assets) for Nordea Eiendomskreditt as at 31 December 2020. Total expected credit losses on loans to customers amounts to NOK 190 million, of which NOK 176 million is related to model based loan loss provisions and NOK 14 million is related to individual assessments.

A high level of judgement is involved in determining the appropriate impairment loss to be recognised as expected credit

Our audit included a combination of testing of internal controls over financial reporting and substantive testing. We obtained an understanding of the loan origination process, credit risk management and the impairment allowances for loans and advances to customers.

For ECL models, where we also involved our modelling specialists, we obtained a detailed understanding of the process and relevant controls associated with;

- the calculation and methodologies used by management;

(2)

losses (ECL) are calculated as a function of the probability of default, the exposure at default and the loss given default, as well as the timing of loss. Due to the use of judgement in applying the ECL measurement criteria of IFRS 9, the complexity of calculation and the effect on estimates, we consider provisioning for ECL a key audit matter.

The COVID-19 global pandemic and the fall in oil price has impacted management's determination of the ECL. To address the uncertainties inherent in the current and future environment and to reflect all relevant risk factors not captured in the company's modelled results, management developed post-model-adjustments. Additionally, Nordea Eiendomskreditt uses adjustments to the model driven ECL results to address impairment model limitations.

*We refer to Note 1 - Accounting policies (Critical judgements and estimation uncertainty), Note 7 – Loan losses and Note 9 – Loans and impairment to the financial statements, where management explain their use of judgement.*

- whether the management-approved model was in compliance with the framework and the model worked as intended;
- the reliability of the sources of the data used in the model.

Our review of the process and controls did not indicate material errors in the model or deviation from IFRS 9.

We had a special focus on post-model-adjustments developed as a result of the COVID-19 global pandemic and the fall in oil price. We evaluated the appropriateness of the assumptions and accuracy of underlying data used to develop post-model-adjustments and reviewed that governance procedures have been performed. Our review indicated that the assumptions underpinning the post-model-adjustments were reasonable.

We assessed the disclosures related to impairment of loans and found that they satisfied accounting requirements.

## *Other information*

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information 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 the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

*Responsibilities of the Board of Directors and the Managing Director for the Financial Statements*

The Board of Directors and the Managing Director (management) are responsible for the preparation in accordance with law and regulations, including a true and fair view of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, 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 laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in 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 laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment 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. We 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 achieves a true and fair view.

We communicate with the Board of Directors 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 the Board of Directors 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, related safeguards.

From the matters communicated with the Board of Directors, 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 Other Legal and Regulatory Requirements*

### *Opinion on the Board of Directors' report*

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption and the proposed allocation of the result is consistent with the financial statements and complies with the law and regulations.

### *Opinion on Registration and Documentation*

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements *(ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Bergen, 9 February 2021
**PricewaterhouseCoopers AS**

Marius Kaland Olsen
State Authorised Public Accountant

(5)

# Statement by the Chief Executive Officer and the Board of Directors

**Pursuant to Section 5-5 of the Securities Trading Act**

The Chief Executive Officer and the Board of Directors have today considered and approved the Board of Director's Report and the annual accounts of Nordea Eiendomskreditt AS for 2020, including comparative figures for 2019 (the "2019 Annual Report").

The Annual Report has been prepared in accordance with IFRS as adopted by the EU, and additional Norwegian disclosure requirements pursuant to the Accounting Act, the Regulations for Annual Accounts and the Securities Trading Act. According to our best knowledge, the 2020 Annual Report has been prepared in accordance with the applicable accounting standards and gives a true and fair view of the company's assets, liabilities and net profit as of 31 December 2020 and as of 31 December 2019.

According to our best knowledge, the Board of Directors' report gives a true and fair view of the company's activities, results and financial position including disclosure of related party transactions and the description of the most relevant risk factors the company faces the coming year.

Nordea Eiendomskreditt AS

Oslo, 9 February 2021

Marte Kopperstad
Chair

Gro Elisabeth Lundevik
Vice Chair

Ola Littorin
Board member

Alex Madsen
Board member

Pål Ekberg
Board member

Anne Sofie Knoph
Employee representative

Børre S. Gundersen
Chief Executive Officer

# Board of Directors and Auditor

## Board of Directors

### Chair

**Marte Kopperstad**
Nordea Bank Abp, filial i Norge
Head of Product and Business Development, Nordea
Board member since 2016

### Members

**Gro Elisabeth Lundevik**
School of Business and Law at University of Agder
Head of Faculty
Board member since 2019

**Ola Littorin**
Nordea Bank Abp, filial i Sverige
Head of Long Term Funding in Group Treasury & ALM, Nordea
Board member since 2013

**Alex Madsen**
Sjølyst Regnskap AS
Partner
Board member since 2014

**Pål Ekberg**
Nordea Bank Abp, filial i Norge
Head of Advisory and Sales in Personal Banking Nordea Norway
Board member since 2021

**Anne Sofie Knoph (Employee representative)**
Nordea Eiendomskreditt AS
Senior Business Developer
Board member since 2017

## Auditor

**PricewaterhouseCoopers AB**

**Marius Kaland Olsen**
Authorised Public Accountant

## Addresses

### Nordea Eiendomskreditt AS

| | |
|---|---|
| Visiting address: | Essendropsgate 7 |
| Postal address: | P.O Box 1166 Sentrum, 0107 Oslo |
| Telephone: | +47 22 48 50 00 |
| Internet: | www.nordea.no |