Nordea

Annual Report 2019

Nordea Eiendomskreditt AS

Contents

Nordea Eiendomskreditt AS is part of the Nordea Group. Nordea build strong and close relationships through our engagement with customers and society. Whenever people strive to reach their goals and realize dreams, we are there to provide relevant financial solutions. We are the leading bank in the Nordic region. 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)

	2019	2018	2017	2016	2015
Net interest income	1 879	1 328	1 576	1 247	1 587
Net result from items at fair value	-31	-25	42	49	44
Other operating income	66	33	-2	-16	-9
Total operating income	**1 914**	**1 337**	**1 616**	**1 279**	**1 622**
Staff costs	19	19	17	0	-3
Other expenses	604	356	396	462	-155
Total operating expenses	**623**	**375**	**414**	**462**	**-158**
Loan losses (negative figures are reversals)	-2	6	27	1	33
Operating profit	**1 293**	**955**	**1 175**	**817**	**1 431**
Income tax expense	323	239	294	204	343
Net profit for the period	**970**	**717**	**881**	**613**	**1 088**

Summary of the balance sheet (NOKm)

	2019	2018	2017	2016	2015
Loans to the public	245 978	111 920	135 511	106 008	106 508
Allowance for loan losses	-103	-56	-89	-69	-76
Other assets	6 689	8 583	7 111	7 673	8 905
Debt securities in issue	98 124	82 564	77 731	84 252	81 160
Other liabilities	135 276	24 445	51 635	17 083	23 626
Equity	19 164	13 437	13 167	12 278	10 551
Total assets	**252 564**	**120 447**	**142 533**	**113 613**	**115 337**
Average total assets	205 635	127 959	131 021	119 682	111 789

Ratios and key figures

	2019	2018	2017	2016	2015
Basic/diluted Earnings per share (EPS), annualised basis, NOK	63,2	46,7	57,5	39,9	71,0
Equity per share[1], NOK	1 249,6	876,2	858,5	800,6	688,0
Shares outstanding[1], million	15,3	15,3	15,3	15,3	15,3
Return on average equity	5,5 %	5,4 %	6,9 %	6,0 %	10,8 %
Cost/income ratio	32,6 %	28,1 %	25,6 %	36,1 %	9,7 %
Loan loss ratio, annualised, basis points	-0,1	0,5	2,2	0,1	3,1
Common Equity Tier 1 capital ratio, excl. Basel I floor[1,2]	31,8%	46,7 %	83,5 %	85,8 %	64,1 %
Tier 1 capital ratio, excl. Basel I floor[1,2]	31,8%	46,7 %	83,5 %	85,8 %	64,1 %
Total capital ratio, excl. Basel I floor[1,2]	35,8%	50,9 %	91,6 %	94,4 %	68,9 %
Common Equity Tier 1 capital ratio, incl. Basel I floor[1,2]	31,8 %	26,9 %	21,2 %	25,7 %	21,5 %
Tier 1 capital ratio, incl. Basel I floor[1,2]	31,8 %	26,9 %	21,2 %	25,7 %	21,5 %
Total capital ratio, incl. Basel I floor[1,2]	35,8 %	29,4 %	23,2 %	28,3 %	23,2 %
Own funds, NOKm[1,2]	20 789	14 615	13 923	13 486	11 224
Risk Exposure Amount incl. Basel I floor[1], NOKm	58 023	49 748	59 927	47 707	48 469
Number of employees (full-time equivalents)[1]	16,5	15,5	15,5	1,7	1,7

[1] At the end of the period.

[2] Excluding the year to date result for interim figures.

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 (NBN). 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 houses and construction loans for residential properties and holiday houses, and to finance its lending activities substantially by issuing of covered bonds.

During the second quarter of 2019 the company changed its business model from purchasing loans from the parent bank, to issue mortgage loans directly from its own balance sheet. At implementation of this new business model, a loan portfolio of NOK 128bn was purchased from the bank, which more than doubled Nordea Eiendomskreditt's loan volume. The loan portfolio comprises only residential loans, loans to holiday homes and residential construction loans bought from the parent bank or originated in Nordea Eiendomskreditt after the change of business model. In connection with the changed business model, Nordea Eiendomskreditt received a capital injection of NOK 5.1bn from the parent bank.

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 Nordea Bank Abp.

Comments on the Income statement

(previous year's figures are shown in brackets)

Income

Total operating income was NOK 1,914m (NOK 1,337m) which was an increase of 43%, mainly driven by higher Net interest income.

Net interest income was NOK 1,879m in 2019 (NOK 1,328m). The increase is due to higher loan portfolio, with average lending volume 64% higher in 2019.

Net fee and commission income was higher in 2019 than 2018 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 65.6m in 2019 (NOK 33.3m).

Net result from items at fair value ended at a cost of NOK 31.0m in 2019 (cost of NOK 24.6m). In accordance with IFRS, net result from items at fair value includes both realized gain/loss from buy-backs of own bonds and corresponding interest rate swaps, 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. A loss of NOK 21.3m in 2019 (gain of NOK 13.5m in 2018) is related to interest-bearing securities and derivatives held for economic hedging.

Expenses

Total operating expenses was NOK 623m in 2019 (NOK 375m). The cost is mainly related to staff costs and services bought from the parent bank Nordea Bank Abp. These services are related to distribution and management of the loan portfolio and customer contact, funding and risk management, accounting and reporting. Distribution and management of the loan portfolio is the main part and the fee charged for these services was adjusted in 2019. Total operating expenses were equivalent to 0.30% of average total assets (0.29%). Nordea Eiendomskreditt AS does not incur any costs for research and development activities.

Loan losses

Loan losses for 2019 was a reversal of NOK -1.8m (NOK 6.5m), corresponding to -0.1 basis points (0.5 bp). Loan losses for individually assessed loans were NOK 1.8m, while provisions of NOK 3.6m for collectively assessed loans were reversed. Comparable figures for 2018 were an increase in collective allowances of NOK 5.1m and loan losses for individually assessed loans of NOK 1.4m, in total a net cost of NOK 6.5m.

Taxes

Taxes for the year amounted to NOK 323.3m, of which NOK 309.2m relates to tax payable and NOK 14.1m due to changes in deferred tax.

Net profit

Net profit for the year amounted to NOK 970m (NOK 717m). This gives a return on average equity of 5.5% (5.4%).

Comments on the Balance sheet

Assets and lending activities

Gross lending to customers at 31 December 2019 amounted to NOK 246.0bn (NOK 111.9bn) 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 166.2bn 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 70.6% in relation to the covered bonds issued.

The cover pool has a weighted indexed loan-to-value ratio of 50.5% at the end of 2019 (48.2%). The average loan size was NOK 1,652 m. The cover pool is split between 61% amortizing loans and 39% flex loans.

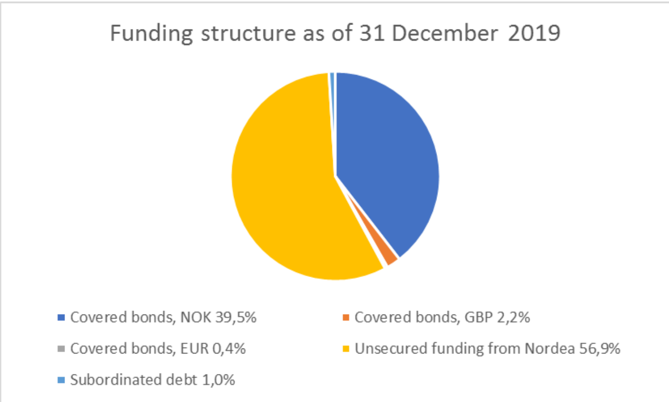
Liabilities and funding activities

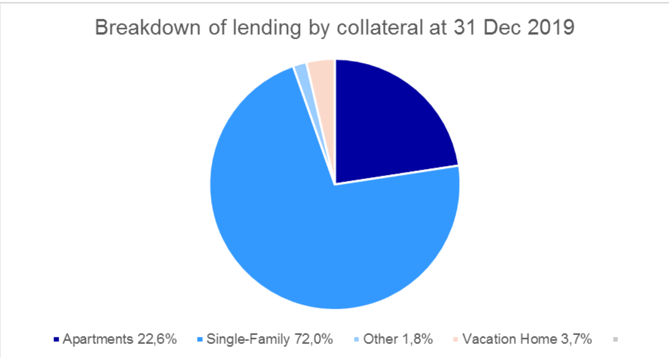
Nordea Eiendomskreditt's main funding source is issuance of covered bonds. Covered bonds are debt instruments, regulated by the Financial Undertakings Act (Act No. 17 of 10 April 2015), that gives investors a preferential claim into a pool of high-quality assets in case of the issuer's insolvency. Norwegian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

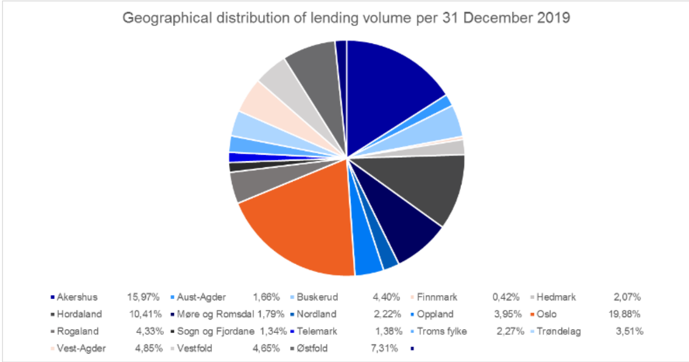
During 2019 Nordea Eiendomskreditt has issued covered bonds amounting to NOK 35.5bn in the Norwegian domestic market under its NOK 100bn domestic covered bond program. Issuance is done via taps of outstanding and new bonds via designated dealers. During 2019 bonds amounting to NOK 20.3bn have matured or been bought back. As of 31 December 2019, Nordea Eiendomskreditt had outstanding covered bonds totalling NOK 91.5bn in the Norwegian market, GBP 0.4bn 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 2019 such borrowings amounted to NOK 131.6bn.

The following figures show breakdown of the company's funding and lending as of 31 December 2019.







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 cities, see the picture above for more detailed information.

Equity

Shareholder's equity ended at NOK 19.2bn at 31 December 2019 (NOK 13.4bn). This includes net profit for the year of NOK 970m (NOK 717m).

Allocation of net profit for the year

Nordea Eiendomskreditt AS reported an operating profit for the year of NOK 1,293m, and a net profit after tax for the year of NOK 970m. The Board of Directors will propose to the Annual General Meeting on 12 March 2020 that the company distribute 50% of net profit (NOK 484.9m) as dividend to the parent company Nordea Bank Abp and the other 50% (NOK 484.9m) 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 2019 will therefore be distributed to retained earnings in the balance sheet as of 31 December 2019. 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 2019, the company was party to interest rate swaps with a nominal value of NOK 53.9bn.

Nordea Eiendomskreditt has covered bonds totalling GBP 0.4bn 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

Management of risk, liquidity and capital are key factors of fundamental importance in the financial services industry. Exposure to risk is inherent in providing financial services, and the Nordea Group assumes a variety of risks in its ordinary business activities, the most significant being credit risk. 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.

Management principles and control

Group Board of Directors and Board Risk Committee

The Board of Directors (BoD) has the ultimate responsibility for deciding on Nordea's risk appetite, comprising all of Nordea's risk types. The BoD is also responsible for risk strategy, setting the overall risk appetite limits and overseeing that Nordea has an adequate and effective Internal Control Framework. The BoD decides on the Group Board Directives on risk and on risk appetite as well as the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP). Risk is measured, managed and reported on according to common principles further covered by Group Instructions approved by the Chief Executive Officer (CEO).
In defining the Group Board Directive on Risk and Risk Appetite, the BoD decides on powers-to-act for major credit committees at different levels within the Business Areas. These authorisations vary for different decision-making levels, mainly in terms of the size of limits but also depending on the internal risk categorisation of customers.
The Board Risk Committee (BRIC) assists the BoD in fulfilling its oversight responsibilities concerning the management and control of risk, risk frameworks as well as controls and processes associated with Nordea's operations.

Responsibility of Group CEO

The CEO in Group Leadership Team (GLT) has the overall responsibility for developing and maintaining effective risk, liquidity and capital management principles and control of the Nordea Group.

The CEO in GLT regularly reviews reports on risk exposure and has established a number of committees for risk, liquidity and capital management, the most essential for Nordea Eiendomskreditt being:

- The Asset and Liability Committee (ALCO), chaired by the Group Chief Financial Officer (CFO), prepares proposals and recommendations regarding Nordea Group's financial operations and balance sheet risks, either for decision by the CEO in GEM, or BoD via the CEO in GLT's recommendations.
- The Risk Committee (RC), chaired by the Chief Risk Officer (CRO), 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 CEO Credit Committee is chaired by the CEO. The Executive Credit Committee (ECC) is chaired by the Head of Group Credit Risk Management (GCRM), and the Local Credit Committee in Norway is chaired by Head of Personal Banking Credit Norway.

Within the Risk Appetite Framework, these credit committees approve major internal credit risk limits constituting the maximum credit risk appetite on the customer in question. Individual credit decisions, within approved internal credit risk limits, are taken normally by the customer responsible units (CRUs). Internal credit risk limits are set individually for customers or consolidated customer groups.

Governance of Risk Management and Compliance

Group Risk and Compliance (GRC) is the second line of defence, comprising the independent risk and compliance functions. GRC is organised in the following divisions: Balance Sheet Risk Controls, Group Market and Counterparty Credit Risk, Group Credit Risk Control, Group Operational Risk, Risk Models, Group Compliance, Group GRC COO, and Group Regulatory Affairs & Systemic Risks.

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 control 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:

Green: Risk level is within the defined risk appetite. No additional action required.
Amber: 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.
Red: 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, GEM, BRIC and the BoD. In addition to this Nordea's compliance with regulatory requirements is reported to GEM and BoD. The BoD 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 2019 (Pillar 3 report)

Additional information on risk and capital management is presented in the Capital and Risk Management Report 2019, in accordance with the Capital Requirements Regulation (CRR), which is based on the Basel III framework issued by the Basel Committee on Banking Supervision. The report is available at www.nordea.com.

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 Risk Management in 1st LoD is responsible for the credit process framework and operational credit risk guidelines and SOPs. 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 organisation 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 categorisation 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 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 recognised 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 recognises 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 recognised 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 performing or non-performing. Loan loss provisions are recognised if necessary. Further information on credit risk is presented in Note 23 Credit risk disclosures to the financial statements.

Credit portfolio

Including on- and off -balance sheet exposures and exposures related to securities, the total credit risk exposure at year end was NOK 274.1bn (NOK 132.5bn 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 amortised cost lending and constitutes the major part of the credit portfolio. Amortised 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 0.6bn at year end (NOK 0.5bn).

Nordea Eiendomskreditt's total lending to the public increased to NOK 246.0bn at the end of 2019 (NOK 111.9bn). The portfolio includes residential mortgage loans as well as loans to holiday homes, secured by properties in Norway, and construction loans for residential properties and holiday houses secured by mortgages over real estate. Including off-balance sheet exposures the total credit risk exposure at year end was NOK 267.9bn (NOK 124.3bn).
Lending to credit institutions amounted to NOK 0.3bn at the end of the year (NOK 0.9bn), 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 2019 (NOK 6.7bn).

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 decreased slightly in the scoring portfolio in Q4-2019. 27% of the number of customers migrated upwards while 17% were down-rated. Exposure-wise, 30% of the customer exposure migrated upwards while 19% was down-rated. By the end of 2019, 91.8% of the exposure were scored C– or higher (92.1% at the end of Q3-2019).

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 increased during the year from NOK 528m in 2018 to NOK 784m in 2019, corresponding to 32bp of total loans. 30% of impaired loans gross are servicing loans and 70% are non-servicing loans. Impaired loans net, after allowances for Stage 3 loans, amounted to NOK 736m, corresponding to 30bp of total loans. Allowances for Stage 3 loans amount to NOK 47.7m. Allowances for Stages 1 and 2 amounted to NOK 55.4m. The ratio of allowances in relation to impaired loans is 6.1% and the allowance ratio for loans in Stages 1 and 2 is 2.3bp of total loans in Stages 1 and 2.

The volume of past due loans to household customers (excluding impaired loans) was NOK 4,774m (NOK 926m) in 2019. There was a gradual increase during the fall with a peak at year-end, and a significant decrease again after year-end. Nordea Eiendomskreditt has not taken over any properties for protection of claims due to default.

Loan losses amounted to NOK -1.8m (reversal) in 2019 (NOK 6.5m). This corresponds to a loan loss ratio of -0.1 basis points.

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 2019 for Nordea Eiendomskreditt was NOK 989m (NOK 0m). 100% of the exposure and 100% of the current exposure net was towards financial institutions. 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 are exposed to are interest rate risk and credit spread risk. Interest rate risk in the banking book (IRRBB) is 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 and include gap risk, basis risks, credit spread risk and option risk.

Due to the lending structure in Nordea Eiendomskreditt's home market Norway, most of the contractual interest rate exposures are floating rate. Consequently, wholesale funding is also swapped to floating rate. The resulting repricing gap risk is 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, is hedged with interest rate swaps (IRS) and overnight index swaps (OIS).

Liquid assets are managed in accordance with the Liquidity Buffer and Pledge/Collateral 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 non-maturing deposits and 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. In addition, Fair value sensitivities in the banking book are monitored against five severe but plausible market stress scenarios.

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 the non-maturing deposits and prepayments. 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 prepayments is estimated using prepayment models.

Market risk analysis

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

At the end of the year, the loss for SIIR was NOK 100,5m for the 50 bp down scenario. The most severe impact from the Basel scenarios on EV was NOK 66.0m loss at end of year 2019.

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 first 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 are 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 materialisation.

Nordea Eiendomskreditt operates an organizational structure with only 17 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 laws, regulations, standards, supervisory requirements 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 for compliance with external and Group Internal Rules as part of performing their tasks. All managers are fully responsible for the risks they assume and for compliance 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 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 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.

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 of being able to meet liquidity commitments only at increased cost or, ultimately, being unable to meet obligations as they fall due. Nordea Eiendomskreditt's liquidity management is an integral part of the Nordea Group's liquidity risk management.

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 methods

The liquidity risk management focuses on both short-term liquidity risk and long-term structural liquidity risk. In order to manage short-term funding positions, Nordea measures the funding gap risk, which 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.

Since 2011 Survival horizon metric is being used. The Board of Directors has set a limit for minimum survival without access to market funding. In April 2016 that period was prolonged from 30 days to 90 days. Nordea is also compliant with EBA Delegated Act LCR, which came into force in October 2015.

The structural liquidity risk of Nordea is measured and limited by the Board of Directors through the Net Balance of Stable Funding (NBSF), which is defined as the difference between stable liabilities and stable assets.

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 733% at the end of the year.

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). Returns to shareholders are subject to the maintaining of a prudent capital level and structure.

Minimum capital requirements

Risk exposure amount (REA) is calculated in accordance with CRR/CRD IV. Nordea Eiendomskreditt had 99.6% of its REA covered by internal rating based (IRB) approaches by the end of 2019. 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] 2019	31 Dec[1,2] 2018
Calculation of own funds		
Equity in the consolidated situation	19 164	13 437
Proposed/actual dividend	-485	-
Common Equity Tier 1 capital before regulatory adjustmen	18 679	13 437
Deferred tax assets	-	-
Intangible assets	-	-
IRB provisions shortfall (-)	-269	-96
Deduction for investments in credit institutions (50%)		
Pension assets in excess of related liabilities	-	-
Other items, net	52	62
Total regulatory adjustments to Common Equity Tier 1 cap	-217	-34
Common Equity Tier 1 capital (net after deduction)	**18 462**	**13 403**
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)	**18 462**	**13 403**
Tier 2 capital before regulatory adjustments	2 300	1 200
IRB provisions excess (+)	27	12
Deduction for investments in credit institutions (50%)		
Deductions for investments in insurance companies	-	-
Pension assets in excess of related liabilities		
Other items, net	-	-
Total regulatory adjustments to Tier 2 capital	27	12
Tier 2 capital	2 327	1 212
Own funds (net after deduction)	**20 789**	**14 615**

[1] Including profit of the period

[2] Own Funds adjusted for IRB provision, i.e. adjusted own funds equal NOK 21,031m by 31 Dec 2019

Capital position and risk-weighted exposure

The Basel I floor is as of Q4 2019 no longer applicable following the CRR implementation for the Norwegian entities, decreasing total REA by NOK 54,701m. Nordea Eiendomskreditt's Common Equity Tier 1 capital ratio was 31.8%, including profit at the end of 2019, an increase of 4.9 percentage points from the end of last year, not taking last year's Basel I floor into account. The Total Capital ratio increased 5.5 percentage points to 35.8%, including profit.

Risk Exposure Amount (REA) was NOK 58,023m, an increase of NOK 29,333m compared to the end of last year. The main driver for the increase in REA was the IRB retail portfolio, primarily stemming from increased volumes in residential mortgage loans due to purchase of loans from the parent bank.

Own Funds was NOK 20,789m at the end of 2019, of which NOK 2,300m is subordinated loans.

The Tier 1 capital and the Common Equity Tier 1 capital were NOK 18,462m (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 2019 at www.nordea.com.

New regulations

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 was also finally implemented in Norway.

In June 2019, the 'Banking package' containing revisions to the BRRD, the CRD and the CRR was adopted. The amendments to the CRR, being a regulation, will be directly applicable in all EU countries once implemented whereas the amendments to the CRD and BRRD, being directives, need to be implemented into national legislation before being applicable. The revision contains, among others, review to the Minimum Requirement for own funds and Eligible Liabilities (MREL), review to the market risk requirements (Fundamental Review of the Trading Book, FRTB), introduction of a binding Net Stable Funding Ratio (NSFR), introduction of a strict leverage ratio requirement of 3% to be met by Tier 1 capital and amendments to the pillar 2 and macro prudential framework. The revised CRD (CRD V) and BRRD (BRRD II) are to be applied from 28 December 2020, while the majority of the changes in CRR II are to be applied from 28 June 2021. The 'Banking package' is not yet implemented in Norway.

The new European Covered Bond Directive and Regulation have been finalised. 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. A consultation to implement these rules have started in Norway.

From 26 April 2019, an amendment to CRR as regards minimum loss coverage for non-performing exposures (NPE) (defined as past due 90 days, stage 3 or unlikeness to pay) entered into force and apply to exposures that is originated and turns non-performing from this date. The amendment includes mandatory and calendar-based minimum provisioning rules. The coverage requirements for banks increase progressively up to 100%, after 3 years for unsecured NPEs, after 9 years for NPEs secured by immovable property and after 7 years for NPEs secured by other eligible credit protection. Insufficient loss coverage will have to be deducted from the CET1 capital.

In June 2019, the Finnish FSA decided to maintain the systemic risk buffer requirement of 3% CET1 capital to Nordea.

During 2019 the countercyclical buffer rate increased in Sweden, Denmark and Norway. The buffer rate in both Sweden and Norway was increased from 2% to 2.5% in September for Sweden and in December for Norway. In Denmark the buffer was increased from 0% to 0.5% in March and further increased to 1.0% in September. The Danish buffer rate has also been decided to be further increased to 1.5% from 30 June 2020 and to 2.0% from 30 December 2020.

With effect from 1 January 2019, Norwegian rules implemented the BRRD, the Deposit Guarantee Scheme (DGS) as well as new MREL in accordance with EU rules. The DGS does, however, continue the current Norwegian guarantee of NOK 2 million per depositor.

To mitigate the effect of the Norwegian implementation of CRR and CRD IV in December 2019, the Norwegian Ministry of Finance has announced that they intend to decide on changes in banks capital requirements by increasing the systemic risk buffer (SRB) from 3% to 4.5% with effect from 31 December 2020. The increase is suggested to be applicable to all bank's exposures in Norway currently being subject to the advanced Internal rating based (IRB) approach. For all other banks the intention is that the SRB enters into force on 31 December 2022. The increase is subject to notification procedures to EU-Bodies. Furthermore, a minimum 20% average risk weight to residential real estate exposures and a minimum 35% average risk weight to commercial real estate exposures are also suggested to be implemented to banks being subject to the IRB approach with effect from 31 December 2020.

The Swedish FSA published, in November, a proposal on average risk weight floors for commercial real estates in Sweden, applicable to banks with IRB permission. The floors are proposed to be 35% for exposures to commercial property corporates and 25% for residential property companies. The floors will be included within Pillar 2 where the add-on will be the difference between the actual average risk weight and the floor.

Finalisation of Basel III framework ("Basel IV")

Basel III is the global, regulatory framework on bank capital adequacy, stress testing, and liquidity risk. In December 2017, the finalised Basel III framework, often called the Basel IV package, was published. The Basel IV package will be implemented in 2022 and includes revisions to credit risk, market risk, operational risk, credit valuation adjustment (CVA) risk, leverage ratio and introduces 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 has been revised. For operational risk, the three approaches currently existing will be removed and replaced with 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-SIB) of half the size of G-SIB capital buffer requirement.

The output floor is to be set to 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 2022 to be fully implemented at 72.5% from 1 January 2027.

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. In October 2019 the European Commission issued a consultation on the implementation of the final Basel III reforms in the EU. It is expected that the Commission will publish its proposal in mid-2020 after which negotiations in the Council and Parliament will begin.

Internal control and risk management regarding financial reporting

The systems for internal control and risk management regarding financial reporting are designed to give reasonable assurance concerning reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS, applicable laws and regulations in Norway, and other requirements for listed companies. The internal control and risk management activities in Nordea Eiendomskreditt are carried out in accordance with Nordea Group Principles and are included in Nordea's planning and resource allocation processes. Internal control and risk management regarding financial reporting in Nordea can be described in accordance with the original COSO Framework (Internal Control - Integrated framework, by the Committee of Sponsoring Organizations of the Treadway commission) as follows below.

Control environment

The control environment constitutes the basis for Nordea's internal control and contains the culture and values established by the Board of Directors and Executive Management. A clear and transparent organisational structure is of importance for the control environment. Nordea's business structure aims to support the overall strategy, with a strong business momentum and increased requirements on capital and liquidity. The business and the organization are under continuous development.

Clear roles and responsibilities are critical in the governance of Internal Control over Financial reporting where the risk owners in the business areas and the Group Finance & Business Control is responsible for the risk management activities. A risk management function supports the risk owners in maintaining a Group wide set of controls, in Nordea defined as Accounting Key Control (AKC), in line with the risk frameworks, which covers the controlling of risks and the risk identification process, that to a large extent is based on the actual business and financial closing processes in place. An independent risk control function that is responsible for identifying, controlling and reporting on financial reporting risk has been established in Group Risk and Compliance (GRC). In addition, the internal audit function is providing assurance to the Board of Directors with an assessment of the overall effectiveness of the governance, risk management and control processes.

Risk assessment

The Board of Directors in the Nordea Group bears the ultimate responsibility for limiting and monitoring Nordea's risk exposure. Risk management is considered an integral part of running the business and the main responsibility for performing risk assessments regarding financial reporting risks lies with the business organisation. Performing risk assessments close to the business increases the possibility of identifying the most relevant risks. In order to govern the quality of the risk assessment process, governing documents from central functions stipulate when and how these assessments are to be performed. Examples of risk assessments, performed at least annually, are Quality and Risk Analysis for changes and Risk and Control Self Assessments.

Risk assessment in relation to reliable financial reporting involves the identification and analysis of risks of material misstatements. Financial risk control work in Nordea Eiendomskreditt focuses on risks and processes which could lead to material financial misstatements, i.e. if, in the light of surrounding circumstances, the magnitude of the item is such that it is probable that the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the item. Structured risk assessment procedures determine in which divisions, locations and/ or processes risks for material financial misstatements exist and therefore will need to be monitored under the Accounting Key Control (AKC) framework to ensure reasonable assurance of the reliability of Nordea Eiendomskreditt's external financial reporting.

Control activities

The heads of the respective units are primarily responsible for managing the risks associated with the units' operations and financial reporting processes. This responsibility is supported by the Group Accounting Manual (GAM), the Financial Control Principles and various governing bodies, such as the Group Valuation Committee. The GAM includes a standard reporting package used by all entities to ensure consistent use of Nordea's principles and coordinated financial reporting. Fundamental internal control principles in Nordea include the segregation of duties and the four-eye principle when approving e.g. transactions and authorisations. The quality assurance vested in the management reporting process, where a detailed analysis of the financial outcome is performed, constitutes one of the most important control mechanisms associated with the reporting process. Reconciliations constitute another set of important controls, whereby Nordea works continuously to further strengthen the quality.

Information and communication

Group Finance are responsible for ensuring that the Group Accounting Manual and the Financial Control Principles are up-to-date and that changes are communicated to the responsible units. These governing documents are broken down into instructions and standard operating procedures in the responsible units. Accounting specialists within Group Finance continuously provide accountants and controllers with information on changes in order to inform about existing and updated rules and regulations with an impact also on Nordea Eiendomskreditt. Matters having impact on the fulfilment of financial reporting objectives are communicated with outside parties, with Nordea actively participating in relevant national forums, including forums established by the Financial Supervisory Authorities, Central Banks and associations for financial institutions.

According to Norwegian law, Nordea Eiendomskreditt is required to have an external auditor. At the Annual General Meeting 2015 PricewaterhouseCoopers AS was elected as auditor.

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 14 December 2018, 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. After the first year, minimum half of the directors shall retire according to drawing lots, and the remaining directors shall retire the following year. 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 not holding any positions of trust or being an employee in the Nordea Group. According to internal guidelines both genders shall be represented.

Further information on the composition of the Board of Directors is disclosed at page 71.

People

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 employees. More than half (53%) of the full-time employees in Nordea Eiendomskreditt and 40% of the members of the management group is female. The Board of Directors is equally split between men and women.

At the end of 2019 Nordea Eiendomskreditt AS had 17 (16) employees. Staffing was equivalent to 16.5 (15.5) full time equivalent 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 2019 was to 4.96% (6.01%). A total of 199 (239) working days were lost to sickness in 2019. There are no reports of work-related personnel injuries as caused by accidents or other incidents in Nordea Eiendomskreditt in 2019. 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.

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 AS.

Corporate Social Responsibility and environmental concerns

In accordance with the Nordea Group's Corporate Social Responsibility (CSR), Nordea Eiendomskreditt is committed to sustainable development by combining financial activity with responsibility for the environment and society. Further information about how the Nordea Group works with CSR and sustainability is available at www.nordea.com.

Outlook for 2020

After three interest rate hikes last year, we expect interest rates to be on hold in 2020. With more moderate economic growth ahead, the rate of increase in housing prices should also remain moderate in the years ahead and just about match income growth. Unemployment will remain stable at low levels while wage settlements will boost households' purchasing power.

Oslo, 13 February 2020

John Arne Sætre
Chair

Marte Kopperstad
Vice Chair

Ola Littorin
Board member

Alex Madsen
Board member

Gro Elisabeth Lundevik
Board member

Anne Sofie Knoph
Employee representative

Børre Sten Gundersen
Chief Executive Officer

Income statement

NOKt	Note	2019	2018
Operating income			
Interest income calculated using the effective interest rate method	3, 21	5 448 036	2 910 878
Other interest income		79 642	57 323
Interest expense	3, 21	3 648 236	1 639 785
Net interest income		**1 879 442**	**1 328 416**
Fee and commission income		81 572	56 442
Fee and commission expense		16 003	23 169
Net fee and commission income		**65 569**	**33 273**
Net result from items at fair value	4, 21	**-30 869**	**-24 620**
Other income		**301**	**0**
Total operating income		**1 914 442**	**1 337 069**
Staff costs	5, 13	19 440	19 364
Other operating expenses	6, 21	603 650	355 779
Depr/amortisation and impairment charges		73	0
Total operating expenses before loan losses		**623 163**	**375 143**
Profit before loan losses		**1 291 279**	**961 925**
Loan losses	7, 9	-1 823	6 469
Operating profit		**1 293 102**	**955 456**
Income tax expense	8	323 273	238 935
Net profit for the period		**969 829**	**716 521**
Attributable to:			
Shareholder of Nordea Eiendomskreditt AS		969 829	716 521
Total		**969 829**	**716 521**

Statement of comprehensive income

NOKt	2019	2018
Net profit for the period	**969 829**	**716 521**
Items that may be reclassified subsequently to the income statement		
Cash flow hedges:		
Valuation gains/losses during the period	28 890	-38 681
Tax on valuation gains/losses during the period	-7 262	9 710
Items that may not be reclassified subsequently to the income statement		
Defined benefit plans:		
Remeasurement of defined benefit plans	-8 443	-2 473
Tax on remeasurement of defined benefit plans	2 106	618
Other comprehensive income, net of tax	**15 292**	**-30 826**
Total comprehensive income	**985 121**	**685 695**
Attributable to:		
Shareholders of Nordea Eiendomskreditt AS	985 121	685 695
Total	**985 121**	**685 695**

Oslo, 13 February 2020

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Employee representative

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Chief Executive Officer

Balance sheet

NOKt	Note	31 Dec 2019	31 Dec 2018
Assets			
Loans to credit institutions	21	267 389	915 581
Loans to the public	7, 9, 11, 14	245 874 963	111 863 513
Interest-bearing securities	22	5 246 838	6 654 031
Derivatives	10, 19, 21	816 925	868 244
Fair value changes of the hedged items in portfolio hedge of interest rate risk		5 093	18 618
Property and Equipment owned and RoU		265	0
Other assets		23	196
Accrued income and prepaid expenses		352 524	126 348
Total assets		**252 564 019**	**120 446 531**
Liabilities			
Deposits by credit institutions	12, 21	131 968 421	21 030 942
Debt securities in issue	12, 14, 21	98 123 667	82 564 221
Derivatives	10, 19, 21	171 207	1 293 892
Fair value changes of the hedged items in portfolio hedge of interest rate risk		301 478	521 981
Current tax liabilities	8	309 145	228 064
Other liabilities		9 257	39 220
Accured expenses and prepaid income	21	61 336	7 548
Deferred tax liabilities	8	128 020	108 770
Provisions		1 543	168
Retirement benefit obligations	13	22 889	14 419
Subordinated loan capital	21	2 302 654	1 200 106
Total liabilities		**233 399 617**	**107 009 331**
Equity			
Share capital	21	1 717 662	1 702 326
Share premium	21	8 815 965	3 731 301
Other reserves		-70 414	-85 706
Retained earnings		8 701 190	8 089 279
Total equity		**19 164 403**	**13 437 200**
Total liabilities and equity		**252 564 019**	**120 446 531**
Assets pledged as security for own liabilities	14	166 219 860	100 615 613
Contingent liabilities	15	183	362
Commitments	15	21 686 623	12 357 191

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 jan 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 during the period			-7 262			-7 262
Tax on valuation gains/losses during the period						
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**

NOKt	Share capital[1]	Share premium	Other reserves: Cash flow hedges	Other reserves: Defined benefit plans	Retained earnings	Total equity
Balance at 1 jan 2018	**1 702 326**	**3 731 301**	**-52 013**	**-2 867**	**7 788 150**	**13 166 897**
Restatement due to changed accounting policy, net of tax[2]					25 108	**25 108**
Restated open balance at 1 Jan 2018	**1 702 326**	**3 731 301**	**-52 013**	**-2 867**	**7 813 258**	**13 192 005**
Net profit for the year					716 521	716 521
Items that may be reclassified subsequently to the income statement						
Cash flow hedges:			-38 681			-38 681
Valuation gains/losses during the period			9 710			9 710
Tax on valuation gains/losses during the period						
Items that may not be reclassified subsequently to the income statement						
Defined benefit plans:						
Remeasurement of defined benefit plans				-2 473		-2 473
Tax on remeasurement of defined benefit plans				618		618
Other comprehensive income, net of tax	0	0	-28 971	-1 855	0	-30 826
Total comprehensive income	0	0	-28 971	-1 855	716 521	685 695
Contribution and distribution						
Group Contribution paid					-440 500	-440 500
Balance at 31 December 2018	**1 702 326**	**3 731 301**	**-80 984**	**-4 722**	**8 089 279**	**13 437 200**

[1] The company's share capital at 31 December 2019 was tNOK 1.717.662,-. The number of shares was 15 366 269, each with a quota value of NOK 112.
The company's share capital at 31 December 2018 was tNOK 1.702.326,-. The number of shares was 15 366 269, each with a quota value of NOK 111.
All shares were owned by Nordea Bank AB (publ) until 30 September 2018, and by Nordea Bank Abp from 1 October 2018.
[2] Related to IFRS 9. See Note 1 in the Interim Report for first quarter 2018 for more information.

Cash flow statement

NOKt	2019	2018
Operating activities		
Operating profit before tax	1 293 102	955 456
Adjustments for items not included in cash flow	-8 837	805
Income taxes paid	-228 098	-279 723
Cash flow from operating activities before changes in operating assets and liabilities	**1 056 167**	**676 538**
Changes in operating assets		
Change in loans to the public	-134 001 237	23 590 878
Change in interest-bearing securities	1 407 193	-1 040 524
Change in derivatives, net	-1 071 366	270 936
Change in other assets	-212 743	19 440
Changes in operating liabilities		
Change in deposits by credit institutions	110 937 479	-26 808 707
Change in debt securities in issue	15 559 446	4 814 454
Change in other liabilities	-167 762	-305 443
Cash flow from operating activities	**-6 492 823**	**1 217 572**
Financing activities		
Change in subordinated loan capital	1 102 548	0
Group contribution paid	0	-440 500
Dividend paid	-358 260	0
Share Based Payment Programme EIP	343	0
Increase in share capital and share premium	5 100 000	0
Cash flow from financing activities	**5 844 631**	**-440 500**
Cash flow for the period	**-648 192**	**777 071**
Cash and cash equivalents at beginning of period	915 581	138 509
Cash and cash equivalents at end of period	267 389	915 580
Change	**-648 192**	**777 071**

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

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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 13 February 2020 the Board of Directors approved the financial statements, subject to final approval of the Annual General Meeting on 12 March 2020.

The accounting policies, basis for calculations and presentations are unchanged in comparison with the Annual Report 2018, except from changed accounting policies and presentation described below in the section "Changed accounting policies and presentation".

2.Changed accounting policies and presentation

IFRS 16 "Leases"

The new standard IFRS 16 "Leases" changes the accounting requirements for lessees. All leases (except for short term- and small ticket leases) are accounted for on the balance sheet of the lessee as a right to use the asset and a corresponding liability, and the lease payments are recognised as amortisation and interest expense. The accounting requirements for lessors are mostly unchanged. Additional disclosures are also required.

The impact on Nordea Eiendomskreditt's financial statements is however insignificant and no additional disclosures have been added with effect for the financial statements for 2019.

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 2019 but have not had any significant impact on the financial statements of Nordea Eiendomskreditt:

- Amendments to IFRS 9: Prepayment Features with Negative Compensation
- Amendments to IAS 19: Plan Amendments, Curtailment or Settlement
- Annual Improvements to IFRS Standards *2015-2017 Cycle*

3.Changes in IFRSs not yet applied

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

- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendments to IFRS 3: Definition of business
- Amendments to IAS 1 and IAS 8: Definitions of Material

- Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”. The change does not result in any significant impact on Nordea’s existing implementation of IAS 1.

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

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.

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.

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".

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 2019, 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 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 2019 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	2019	2018
Income statement (average)	11,2403	10,8554
Balance sheet (at end of period)	11,5975	11,1351

EUR 1 = NOK		
Income statement (average)	9,8521	9,6033
Balance sheet (at end of period)	9,8463	9,9470

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 Business Area in Nordea.

Note 3

Net interest income

NOKt	2019	2018
Interest income calculated using the effective interest rate method	5 448 036	2 910 878
Other interest income	79 642	57 323
Interest income	**5 527 678**	**2 968 201**
Interest income		
Loans to credit institutions	6 512	2 522
Loans to customers	5 398 698	2 919 031
Interest-bearing securities	79 642	57 323
Other interest income[1]	42 826	-10 675
Interest income	**5 527 678**	**2 968 201**
Interest expense		
Deposits by credit institutions	1 793 429	355 826
Debt securities in issue	1 942 580	1 516 913
Subordinated loan capital	69 644	35 726
Other interest expenses[1]	-157 418	-268 680
Interest expense	**3 648 236**	**1 639 785**
Net interest income	**1 879 442**	**1 328 416**

Interest from categories of financial instruments

NOKt	2019	2018
Financial assets at fair value through other comprensive income	0	0
Financial assets at amortised cost	5 405 210	2 921 552
Financial assets at fair value through profit and loss (related to hedging instruments)[1]	42 826	-10 675
Interest income calculated using the effective interest rate method	**5 448 036**	**2 910 878**
Other interest income	79 642	57 323
Interest income	**5 527 678**	**2 968 201**
Financial liabilities at amortised cost	3 805 654	1 908 465
Financial liabilities at fair value through profit and loss (related to hedging instruments)[1]	-105 268	-268 435
Other interest expenses	-52 150	-245
Interest expenses	**3 648 236**	**1 639 785**

[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	2019	2018
Financial instruments at FVPL - Mandatorily[1]	-21 278	13 495
Financial instruments under hedge accounting	-9 591	-38 115
- of w hich net gains/losses on hedged items	154 902	317 629
- of w hich net gains/losses on hedging instruments	-164 493	-355 744
Other financial instruments	0	0
Total	**-30 869**	**-24 620**

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

Note 5
Staff costs

NOKt	2019	2018
Salaries and remunerations	14 345	13 597
Pension costs (note 13)	2 112	2 294
Social security contributions	3 099	2 983
Allocation to profit-sharing [1]	112	322
Other staff costs	-228	168
Total	**19 440**	**19 364**

[1] Allocation to profit-sharing foundation in 2019 consisted of a new allocation of NOK 255t and release of NOK 143t related to prior years. In 2018 new allocation amounted to NOK 294t and NOK 28t was related to prior years.

Number of employees/full time positions		
Number of employees at 31 Dec	17	16
Number of full time equivalents at 31 Dec	16,5	15,5

Gender distribution of Board members (percentage at year end)		
- Men	50%	67%
- Women	50%	33%

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 allowance.

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, which best reflects the change in pension rights for the financial year.

31 Dec 2019, NOKt **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**

No director's fee is paid to directors who are employees of the Nordea group. The fees shown in the table are fees paid in 2019 for services provided in 2018.
Loans to employees are made from the balance sheet of Nordea Bank Norway.

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 2018, NOKt **Executive management of Nordea Eiendomskreditt AS**	**Fixed salary and fees**	**Variable salary**	**Other benefits**	**Pensions**	**Total remunerations**
Børre Sten Gundersen, CEO	1 540	854	195	322	2 910
Total for the executive management	**1 540**	**854**	**195**	**322**	**2 910**
Board of Directors of Nordea Eiendomskreditt AS					
Eva I. E. Jarbekk	90				90
Alex Madsen	90				90
Total for the directors of Nordea Eiendomskreditt AS	**180**	**-**	**-**	**-**	**180**
Total remuneration of executive management and elected officers of Nordea Eiendomskreditt AS	**1 720**	**854**	**195**	**322**	**3 090**

Note 6
Other expenses

NOKt	2019	2018
Information technology	5 256	7 559
Services bought from Group companies	572 390	342 952
Auditor's fee	985	723
Resolution fees	19 870	0
Other operating expenses	5 150	4 546
Total	**603 650**	**355 779**

Auditor's fee for 2019 comprise NOKt 985 incl.VAT, of which NOKt 887 relates to audit work and NOKt 98 relates to other services.

Note 7
Loan losses

Based on IFRS 9

NOKt	2019	2018
Net loan losses, Stage 1	1 768	2 419
Net loan losses, Stage 2	-2 904	426
Total loan losses, non-defaulted	**-1 136**	**2 845**
Stage 3, defaulted		
Net loan losses, individually assessed, collectively calculated	-2 495	-1 459
Realised loan losses	7 514	5 734
Decrease of provisions to cover realised loan losses	-3 766	-4 162
Recoveries on previous realised loan losses	0	0
New/increase in provisions	1 312	6 399
Reversals of provisions	-3 251	-2 889
Net loan losses, defaulted	**-686**	**3 624**
Net loan losses	**-1 823**	**6 469**

Key ratios

	2019	2018
Loan loss ratio, basis points	-0,09	0,53
- of which stage 1	0,09	0,20
- of which stage 2	-0,15	0,03
- of which stage 3	-0,03	0,30

Note 8
Taxes

Income tax expense

NOKt	2019	2018
Current tax [1]	309 179	228 059
Deferred tax	14 094	10 876
Total	**323 273**	**238 935**
[1] of which relating to prior years	-34	0

Current and deferred tax recognised in Other comprehensive income

Deferred tax on remeasurements of pension obligations DBP	2 106	618
Deferred tax relating to cash flow hedges	-7 262	9 710
Total	**-5 156**	**10 328**

Tax on the company's operating profit differs from the theoretical amount that would arise using the tax rate in Norway, as follows:

NOKt	2019	2018
Profit before tax	1 293 102	955 456
Tax calculated at a tax rate of 25%	-323 276	-238 864
Non-deductable expenses	-9	-71
Tax exempt income	46	0
Change of tax rate [1]	0	0
Adjustments related to prior years	-34	0
Total tax charge	**-323 273**	**-238 935**
Average effective tax rate	25,0 %	25,0 %

Deferred tax

NOKt	2019	2018
Deferred tax expense (-) / income (+)		
Deferred tax due to temporary differences	-14 094	-10 876
Income tax expense, net	**-14 094**	**-10 876**

	'Deferred tax assets		'Deferred tax liabilities	
NOKt	2019	2018	2019	2018
Deferred tax assets/liabilities related to:				
Financial instruments and derivatives			-125 291	-103 874
Retirement benefit obligations	5 722	3 605		
Property and equipment			-196	
Other			-8 255	-8 501
Netting between deferred tax assets and liabilities	-5 722	-3 605	5 722	3 605
Total deferred tax assets/liabilities	**0**	**0**	**-128 020**	**-108 770**

Movements in deferred tax assets/liabilities net, are as follows:	**2019**	**2018**
Balance at 1 January	-108 770	-99 968
Restatement due to changed accounting policy, net of tax[2]	0	-8 255
Restated open balance at 1 January	**-108 770**	**-108 222**
Deferred tax relating to items recognised in Other comprehensive income	-5 156	10 328
Adjustments relating to prior years		0
Balance at 31 December	**-128 020**	**-108 770**

[2]Related to IFRS 9

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

Deferred tax totalling tNOK 128.020 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 forward at 31 December 2019.

Note 9
Loans and impairment

NOKt	31 Dec 2019	31 Dec 2018
Loans measured at amortised cost, impaired (Stage 1 and 2)	245 194 065	111 391 842
Impaired loans (Stage 3)	784 011	528 112
- Servicing	238 464	113 789
- Non-servicing	545 547	414 323
Loans before allowances	**245 978 076**	**111 919 955**
Allowances for individually assessed impaired loans (Stage 3)	-47 718	-37 814
- Servicing	-5 640	-1 849
- Non-servicing	-42 078	-35 965
Allowances for collectively assessed impaired loans (Stage 1 and 2)	-55 396	-18 627
Allowances	**-103 114**	**-56 441**
Loans, carrying amount	**245 874 963**	**111 863 513**

Accrued interest on loans to the public was tNOK 331.732 at 31 December 2019.

Reconciliation of allowance accounts for impaired loans[1]

NOKt	Individually assessed	Collectively assessed	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**

[1] See also Note 6 Loan losses

NOKt	Individually assessed	Collectively assessed	Total
Opening balance at 1 January 2018	**26 056**	**63 257**	**89 313**
Effects from changed accounting policy[2]		-33 216	-33 216
Restated opening balance at 1 January 2018	**26 056**	**30 041**	**56 097**
Provisions	6 399	996	7 394
Reversals of previous provisions	-2 889	0	-2 889
Changes through the income statement	**3 510**	**996**	**4 506**
Allowances used to cover realised loan losses	-4 162	0	-4 162
Closing balance at 31 December 2018	**25 404**	**31 037**	**56 441**

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 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**

	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 2018	**138 509**	**-**	**-**	**138 509**	**115 504 013**	**19 305 465**	**701 355**	**135 510 832**
Changes due to origination and acquisition	-	-	-	-	13 844 285	563 990	136 052	14 544 327
Changes due to transfers between Stage 1 and Stage 2, (net)	-	-	-	-	7 828 657	-7 828 657	-	-
Changes due to transfers between Stage 2 and Stage 3, (net)	-	-	-	-	-	1 356	8 079	9 435
Changes due to transfers between Stage 1 and Stage 3, (net)	-	-	-	-	-19 266	-	21 423	2 157
Changes due to repayments and disposals	-	-	-	-	-33 111 886	-5 816 062	-254 442	-39 182 391
Changes due to write-offs	-	-	-	-	-	-	-5 734	-5 734
Other changes	777 072	-	-	777 072	976 684	143 264	-78 621	1 041 328
Translation differences	-	-	-	-	-	-	-	-
Closing balance at 31 December 2018	**915 581**	**-**	**-**	**915 581**	**105 022 486**	**6 369 356**	**528 112**	**111 919 954**

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 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**

	The public			
NOKt	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2018	-2 529	-13 749	-39 818	-56 097
Changes due to origination and acquisition	-1 834	-1 143	-3 917	-6 894
Changes due to transfers from Stage 1 to Stage 2	185	-5 004	-	-4 819
Changes due to transfers from Stage 1 to Stage 3	14	-	-1 080	-1 066
Changes due to transfers from Stage 2 to Stage 1	-596	5 053	-	4 458
Changes due to transfers from Stage 2 to Stage 3	-	213	-3 266	-3 054
Changes due to transfers from Stage 3 to Stage 1	-10	-	1 316	1 306
Changes due to transfers from Stage 3 to Stage 2	-	-222	1 979	1 758
Changes due to changes in credit risk without stage transfer	-709	-3 294	1 722	-2 281
Changes due to repayments and disposals	558	4 022	5 250	9 830
Write-off through decrease in allowance account	-	-	-	-
Other changes	418	-	-	418
Translation differences	-	-	-	-
Closing balance at 31 December 2018	**-4 503**	**-14 124**	**-37 814**	**-56 441**

Note 9
Loans and impairment cont.

Scoring information for loans measured at amortised cost

Scoring grade	Gross carrying amounts 31 Dec 2019 Stage 1	Stage 2	Stage 3	Total	Gross carrying amounts 31 Dec 2018 Stage 1	Stage 2	Stage 3	Total
A+	89 823 851	197 158	11 087	90 032 097	47 355 729	173 817	3 821	47 533 368
A	33 605 232	209 118	9 918	33 824 269	14 744 659	162 692	7 148	14 914 499
A-	28 958 342	453 413	7 262	29 419 017	12 096 128	258 251	673	12 355 051
B+	18 678 811	620 358	14 181	19 313 350	7 170 672	344 203	4 258	7 519 133
B	14 651 474	1 010 720	6 716	15 668 909	5 625 737	466 475	3 392	6 095 604
B-	9 967 688	1 218 400	9 620	11 195 707	3 813 204	551 438	2 432	4 367 075
C+	6 183 404	1 150 321	7 243	7 340 968	2 644 018	406 102	19 619	3 069 739
C	5 559 163	1 393 397	6 094	6 958 653	2 429 111	581 124	1 999	3 012 234
C-	3 786 934	956 994	13 963	4 757 890	1 831 181	446 486	8 723	2 286 389
D+	3 534 004	772 373	2 247	4 308 624	1 532 669	341 962	2 148	1 876 779
D	3 229 817	988 751	25 135	4 243 704	1 354 701	395 761	5 527	1 755 988
D-	2 041 910	997 145	10 706	3 049 761	947 740	412 579	2 852	1 363 171
E+	7 835 808	984 357	17 244	8 837 408	2 218 972	452 359	3 244	2 674 575
E	844 143	640 200	12 600	1 496 942	373 207	339 964	523	713 694
E-	935 459	692 385	15 141	1 642 985	284 172	284 970	4 076	573 218
F+	466 646	467 931	48 507	983 084	197 414	258 271	36 806	492 491
F	162 110	209 337	4 241	375 688	41 032	84 209	-	125 240
F-	545 736	727 993	11 304	1 285 033	212 330	283 664	4 324	500 318
0+ / 0 / 0-	231 485	188 900	546 623	967 007	153 308	139 154	454 361	746 823
Internal[1)]	267 389	-	-	267 389	791 474	-	-	791 474
Standardised/Unrated	238 346	34 456	4 177	276 980	68 670	-	-	68 670
Total	**231 546 497**	**13 913 707**	**784 008**	**246 245 465**	**105 886 128**	**6 383 480**	**565 926**	**112 835 534**

[1] Exposures towards Nordea entities. Not relevant on Group level.

Key ratios	31 Dec 2019	31 Dec 2018
Impairment rate (stage 3), gross, basis points	31,9	47,2
Impairment rate (stage 3), net, basis points	29,9	43,8
Total allowance rate (stage 1, 2 and 3), basis points	4,2	5,0
Allowances in relation to credit impaired loans (stage 3), %	6,1	7,2
Allowances in relation to loans in stage 1 and 2, basis points	2,3	1,7

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 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[2]	550 459	34 207	21 853 000
-of which cash flow hedges[2]	266 466	76 522	5 866 256
Total derivatives	**816 925**	**171 207**	**59 719 256**

	Fair value		Total nominal
31 Dec 2018, NOKt	**Positive**	**Negative**	**amount**
Derivatives at FVPL - Mandatorily 1:			
Interest rate swaps	0	64 701	60 250 000
Total	**0**	**64 701**	**60 250 000**
Derivatives used for hedge accounting:			
Interest rate swaps	824 619	115 220	18 878 000
Currency and interest rate swaps	43 625	1 113 971	12 384 756
Total	**868 244**	**1 229 191**	**31 262 756**
-of which fair value hedges	824 619	115 220	19 816 000
-of which cash flow hedges	43 625	1 113 971	12 384 756
Total derivatives	**868 244**	**1 293 892**	**91 512 756**

[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 in 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 the 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 are 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 2019**	**31 Dec 2018**
Fair value hedges		
Carrying amount of hedged assets[1]	1 396 093	1 634 618
- of which accumulated amount of fair value hedge adjustment[3]	5 093	18 618
Carrying amount of hedged liabilties[2]	32 837 551	17 960 111
- of which accumulated amount of fair value hedge adjustment[3]	301 478	521 981

[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.

Note 10
Derivatives and hedge accounting cont.

Hedging instruments

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

31 Dec 2018, NOKt	Fair value Positive	Fair value Negative	Total nom amount
Fair value hedges			
Interest rate risk	824 619	115 220	19 816 000

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

NOKt	Interest rate risk 31 Dec 2019	Interest rate risk 31 Dec 2018
Fair value hedges		
Changes in fair value of hedging instruments	-164 280 715	-356 397 358
Changes in fair value of hedged items used as basis for recognising hedge ineffectiveness	177 928 753	346 389 753
Hedge ineffectiveness recognised in the income statement[1]	13 648 038	-10 007 605

[1] Recognised on the row Net result from items at fair value.

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

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

31 Dec 2018, NOKt	Fair value Positive	Fair value Negative	Total nom amount
Cash flow hedges			
Interest rate risk	43 625	1 113 971	12 384 756

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.

Note 10
Derivatives and hedge accounting cont.

Cash flow hedge reserve

	Foreign exchange risk	
NOKt	**31 Dec 2019**	**31 Dec 2018**
Balance at 1 January	**-81 144**	**-52 013**
Cash flow hedges:		
Valuation gains/losses during the year	1 290 312	-14 597
Tax on valuation gains/losses during the year	-322 578	3 649
Transferred to the income statement during the year	-1 261 263	-24 244
Tax on transfers to the income statement during the year	315 316	6 061
Other comprehensive income, net of tax	**21 787**	**-29 130**
Balance at 31 December	**-59 357**	**-81 144**

Maturity profile of the nominal amount of hedging instruments

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		**305 000**	**184 000**	**14 813 000**	**6 551 000**	**21 853 000**

31 Dec 2018	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	**Total**
Instrument hedging interest rate risk		140 000	1 685 000	15 299 000	1 754 000	18 878 000
Total	**0**	**140 000**	**1 685 000**	**15 299 000**	**1 754 000**	**18 878 000**

Maturity profile of the nominal amount of hedging instruments

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		**1 525 526**	**0**	**3 402 730**	**938 000**	**5 866 256**

31 Dec 2018	**Payable on demand**	**Maximum 3 months**	**3-12 months**	**1-5 years**	**More than 5 years**	**Total**
Instrument hedging foreign exchange risk		6 518 500		4 928 256	938 000	12 384 756
Total	**0**	**6 518 500**	**0**	**4 928 256**	**938 000**	**12 384 756**

Note 11
Cover Pool

	31 Dec 2019		31 Dec 2018	
NOKt	**Nominal value**	**Net Present Value**	**Nominal value**	**Net Present Value**
Loans to the public	245 978 073	245 624 036	111 919 955	112 326 752
- whereof pool of eligible loans	166 219 860	165 980 963	100 615 613	100 745 233
Supplementary assets and derivates:				
- whereof CIRS	168 125	213 629	-956 448	-1 070 343
- whereof IRS	0	738 171		644 696
Total cover pool	**166 387 985**	**166 932 763**	**99 659 165**	**100 319 586**
Debt securities in issue (net outstanding amount)	97 504 719	98 490 764	82 149 307	83 248 134
Over-collateralization calculated on net outstanding covered bonds	70,6%	69,5%	21,3%	20,5%
Debt securities in issue (issue amount)	97 504 719	98 490 764	96 528 307	97 627 134
Over-collateralization calculated on issued covered bonds (gross outstanding covered bonds)[1]	70,6%	69,5%	3,2%	2,8%

[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 2019			31 Dec 2018		
NOKt	**Nominal value**	**Other [1]**	**Carrying amount**	**Nominal value**	**Other [1]**	**Carrying amount**
Covered bonds issued in Norwegian kroner	91 452 000			85 100 000		
Holdings of own covered bonds in Norwegian kroner	0			-14 379 000		
Outstanding covered bonds issued in Norwegian kroner	**91 452 000**			**70 721 000**		
Covered bonds issued in GBP (in NOK)	5 068 094			10 433 607		
Covered bonds issued in EUR (in NOK)	984 625			994 700		
Total outstanding covered bonds	**97 504 719**	**618 947**	**98 123 667**	**82 149 307**	**414 913**	**82 564 221**
Loans and deposits from financial institutions for a fixed term	131 589 951	378 470	131 968 421	20 972 512	58 430	21 030 942
Subordinated loan	2 300 000	2 654	2 302 654	1 200 000	106	1 200 106
Total	**231 394 670**	**1 000 071**	**232 394 742**	**104 321 819**	**473 450**	**104 795 269**

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

Maturity information	31 Dec 2019	31 Dec 2018
Maximum 1 year	45 174 334	35 484 072
More than 1 year	186 220 336	68 837 747
Total	**231 394 670**	**104 321 819**

Norwegian covered bonds (NOKt) at 31 December 2019

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
NO0010703531	14/02/2014	17/06/2020	Float	3M Nibor + 0.38%	NOK	7 690 000
NO0010729817	26/01/2015	16/06/2021	Float	3M Nibor + 0.20%	NOK	11 000 000
NO0010741903	15/07/2015	17/06/2020	Fixed	1,75	NOK	14 000
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	17 550 000
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	16 800 000
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	17 950 000
NO0010852650	22/05/2019	22/05/2026	Fixed	2,17	NOK	4 800 000
Total						**91 452 000**

Covered bonds issued in foreign currency (NOKt) at 31 December 2019

ISIN code	Issue date	Final payment date	Interest	Interest rate in %	Currency	Outstanding nominal amount
XS1210746134	30/03/2015	30/03/2020	Float	3M GBP Libor + 0.25%	GBP	125 000
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	0,738	EUR	100 000
Total (in NOKt equivalent)						**6 052 719**

Note 13
Retirement benefit obligations

NOKt	**31 Dec 2019**	**31 Dec 2018**
Defined benefit plans, net	-22 889	-14 419
Total	**-22 889**	**-14 419**

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), w hich 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 w ith supplementary pensions and early retirement pensions, w hich 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 w ere converted to DCP. For employees effected by this change, all earned benefit w ill 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 w ith effect from 2011. DCPs are not reflected in the balance sheet, unless w hen 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 w ell as relevant experience adjustments w here the actual outcome differs from the assumption. Assets are invested in diversified portfolios as further disclosed below , w ith 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 w ere converted from DBP to DCP from 1 January 2017.

During 2019 employees in the DCP have had the follow ing 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 1.134 in 2019.

IAS 19 Pension calculations and assumptions

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

Assumptions[1]	**2019**	**2018**
Discount rate[2]	2,20%	2,82%
Salary increase	2,75%	2,75%
Inflation	1,75%	1,50%
Social Security increase	3,00%	3,00%
Expected adjustments of current pensions	1,00%	1,00%

[1] The assumptions disclosed for 2019 have an impact on the liability calculation by year-end 2019, w hile the assumptions disclosed for 2018 are used for calculating the pension expense in 2019.

[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)	2019	2018
Discount rate - Increase 50bps	-8,1%	-7,7%
Discount rate - Decrease 50bps	9,0%	8,7%
Salary increase - Increase 50bps	0,3%	0,4%
Salary increase - Decrease 50bps	-0,3%	-0,4%
Inflation - Increase 50bps	8,0%	7,7%
Inflation - Decrease 50bps	-7,7%	-6,5%

The sensitivity analyses are prepared by changing one actuarial assumption w hile keeping the other assumptions unchanged. This is a simplified approach since the actuarial assumptions usually are correlated. How ever, it enables the reader to isolate one effect from another. The method used for calculating the impact on the obligation is the same as w hen calculating the obligation accounted for in the financial statements. The 2019 sensitivity analysis include the impact on the liabilities held for future SSC (social security contributions).

Net retirement benefit liabilities/assets

NOKt	2019	2018
Obligations	54 103	43 148
Plan assets	31 214	28 729
Net liability (-)/asset (+)	**-22 889**	**-14 419**

Movements in the obligation

NOKt	2019	2018
Opening balance	43 148	38 987
True up opening balance	18	0
Current service cost	229	192
Interest cost	1 216	923
Pensions paid	-678	-65
Past service cost	0	0
Settlements	0	0
Transfers betw een entities	0	469
Remeasurement from changes in financial assumptions	6 324	-3 205
Remeasurement from experience adjustments	3 842	5 777
Closing balance before social security contribution	**54 098**	**43 077**
Change in provision for social security contribution [1]	4	71
Closing balance	**54 103**	**43 148**

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

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

Movements in the fair value of plan assets

NOKt	2019	2018
Opening balance	28 729	27 951
Interest income (calculated using the discount rate)	810	698
Pensions paid	-66	-65
Settlements	0	0
Contributions by employer	0	47
Transfers betw een entities	0	0
Remeasurement (actual return less interest income)	1 740	98
Closing balance	**31 214**	**28 729**

Note 13
Retirement benefit obligations cont.

Asset composition

The combined return on assets in 2019 was 5.5% (5,4%). 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 17% (25%) of total assets.

Asset composition in funded schemes

	2019	2018
Equity	17%	25%
Bonds	68%	58%
Real estate	15%	14%
Other assets	0%	3%

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 2019 is NOKt 2.112. The amount covers both funded and unfunded pension plans, DCP as well as AFP premium.

Recognised in the income statement, NOKt	**2019**	**2018**
Current service cost	229	192
Net interest	406	225
Past service cost and settlements	0	0
Social Security Contribution	121	80
Pension cost on defined benefit plans	**757**	**497**

Recognised in other comprehensive income, NOKt	**2019**	**2018**
Remeasurement from changes in financial assumptions	10 165	2 572
Remeasurement from experience adjustments	0	0
Remeasurement of plan assets (actual return less interest income)	-1740	-98
Social security contribution	0	0
Pension cost on defined benefit plans	**8 425**	**2 473**

The defined benefit pension plan cost for 2020 is expected to be NOKt 750.

Note 14
Assets pledged as security for own liabilities

NOKt	31 Dec 2019	31 Dec 2018
Assets pledged as security for own liabilities:		
Loans to the public	166 219 860	100 615 613
Total	**166 219 860**	**100 615 613**
The above pledges pertain to the following liability and committment items:		
Debt securities in issue (carrying amount)	98 123 667	82 564 221
Total	**98 123 667**	**82 564 221**

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 2019	31 Dec 2018
Accepted, not disbursed loans (unutilised portion of granted limit on flex loans)	21 686 623	12 357 191
Other commitments, excluding derivatives [1, 2]	183	362
Total	**21 686 806**	**12 357 553**

[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 w orldw ide capital adequacy standard (Basel III) draw n 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 Norw ay, 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 draw n in periods of stress and new liquidity standards w ere introduced. The CRD IV and the BRRD w ere implemented through national law w ithin all EU countries during 2014, w hile 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 w as adopted.

The Basel III framew ork 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 w ith the purpose to review the management, mitigation and measurement of material risks w ithin 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 w hich increases aw areness 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 aw areness, looking at capital and risk from a firm-w ide perspective on a regular basis and on an ad-hoc basis for specific areas or segments. The process includes a regular dialogue w ith supervisory authorities, rating agencies and other external stakeholders w ith 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 w ell as from the perspective of supervisors. Heading into 2020, Nordea w ill continue to closely follow the development of the new capital requirement regime as w ell as maintain its open dialogue w ith the supervisory authorities.

Note 16
Capital adequacy cont.

Summary of items included in own funds

NOKm	31 Dec[1] 2019	31 Dec[1] 2018
Calculation of own funds		
Equity	19 164	13 437
Proposed/actual dividend	-485	
Common Equity Tier 1 capital before regulatory adjustments	18 679	13 437
Deferred tax assets		
Intangible assets		
IRB provisions shortfall (-)	-269	-96
Deduction for investments in credit institutions (50%)		
Pension assets in excess of related liabilities		
Other items, net	52	62
Total regulatory adjustments to Common Equity Tier 1 capital	-217	-34
Common Equity Tier 1 capital (net after deduction)	**18 462**	**13 403**
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)	**18 462**	**13 403**
Tier 2 capital before regulatory adjustments	2 300	1 200
IRB provisions excess (+)	27	12
Deduction for investments in credit institutions (50%)		
Deductions for investments in insurance companies		
Pension assets in excess of related liabilities		
Other items, net		
Total regulatory adjustments to Tier 2 capital	27	12
Tier 2 capital	2 327	1 212
Own funds (net after deduction)	**20 789**	**14 615**

[1] Including profit for the period

[2] Own Funds adjusted for IRB provision, i.e. adjusted own funds equal NOK 21 031m by 31 Dec 2019

Own Funds, excluding profit

NOKm	31 Dec 2019	31 Dec 2018
Common Equity Tier 1 capital, excluding profit	17 967	12 696
Total Own Funds, excluding profit	20 294	13 909

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 w here 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; how ever negative income must be deducted. Repurchased ow n shares or ow n 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 w ith the permission of the Norw egian 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 w hereas 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 w ith accrued interest) w ould be w ritten dow n 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 tw o different types of subordinated loan capital; undated loans and dated loans. Tier 2 instruments issued that fulfil the regulatory requirements are fully included w hereas remaining instruments are phased out according to transitional rules.

The basic principle for subordinated debt in ow n funds is the order of priority in case of a default or bankruptcy situation. Under such conditions, the holder of the subordinated loan w ould 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 2019 Minimum Capital requirement	31 Dec 2019 REA	31 Dec 2018 Minimum Capital requirement	31 Dec 2018 REA
Credit risk	**4 471**	**55 883**	**2 109**	**26 360**
- of w hich counterparty credit risk	16	198		
IRB	4 451	55 632	2 095	26 190
- sovereign				
- corporate				
- advanced				
- foundation				
- institutions	14	180	22	280
- retail	4 435	55 432	2 073	25 910
- secured by immovable property collateral	3 743	46 779	1 889	23 611
- other retail	692	8 653	184	2 299
- other	2	20		
Standardised	20	251	14	170
- central governments or central banks				
- regional governments or local authorities				
- public sector entities				
- multilateral development banks				
- international organisations				
- institutions	20	251	14	170
- corporate				
- retail				
- secured by mortgages on immovable properties				
- in default				
- associated w ith particularly high risk				
- covered bonds				
- institutions and corporates w ith a short-term credit assessment				
- collective investments undertakings (CIU)				
- equity				
- other items				
Credit Value Adjustment Risk				

Note 16
Capital adequacy cont.

NOKm	31 Dec 2019 Minimum Capital requirement	31 Dec 2019 REA	31 Dec 2018 Minimum Capital requirement	31 Dec 2018 REA
Market risk				
- trading book, Internal Approach				
- trading book, Standardised Approach				
- banking book, Standardised Approach				
Settlement risk				
Operational risk	**169**	**2 116**	**185**	**2 317**
Standardised	169	2 116	185	2 317
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**	**24**	1	13
Additional risk exposure amount due to Article 3 CRR				
Sub total	**4 642**	**58 023**	**2 295**	**28 690**
Adjustment for Basel I floor[1]				
Additional capital requirement according to Basel I floor			1 685	21 058
Total	**4 642**	**58 023**	**3 980**	**49 748**

[1] The Basel I-floor is no longer applicable from Q4-2019 due to CRR implementation for the Norwegian entities.

Minimum Capital Requirement & Capital Buffers

Percentage	Minimum Capital requirement	Capital Buffers CCoB	CCyB	O-SII	SRB	Capital Buffers total	Total
Common Equity Tier 1 capital	4,5	2,5	2,5		3,0	8,0	**12,5**
Tier 1 capital	6,0	2,5	2,5		3,0	8,0	**14,0**
Own funds	8,0	2,5	2,5		3,0	8,0	**16,0**
NOKm							
Common Equity Tier 1 capital	2 611	1 451	1 448		1 741	4 640	7 251
Tier 1 capital	3 481	1 451	1 448		1 741	4 640	8 121
Own funds	4 642	1 451	1 448		1 741	4 640	9 281

Common Equity Tier 1 available to meet Capital Buffers

Percentage points of REA	31 Dec[1] 2019	31 Dec[1,2] 2018
Common Equity Tier 1 capital	25,8	20,9

[1] Including profit for the period

[2] Including Basel I floor

Note 16
Capital adequacy cont.

Capital ratios excluding Basel I floor

Percentage	31 Dec 2019	31 Dec 2018
Common Equity Tier 1 capital ratio, including profit	31,8	46,7
Tier 1 capital ratio, including profit	31,8	46,7
Total capital ratio, including profit	35,8	50,9
Common Equity Tier 1 capital ratio, excluding profit	31,0	44,3
Tier 1 capital ratio, excluding profit	31,0	44,3
Total capital ratio, excluding profit	35,0	48,5

Capital ratios including Basel I floor[1]

Percentage	31 Dec 2019	31 Dec 2018
Common Equity Tier 1 capital ratio, including profit	31,8	26,9
Tier 1 capital ratio, including profit	31,8	26,9
Total capital ratio, including profit	35,8	29,4
Common Equity Tier 1 capital ratio, excluding profit	31,0	25,5
Tier 1 capital ratio, excluding profit	31,0	25,5
Total capital ratio, excluding profit	35,0	28,0

[1] The Basel I-floor is no longer applicable from Q4-2019 due to CRR implementation for the Norwegian entities.

Leverage ratio	31 Dec[1] 2019	31 Dec[1] 2018
Tier 1 capital, transitional definition, NOKm	18 462	13 403
Leverage ratio exposure, NOKm	263 381	125 723
Leverage ratio, percentage	7,0	10,7

[1] Including profit for the period

Note 16
Capital adequacy cont.

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

	On-balance exposure, NOKm	Off-balance exposure, NOKm	Exposure value (EAD), NOKm[1]	of which EAD for off-balance, NOKm	Exposure-weighted average risk weight
Institutions, foundation IRB:	3 240		3 240		6
of which					
- rating grades 6	3 240		3 240		6
- rating grades 5					
- rating grades 4					
- rating grades 3					
- rating grades 2					
- rating grades 1					
- unrated					
- defaulted					
Retail, of which secured by real estate:	212 892	4 760	214 511	1 618	22
of which					
- scoring grades A	160 131	4 101	161 525	1 394	21
- scoring grades B	33 892	425	34 036	144	21
- scoring grades C	13 043	172	13 102	59	24
- scoring grades D	5 031	55	5 050	19	39
- scoring grades E					
- scoring grades F					
- not scored	281	7	283	2	40
- defaulted	514	0	515	0	239
Retail, of which other retail:	33 419	16 927	39 170	5 755	22
of which					
- scoring grades A	13 397	14 458	18 312	4 916	7
- scoring grades B	3 770	1 345	4 227	457	15
- scoring grades C	1 482	507	1 655	172	26
- scoring grades D	2 600	209	2 671	71	37
- scoring grades E	10 501	359	10 623	122	39
- scoring grades F	1 496	9	1 500	3	57
- not scored	55	36	63	13	53
- defaulted	118	4	119	1	277
Other non credit-obligation assets:	20		20		100

Nordea does not have the following IRB exposure classes: equity exposures, qualifying revolving retail

[1] Includes EAD for on-balance, off-balance, derivatives and securities financing

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 2019

		Fair value through profit or loss (FVPL)			
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	245 874 963				245 874 963
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	351 270			1 254	352 524
Total Assets	**246 498 715**	**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 17
Classification of assets and liabilities cont.

31 December 2018

NOKt	Amoritsed cost (AC)	Fair value through profit or loss (FVPL) Mandatorily	Derivatives used for hedging	Non-financial assets	Total
Assets					
Loans to credit institutions	915 580				915 580
Loans to the public	111 863 514				111 863 514
Interest-bearing securities		6 654 031			6 654 031
Derivatives			868 244		868 244
Fair value changes of the hedged items in portfolio hedge of interest rate risk	18 618				18 618
Other assets				196	196
Prepaid expenses and accrued income	126 116			232	126 348
Total Assets	**112 923 828**	**6 654 031**	**868 244**	**428**	**120 446 531**

NOKt	Amortised cost (AC)	Fair value through profit or loss (FVPL) Mandatorily	Derivatives used for hedging	Non-financial liabilities	Total
Liabilities					
Deposits by credit institutions	21 030 942				21 030 942
Debt securities in issue	82 564 221				82 564 221
Derivatives		64 701	1 229 191		1 293 892
Fair value changes of the hedged items in portfolio hedge of interest rate risk	521 981				521 981
Current tax liabilities				228 064	228 064
Other liabilities	5			39 215	39 220
Accrued expenses and prepaid income	340			7 208	7 548
Deferred tax liabilities				108 770	108 770
Provisions				168	168
Retirement benefit obligations				14 419	14 419
Subordinated loan capital	1 200 106				1 200 106
Total Liabilities	**105 317 595**	**64 701**	**1 229 191**	**397 844**	**107 009 331**

Note 18

Assets and liabilities at fair value

Fair value of financial assets and liabilities

	31 Dec 2019		31 Dec 2018	
NOKt	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans	246 147 445	245 793 916	112 797 712	113 204 509
Interest-bearing securities	5 246 838	5 246 838	6 654 031	6 654 031
Derivatives	816 925	816 925	868 244	868 244
Other financial assets	0	0	0	0
Prepaid expenses and accrued income	352 524	352 524	126 116	126 116
Total financial assets	**252 563 732**	**252 210 203**	**120 446 103**	**120 852 900**
Financial liabilities				
Deposits and debt instruments	232 696 220	233 464 348	105 317 250	106 001 163
Derivatives	171 207	171 207	1 293 892	1 293 892
Other financial liabilities	0	0	0	0
Accrued expenses and prepaid income	2 236	2 236	345	345
Total financial liabilities	**232 869 663**	**233 637 791**	**106 611 488**	**107 295 400**

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 the fair value hierarchy

31 Dec 2019, NOKt	Quoted prices in active markets for the same instrument (Level 1)	Valuation technique using observable data (Level 2)	Valuation technique using non-observable data (Level 3)	Total
Assets at fair value on the balance sheet [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**
Liabilities at fair value on the balance sheet [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 period.

31 Dec 2018, NOKt	Quoted prices in active markets for the same instrument (Level 1)	Valuation technique using observable data (Level 2)	Valuation technique using non-observable data (Level 3)	Total
Assets at fair value on the balance sheet [1]				
Interest-bearing securities		6 654 031		6 654 031
Derivatives		868 244		868 244
Total assets	**0**	**7 522 275**	**0**	**7 522 275**
Liabilities at fair value on the balance sheet [1]				
Derivatives		1 293 892		1 293 892
Total liabilities	**0**	**1 293 892**	**0**	**1 293 892**

[1] All items are measured at fair value on a recurring basis at the end of each 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. Nordea Eiendomskreditt AS has no financial assets or financial liabilities measured according to level 3.

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 2

There has not been any transfers between Level 1 and Level 2 in 2019. When transfers between levels occurs, these are considered to have occurred at the end of the reporting period.

The valuation processes for fair value measurements

Financial instruments

The valuation process in Nordea consists of several steps. The first step is to determine the end of day (EOD) marking of mid-prices. It is the responsibility of the business areas to determine correct prices used for the valuation process. These prices are either internally marked prices set by a trading unit or externally sourced prices. The valuation prices and valuation approaches are then controlled and tested by a valuation control function within the 1st line of defence, which is independent from the risk taking units in the front office. The cornerstone in the control process is the independent price verification (IPV). The IPV test comprises verification of the correctness of valuations by comparing the prices to independently sourced data. The results of the IPV is analysed and any findings are escalated as appropriate.

The verification of the correctness of prices and inputs is as minimum carried out on a monthly basis and is for many products carried out daily. Third-party information, such as broker quotes and pricing services, is used as benchmark data in the verification. The quality of the benchmark data is assessed on a regular basis.
The valuation adjustment at portfolio level and the deferrals of day 1 P/L on Level 3 trades are calculated and reported on a monthly basis. The actual assessment of instruments in the fair value hierarchy is performed on a continuous basis.

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

31 Dec 2019, NOKt	Carrying amount	Fair value	Level in fair value hierarchy
Assets not held at fair value on the balance sheet			
Loans	246 147 445	245 793 916	3
Other financial assets	0	0	3
Prepaid expenses and accrued income	352 524	352 524	3
Total assets	**246 499 969**	**246 146 440**	
Liabilities not held at fair value on the balance sheet			
Deposits and debt instruments	232 696 220	233 464 348	3
Other financial liabilities	0	0	3
Accrued expenses and prepaid income	2 236	2 236	3
Total liabilities	**232 698 456**	**233 466 584**	

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 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: 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	Net carrying amount on the balance sheet[2]	Amounts not set off but subject to master netting: 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.

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 2018, 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: Financial instruments	Financial collateral received	Cash collateral received	Net amount
Assets							
Derivatives	868 244		868 244	-324 025	0	0	544 219
Total	**868 244**	**0**	**868 244**	**-324 025**	**0**	**0**	**544 219**

31 Dec 2018, NOKt	Gross recognised financial liabilities[1]	Gross recognised financial assets set off on the	Net carrying amount on the balance sheet	Amounts not set off but subject to master netting: Financial instruments	Financial collateral pledged	Cash collateral pledged	Net amount
Liabilities							
Derivatives	1 293 892	0	1 293 892	-324 025	0	0	969 867
Total	**1 293 892**	**0**	**1 293 892**	**-324 025**	**0**	**0**	**969 867**

[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 2019, NOKt	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Total
Interest-bearing financial assets	267 385	4 865 977	13 577 105	69 962 052	257 598 374	346 270 892
Non interest-bearing financial assets					357 640	357 640
Non-financial assets					0	0
Total assets	**267 385**	**4 865 977**	**13 577 105**	**69 962 052**	**257 956 014**	**346 628 533**
Interest-bearing financial liabilities	0	742 180	47 993 511	187 946 327	8 157 226	244 839 245
Non interest-bearing financial liabilities					303 028	303 028
Non-financial liabilities and equity					19 695 050	19 695 050
Total liabilities and equity	**0**	**742 180**	**47 993 511**	**187 946 327**	**28 155 304**	**264 837 323**
Derivatives, cash inflow	0	1 621 328	1 001 969	5 421 180	1 663 104	9 707 580
Derivatives, cash outflow	0	1 842 966	808 331	5 089 948	1 661 595	9 402 840
Net exposure		**-221 639**	**193 637**	**331 232**	**1 509**	**304 740**
Exposure	**267 385**	**3 902 157**	**-34 222 768**	**-117 653 043**	**229 802 219**	**82 095 950**
Cumulative exposure	**267 385**	**4 169 542**	**-30 053 226**	**-147 706 269**	**82 095 950**	

The table is based on contractual maturities for on balance sheet financial instruments. For derivatives, the expected cash inflows and outflows are disclosed for both derivative assets and derivative liabilities, as derivatives are managed on a net basis. In addition to the on balance sheet and derivative instruments, Nordea Eiendomskreditt has credit commitments amounting to tNOK 21.686.623, which could be drawn on at any time.

31 Dec 2018, NOKt	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Total
Interest-bearing financial assets	915 582	2 520 004	6 215 998	35 284 728	108 522 065	153 458 376
Non interest-bearing financial assets					145 162	145 162
Non-financial assets					0	0
Total assets	**915 582**	**2 520 004**	**6 215 998**	**35 284 728**	**108 667 226**	**153 603 538**
Interest-bearing financial liabilities	0	900 384	6 976 769	100 453 601	3 184 957	111 515 711
Non interest-bearing financial liabilities					521 981	521 981
Non-financial liabilities and equity					13 835 221	13 835 221
Total liabilities and equity	**0**	**900 384**	**6 976 769**	**100 453 601**	**17 542 159**	**125 872 913**
Derivatives, cash inflow	0	5 762 572	980 141	6 915 024	1 527 270	15 185 008
Derivatives, cash outflow	0	6 810 736	681 127	6 643 425	1 630 008	15 765 298
Net exposure		**-1 048 165**	**299 014**	**271 599**	**-102 738**	**-580 290**
Exposure	**915 582**	**571 455**	**-461 757**	**-64 897 274**	**91 022 328**	**27 150 334**
Cumulative exposure	**915 582**	**1 487 036**	**1 025 280**	**-63 871 994**	**27 150 334**	

The table is based on contractual maturities for on balance sheet financial instruments. For derivatives, the expected cash inflows and outflows are disclosed for both derivative assets and derivative liabilities, as derivatives are managed on a net basis. In addition to the on balance sheet and derivative instruments, Nordea Eiendomskreditt has credit commitments amounting to tNOK 12.357.191, which could be drawn on at any time.

Note 21
Related-party transactions

NOKt	2019				2018		
	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
Profit and loss account							
Interest income on loans with financial institutions	6 512				2 522		
Net gains/losses on items at fair value		110 319					
Other operating income				301			
Total income	**6 512**	**110 319**	**-**	**301**	**2 522**	**-**	**-**
Interest expenses on liabilities to financial institutions	1 793 430				355 826		
Interest and related expense on securities issued incl. hedging	-236 314	34 334	48 042		-304 749	47 302	
Other interest expenses			52 146				
Net gains/(losses) on items at fair value	278 835				350 677	1 956	
Interest and related expense on subordinated loan capital			69 644		31 406		4 320
Commission and fee expense for banking services	8 472				17 705		
Other operating expenses	569 958	1 455	478	500	342 530	1 501	493
Total expenses	**2 414 381**	**35 789**	**170 311**	**500**	**793 395**	**50 759**	**4 813**
Balance sheet							
Loans and receivables to credit institutions	267 389				915 580		
Derivatives	550 459	266 466			824 619	43 625	
Total assets	**817 848**	**266 466**	**-**	**-**	**1 740 200**	**43 625**	**-**
Deposits by credit institutions	131 962 116				21 028 756		
Issued bonds	-		1 561 193		-		882 579
Derivatives	165 253	5 954			309 385	984 507	
Accrued expenses and prepaid income		3 756	52 146	500	895	35 659	
Subordinated loan capital			2 302 654				1 200 106
Share capital and share premium [1]			10 533 627				5 433 627
Total libilities and equity	**132 127 369**	**9 710**	**14 449 620**	**500**	**21 339 036**	**1 020 166**	**7 516 312**
Off balance sheet items							
Interest rate swaps (nominal value)	55 378 526	4 340 730			80 653 526	10 859 230	

In addition to the transactions recognised above, Nordea Eiendomskreditt AS has also purchased loans to the public, which constitute Nordea Eiendomskreditt's cover pool, from Nordea Bank Abp, filial i Norge. In the period January-May 2019 loans amounting to NOK 148.6 billion have been transferred from the parent bank to Nordea Eiendomskreditt AS. In May 2019 Nordea Eiendomskreditt implemented a new business model and mortgage loans are from that point/time originated directly from the company's own balance sheet.

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 2019		31 Dec 2018	
NOKt	Aquired amount	Carrying amount	Aquired amount	Carrying amount
Financial assets				
State and sovereigns	2 004 450	2 006 600	3 164 059	3 123 853
Mortgage institutions	3 226 028	3 240 238	3 541 994	3 530 178
Total	**5 230 478**	**5 246 838**	**6 706 053**	**6 654 031**

Provisions for credit risks amount to NOKt 0m (159).

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 III) 2018, which is available on www.nordea.com. Much of the information in this note is collected from the Pillar III report in order to fulfil the disclosure requirement regarding credit risk in the Annual Report.

The Pillar III report contains the disclosures required by the Capital Requirements Regulation (CRR). The Pillar III 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 2019	31 Dec 2018
Loans to the public	9	103	56
Total		**103**	**57**

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 2019		31 Dec 2018	
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		267		916	
Interest-bearing securities	22		5 247		6 654
Loans to the public incl accrued interest	9	246 227		111 990	
Derivatives			646		544
Total loans and receivables (on-balance exposure)		**246 495**	**5 893**	**112 905**	**7 198**
Off balance credit exposure:					
- of which lending to the public	15	21 687		12 357	
Off balance credit exposure		**21 687**	**0**	**12 357**	**0**
Exposure At Default (EAD)		**268 181**	**5 893**	**125 263**	**7 198**

Loan-to-value distribution og loans to the public[1]

	31 Dec 2019		31 Dec 2018	
	NOKm	in %	NOKm	in %
<50%	169 391	68,9 %	97 027	86,7 %
50-70%	28 500	11,6 %	11 279	10,1 %
70-80%	6 937	2,8 %	1 862	1,7 %
80-90%	3 512	1,4 %	797	0,7 %
>90%	37 637	15,3 %	956	0,9 %
Total	**245 978**	**100%**	**111 920**	**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 2019	31 Dec 2018
6-30 days	4 093	663
31-60 days	466	161
61-90 days	135	40
>90 days	79	62
Total	**4 774**	**926**
Past due not impaired loans divided by loans to the public after allowances	4,3 %	0,8 %

Past due loans in the bucket 6-30 days have gradually increased during last fall and reached a peak at year-end. In January 2020 the trend has turned and the volume in this bucket has decreased significantly.

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 2019, 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 2019, 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.

The credit company's activities are largely unchanged compared to last year. We have not identified regulatory changes, transactions or other events that qualified as new Key audit matters for our audit of the 2019 financial statements. In this light, our areas of focus have been the same in 2019 as the previous year.

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State authorised public accountants, members of The Norwegian Institute of Public Accountants, and authorised accounting firm

Key Audit Matter	How our audit addressed the Key Audit Matter
Loans to the public	
(We also refer to note 7, 9, 11 and 14.) The mortgage company has loans to private individuals amounting to NOK 245 874 963 000 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 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. The company has realized only limited losses on loans in 2019. 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 this subject.	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 and transferring 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 directed at ensuring that the process has been carried out prior to granting or transfer of loans from the parent bank to the mortgage company. 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 organisation 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 were relevant for financial reporting. Further, our testing substantiated that the mortgage company's investigation and processes support 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.

(2)

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 fair presentation 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 fair presentation.

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, 13 February 2020
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

Nordea Eiendomskreditt 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 2019, including comparative figures for 2018 (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 2019 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 2019 and as of 31 December 2018.

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 transaction s and the description of the most relevant risk factors the company faces the coming year.

Oslo, 13 February 2020

John Arne Sætre
Chair

Marte Kopperstad
Vice Chair

Ola Littorin
Board member

Alex Madsen
Board member

Gro Elisabeth Lundevik
Board member

Anne Sofie Knoph
Employee representative

Børre Sten Gundersen
Chief Executive Officer

Board of Directors and Auditors

Board of Directors

Chair

John Arne Sætre
Nordea Bank Abp, filial i Norge
Head of Personal Banking Nordea Norway
Board member since 2016

Members

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

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

Alex Madsen
Sjølyst Regnskap ANS
Partner
Board member since 2014

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

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

Auditor

PricewaterhouseCoopers AB

Marius Kaland Olsen
Authorised Public Accountant

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