

Interim Report 2nd quarter 2016

Nordea Eiendoms kreditt AS

Nordea Eiendoms kreditt AS is part of the Nordea group. Nordea is among the ten largest universal banks in Europe in terms of total market capitalisation and has around 11 million customers, 30,000 employees and approximately 600 branch office locations. The Nordea share is listed on the Nasdaq Stockholm, Nasdaq Helsinki and Nasdaq Copenhagen exchanges. We have a broad expertise across the wide range of products, services and solutions that we provide within banking, asset management and insurance. In Nordea we build trusted relationships through our strong engagement with both customers and society.

Key financial figures

Summary of income statement (NOKm)

	Jan-Jun 2016	Jan-Jun 2015	Year 2015
Net interest income	646	883	1 587
Net result from items at fair value	-5	-16	-9
Other operating income	23	23	44
Total operating income	664	889	1 622
Staff costs	-1	-1	-3
Other operating expenses	-231	-80	-155
Total operating expenses	-232	-81	-158
Loan losses (negative figures are reversals)	4	11	33
Operating profit	428	796	1 431
Income tax expense	107	179	343
Net profit for the period	321	617	1 088

Summary of balance sheet (NOKm)

	30 Jun 2016	30 Jun 2015	31 Dec 2015
Loans to the public	119 410	105 388	106 508
Allowance for loan losses	-75	-56	-76
Other assets	7 774	6 976	8 905
Debt securities in issue	94 453	78 777	81 628
Other liabilities	22 901	23 463	23 158
Equity	9 755	10 068	10 551
Total assets	127 109	112 308	115 337
Average total assets	119 702	115 364	111 789

Ratios and key figures

	30 Jun 2016	30 Jun 2015	31 Dec 2015
Basic/diluted earnings per share (EPS), annualised basis, NOK	42.0	81.1	71.0
Equity per share ¹ NOK	636.1	656.5	688.0
Shares outstanding ¹ , million	15.3	15.3	15.3
Post-tax return on average equity	6.2 %	12.7 %	10.8 %
Cost/income ratio	34.9 %	9.1 %	9.7 %
Loan loss ratio, annualised, basis points	0.7	2.1	3.1
Common Equity Tier 1 capital ratio, excl. Basel I floor ^{1,2}	55.8 %	57.1 %	64.1 %
Tier 1 capital ratio, excl. Basel I floor ^{1,2}	55.8 %	57.1 %	64.1 %
Total capital ratio, excl. Basel I floor ^{1,2}	60.6 %	61.9 %	68.9 %
Common Equity Tier 1 capital ratio, incl. Basel I floor ^{1,2}	17.5 %	19.4 %	21.5 %
Tier 1 capital ratio incl. Basel I floor ^{1,2}	17.5 %	19.4 %	21.5 %
Total capital ratio incl. Basel I floor ^{1,2}	19.0 %	21.1 %	23.2 %
Own funds NOKm ^{1,2}	10 156	10 123	11 224
Risk Exposure Amount incl. Basel I floor, NOKm¹	53 544	48 043	48 469

¹ At the end of the period.

² Excluding the year to date result for interim figures.

Nordea Eiendomskreditt AS

(Previous year comparable figures for the company are shown in brackets)

Nordea Eiendomskreditt's business objective is to acquire long term Norwegian residential mortgage loans and loans to holiday houses from the parent bank, and to fund its lending activities primarily via issuance of covered bonds (bonds with a priority right of recourse to the company's collateral for its lending). Nordea Eiendomskreditt AS is a wholly owned subsidiary of Nordea Bank Norge ASA.

Income statement

Profit from ordinary activities after loan losses but before tax for the first six months of 2016 was NOK 428 million (NOK 796 million). The profit reported is equivalent to a post-tax return on average equity of 6.2% (12.7%) on an annualised basis.

Net interest income for the six months ending 30 June 2016 showed a decrease of 27% compared to the same period last year, and amounted to NOK 646 million (NOK 883 million). The decrease is lower than in the first quarter, but still mainly explained by a lower interest rate margin this year, due to interest rate reductions on the loan stock.

Total operating expenses for the first six months amounted to NOK 232 million (NOK 81 million), of which the major part is related to management of the lending portfolio and customer contact. Due to a changed pricing model for calculating administration fee paid to the parent bank, these expenses have increased compared to 2015, and explains the increase in total operating expenses compared to last year.

Loan losses and provisions recognised in the accounts for the first six months amounted to NOK 4 million (NOK 11 million). Allowances for individually assessed loans have decreased by NOK 1 million, while allowances for collectively assessed loans only show a small increase during the period. Realised loan losses in the period were NOK 4 million.

Total assets amounted to NOK 127,109 million as of 30 June 2016 (NOK 112,308 million).

Capital position and risk exposure amount

Nordea Eiendomskreditt's Common Equity Tier 1 capital ratio excluding Basel I floor was 55.8% excluding profit at the end of the second quarter, a decrease of 9.3%-points from the end of the previous quarter. Also the Tier 1 capital ratio excluding Basel I floor decreased 9.3%-points to 55.8% excluding profit. The Total Capital ratio excluding Basel I floor decreased 9.3%-points to 60.6% excluding profit.

Risk Exposure Amount (REA) was NOK 16,766 million excluding Basel I rules, an increase of NOK 725 million, or 4.5%, compared to the previous quarter. The main driver for the increase in REA was related to increased exposures in IRB retail.

The Common Equity Tier 1 ratio including Basel I rules was 17.5% excluding profit at the end of the second quarter and the Own Funds was NOK 10,156 million. The Tier 1 capital and the Common Equity Tier 1 capital was NOK 9,348 million (no additional Tier 1 capital).

Capital regulation

On 27 June Finanstilsynet published "Finanstilsynets praksis for vurdering av risiko og kapitalbehov". The document outlines Finanstilsynets methods for calculation of Pillar 2 add-ons.

Liquidity Coverage Ratio (LCR)

For Nordea Eiendomskreditt combined LCR, as specified by Delegated Act, was 473%, NOK LCR 459% and GBP LCR 0%.

Funding

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

During the first six months of 2016 Nordea Eiendomskreditt issued covered bonds amounting to NOK 15.9 billion in the Norwegian domestic market under its NOK 100 bn domestic covered bond programme and GBP 500 million under its EUR 10bn EMTN covered bond programme. In the same period two bonds amounting to NOK 6.7 billion have matured. As of 30 June 2016, Nordea Eiendomskreditt had outstanding covered bonds totalling NOK 73.3 billion in the Norwegian market, USD 1.0 billion in the US market, issued under its USD 10 bn 144a covered bond programme and GBP 1.1 billion in the European market. Nordea Eiendomskreditt also had subordinated debt outstanding to the amount of NOK 0.78 billion.

The EUR 10bn EMTN covered bond programme established in June 2013 will primarily target covered bond issuance in USD RegS, CHF and GBP, complementing issuance under the domestic programme.

In addition to the long term funding, Nordea Eiendomskreditt also raised short term unsecured funding from the parent bank. At the end of the second quarter of 2016 such borrowings amounted to NOK 19.0 billion.

Rating

The company has since April 2010 had the rating Aaa from Moody's Investor Service for the covered bonds issued by the company.

Lending

The gross book value of loans outstanding amounted to NOK 119,4 billion as of 30 June 2016 (NOK 105.4 billion), and consists entirely of residential mortgage loans and loans to holiday houses, that are bought from and managed by Nordea Bank Norge ASA. NOK 110.8 billion 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 20.2% in relation to covered bonds issued.

Interest rate and currency hedging

The company uses interest rate and currency swaps to hedge interest rate and currency risk. At the close of the second quarter of 2016, the company was party to interest rate swaps with nominal value of NOK 64.8 billion. In accordance with IFRS, fair value changes of interest rate swaps and the corresponding hedged items (fixed-rate lending and fixed-rate issued bonds) due to changes in market rates, are recognised in the profit and loss accounts.

In order to eliminate the foreign exchange risk, the company has entered into currency swaps of the same amounts as covered bonds issued in foreign currencies. Counterparties to all derivative contracts are within the Nordea Group.

Impaired loans

As of 30 June 2016 impaired loans amounted to NOK 430.6 million which corresponds to 0.36% of the total loan portfolio. Individual allowances of NOK 31.0 million have been made, and net impaired loans were NOK 400.0 million at 30 June 2016 compared to NOK 14.9 million at 30 June 2015. The increase relates to an improved way of calculating collectively assessed provisions on contract level, and from 31 December 2015 also non-performing loans with collectively assessed provisions are included in the volume of impaired loans.

Nordea Eiendomskreditt AS

Oslo, 19 July 2016



Børre Gundersen
Chairman of the Board



Ola Littorin
Board member



Eva I. E. Jarbekk
Board member



Alex Madsen
Board member



Øistein Gamst Sandlie
Board member



Marianne Glatved
Managing director

Income statement

NOKt	Note	Jan–Jun 2016	Jan–Jun 2015	Q2 2016	Q2 2015	Year 2015
Interest income on loans and deposits with financial institutions		1 269	1 734	405	858	6 109
Interest and related income on loans to customers		1 429 543	1 819 271	728 154	866 629	3 298 123
Interest and related income on debt securities		4 597	0	2 701	0	413
Other interest and related income		211	110	183	71	1 743
Total interest and related income		1 435 620	1 821 115	731 443	867 558	3 306 388
Interest expense on liabilities to financial institutions		65 868	122 498	32 843	61 891	206 810
Interest and related expense on securities issued		890 169	921 989	450 827	449 010	1 787 992
Interest expense on subordinated loan capital		18 450	19 883	9 134	9 860	39 276
Other interest and related expense ¹		-184 935	-125 766	-96 865	-56 171	-314 799
Total interest and related expense		789 552	938 605	395 939	464 590	1 719 279
Net interest income		646 068	882 510	335 504	402 968	1 587 109
Fee and commission income		24 974	25 611	12 761	12 674	49 049
Fee and commission expense		2 083	2 930	1 154	524	5 412
Net fee and commission income		22 891	22 681	11 607	12 150	43 637
Net result from items at fair value	3	-4 992	-16 187	19 203	12 405	-9 152
Total operating income		663 967	889 004	366 314	427 523	1 621 593
Staff costs		1 116	1 321	502	607	2 774
Other operating expenses		230 711	80 023	117 100	40 145	154 920
Total operating expenses		231 827	81 343	117 602	40 752	157 694
Profit before loan losses		432 140	807 661	248 713	386 772	1 463 899
Loan losses	4	3 644	11 252	1 407	11 341	33 036
Operating profit		428 496	796 409	247 306	375 431	1 430 863
Income tax expense		107 129	179 253	61 831	101 366	342 567
Net profit for the period		321 367	617 156	185 475	274 065	1 088 296
Attributable to:						
Shareholder of Nordea Eiendomskreditt AS		321 367	617 156	185 475	274 065	1 088 296
Total		321 367	617 156	185 475	274 065	1 088 296
Basic/diluted earnings per share, NOK		20.95	40.24	12.09	17.87	70.96

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 in the Annual Report 2015.

Statement of comprehensive income

NOKt	Jan–Jun 2016	Jan–Jun 2015	Year 2015
Net profit for the period	321 367	617 156	1 088 296
Items that may be reclassified subsequently to the income statement			
Cash Flow hedges:			
Valuation gains/losses during the period	-51 262	-87 808	-73 955
Tax on valuation gains/losses during the period	12 816	23 708	21 200
Items that may not be reclassified subsequently to the income statement			
Defined benefit plans:			
Remeasurement of defined benefit plans	-1 339	678	1 064
Tax on remeasurement of defined benefit plans	335	-183	-317
Other comprehensive income, net of tax	-39 451	-63 605	-52 007
Total comprehensive income	281 916	553 551	1 036 289
Attributable to:			
Shareholders of Nordea Eiendomskreditt AS	281 916	553 551	1 036 289
Total	281 916	553 551	1 036 289

Balance sheet

NOKt	Note	30 Jun 2016	30 Jun 2015	31 Dec 2015
Assets				
Loans to credit institutions		298 901	263 607	143 720
Loans to the public	4	119 335 033	105 332 351	106 432 216
Interest-bearing securities		2 246 255		1 498 313
Derivatives	6	5 052 336	4 759 091	6 834 690
Fair value changes of the hedged items in portfolio hedge of interest rate risk		51 557	80 127	64 358
Other assets		-3	1 728 042	243 659
Accrued income and prepaid expenses		124 621	144 592	119 841
Total assets	5	127 108 699	112 307 810	115 336 796
Liabilities				
Deposits by credit institutions		18 960 533	19 753 342	20 027 995
Debt securities in issue		94 453 273	78 777 004	81 628 343
Derivatives	6	1 271 313	279 183	273 447
Fair value changes of the hedged items in portfolio hedge of interest rate risk		1 670 057	1 337 365	1 601 519
Current tax liabilities		106 943	215 030	352 261
Other liabilities		4 087	1 003 702	2 738
Accrued expenses and prepaid income		2 224	5 026	2 336
Deferred tax liabilities		95 786	80 279	109 005
Retirement benefit obligations		6 498	5 320	5 194
Subordinated loan capital		783 076	783 639	783 300
Total liabilities	5	117 353 790	102 239 890	104 786 139
Equity				
Share capital		1 686 990	1 686 990	1 686 990
Share premium		1 446 637	1 446 637	1 446 637
Other reserves		5 669	33 522	45 120
Retained earnings		6 615 613	6 900 771	7 371 910
Total equity		9 754 909	10 067 919	10 550 657
Total liabilities and equity		127 108 699	112 307 810	115 336 796
Assets pledged as security for own liabilities		110 766 102	95 556 695	96 821 638
Contingent liabilities		869	1 390	869
Commitments		14 553 731	14 247 888	14 123 350

Statements of changes in equity


NOKt	Share capital ¹⁾	Share premium	Other reserves		Retained earnings	Total equity
			Cash flow hedges	Defined benefit plans		
Opening balance at 1 Jan 2016	1 686 990	1 446 637	46 209	-1 089	7 371 910	10 550 657
Total comprehensive income			-38 447	-1 004	321 367	281 916
Group contribution paid					-1 077 665	-1 077 665
Group contribution received					0	0
Closing balance at 30 Jun 2016	1 686 990	1 446 637	7 762	-2 093	6 615 613	9 754 909

NOKt	Share capital ¹⁾	Share premium	Other reserves		Retained earnings	Total equity
			Cash flow hedges	Defined benefit plans		
Opening balance at 1 Jan 2015	1 686 990	1 446 637	98 963	-1 836	6 283 615	9 514 368
Total comprehensive income	0	0	-52 755	747	1 088 296	1 036 289
Group contribution paid					-1 314 000	-1 314 000
Group contribution received					1 314 000	1 314 000
Closing balance at 31 Dec 2015	1 686 990	1 446 637	46 209	-1 089	7 371 910	10 550 657

NOKt	Share capital ¹⁾	Share premium	Other reserves		Retained earnings	Total equity
			Cash flow hedges	Defined benefit plans		
Opening balance at 1 Jan 2015	1 686 990	1 446 637	98 963	-1 836	6 283 615	9 514 368
Total comprehensive income			-64 100	495	617 156	553 551
Group contribution paid					-1 314 000	-1 314 000
Group contribution received					1 314 000	1 314 000
Closing balance at 30 Jun 2015	1 686 990	1 446 637	34 863	-1 342	6 900 771	10 067 919

¹ The company's share capital at 30 June 2016 was NOK 1.686.989.590,-. The number of shares was 15.336.269, each with a quota value of NOK 110,-. All shares are owned by Nordea Bank Norge ASA.

Nordea Eiendomskreditt AS Oslo, 19 July 2016


Børre Gundersen
Chairman of the Board


Ola Littorin
Board member


Eva I. E. Jarbekk
Board member


Alex Madsen
Board member


Øistein Gamst Sandlie
Board member


Marianne Glatved
Managing director

Cash flow statement

NOKt	Jan–Jun 2016	Jan–Jun 2015	Year 2015
Operating activities			
Operating profit before tax	428 496	796 409	1 430 863
Adjustments for items not included in cash flow	–559	9 355	29 469
Income taxes paid	–181	–349 004	–20 815
Cash flow from operating activities before changes in operating assets and liabilities	427 756	456 760	1 439 517
Changes in operating assets			
Change in loans to the public	–12 902 258	9 542 479	8 422 500
Change in interest-bearing securities	–746 602	0	–1 498 313
Change in derivatives, net	2 780 220	–110 057	–2 191 391
Change in other assets	250 343	–1 322 163	–125 448
Changes in operating liabilities			
Change in other liabilities	–324 403	195 339	–170 703
Cash flow from operating activities	–10 514 944	8 762 358	5 876 162
Investing activities			
Purchase/sale of tangible fixed assets			
Change in loans and receivables to credit institutions, fixed terms			
Change in holdings of bearer bonds issued by others			
Cash flow from investing activities	0	0	0
Financing activities			
Change in deposits by credit institutions	–1 067 359	2 699 430	2 974 185
Receipts on issue of debt securities	19 825 989	8 325 093	13 135 385
Payments on redemption of debt securities	–6 658 505	–19 181 760	–21 500 498
Change in subordinated loan capital			
Group contribution paid	–1 430 000	–1 800 000	–1 800 000
Group contribution received	0	1 314 000	1 314 000
Change in subordinated loan capital			
Increase in share capital and share premium			
Cash flow from financing activities	10 670 125	–8 643 237	–5 876 928
Cash flow for the period	155 181	119 121	–766
Cash and cash equivalents at beginning of period	143 720	144 486	144 486
Cash and cash equivalents at end of period	298 901	263 607	143 720
Change	155 181	119 121	–766

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 and derivatives. Changes in short-term funding and debt securities in issue are reported under Financing activities. 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. Also changes in short-term funding and debt securities in issue are reported under Financing activities.

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

Notes to the financial statements

Note 1 Accounting policies

The financial statements of Nordea Eiendomskreditt AS have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU Commission.

The interim financial statements for the period 1 January to 30 June 2016 are presented in accordance with IAS 34 *Interim Financial Reporting*.

As a result of rounding adjustments, the figures in one or more columns or rows included in the financial statements may not add up to the total of that column or row.

Changed accounting policies and presentation

The accounting policies, basis for calculations and presentation are, in all material aspects, unchanged in comparison with the 2015 Annual Report. Below follows information on changes in IFRSs, not yet implemented.

IFRS amendments implemented during the period

The following amendments published by IASB were implemented on 1 January 2016 but have not had any significant impact on Nordea Eiendomskreditt's financial statements:

- IAS 1 "Disclosure Initiative"
- Annual Improvements to IFRSs, 2012–2014 Cycle

New IFRS standards not yet implemented

IFRS 9 "Financial instruments"

IASB has completed the new standard for financial instruments, IFRS 9 "Financial instruments". IFRS 9 covers classification and measurement, impairment and general hedging and replaces the current requirements covering these areas in IAS 39. IFRS 9 is effective as from annual periods beginning on or after 1 January 2018. Earlier application is permitted, but IFRS 9 is not yet endorsed by the EU commission. Nordea does not currently intend to early adopt the standard.

The changes in classification and measurement are not expected to have a significant impact on Nordea Eiendomskreditt's income statement or balance sheet as the mixed measurement model will be maintained, and as there will still be a measurement category similar to the current Available For Sale (AFS) category in IAS 39. Significant reclassifications between fair value and amortised cost or impact on the capital adequacy and large exposures are not expected in the period of initial application, but this is naturally dependent on the financial instruments on Nordea Eiendomskreditt's balance sheet at transition.

The impairment requirements in IFRS 9 are based on an expected loss model as opposed to the current incurred loss model in IAS 39. In general, it is expected that the new requirements will increase loan loss provisions, decrease equity and have a negative impact on capital adequacy, but no impact on large exposures, in the period of initial application. IFRS 9 requires all assets measured at amortised cost and fair value through other comprehensive income, as well as guarantees and loan commitments, to be included in the impairment test. Currently Nordea Eiendomskreditt does not calculate collective provisions for off balance sheet exposures or the AFS portfolio.

The assets to test for impairment will be divided into three groups depending on the stage of credit deterioration. Stage 1 includes assets where there has been no significant deterioration in credit risk, stage 2 includes assets where there has been a significant deterioration and stage 3 includes assets that have been individually assessed to be impaired. In stage 1, the provisions should equal the 12 month expected loss. In stage 2 and 3, the provisions should equal the lifetime expected losses.

Nordea's current model for calculating collective provisions defines a loss event as a deterioration in rating/scoring, but it is not expected that the loss event in the current model will equal the trigger event for moving items from stage 1 to stage 2 under IFRS 9. Currently Nordea Eiendomskreditt does not, in addition, hold any provisions for assets where there has been no deterioration in credit risk. For assets where there has been a significant deterioration in credit risk, Nordea Eiendomskreditt currently holds provisions based on the losses estimated to occur during the period between the date when the loss event occurred and the date when the loss event is identified on an individual basis, the so called "Emergence period", while IFRS 9 will require provisions equal to the lifetime expected loss. This means total provisions will increase when IFRS 9 is implemented.

The main change to the general hedging requirements is that the standard aligns hedge accounting more closely with the risk management activities. As Nordea generally uses macro (portfolio) hedge accounting Nordea's assessment is that the new requirements will not have any significant impact on Nordea Eiendomskreditt's financial statements, capital adequacy, or large exposures in the period of initial application.

Nordea has not yet finalised the impact assessment of the implementation of IFRS 9.

IFRS 15 "Revenue from Contracts with Customers"

The IASB has published the new standard, IFRS 15 "Revenue from Contracts with Customers". The new

standard outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue recognition standards and interpretations within IFRS, such as IAS 18 "Revenue". The new standard is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. The EU-commission is expected to endorse the standard during the third quarter 2016. Nordea does not currently intend to early adopt the standard. The standard does not apply to financial instruments, insurance contracts or lease contracts. Nordea has not finalised the investigation of the impact on the financial statements but the current assessment is that the new standard will not have any significant impact on Nordea Eiendomskreditt's financial statements, capital adequacy, or large exposures in the period of initial application.

Other items

ESMA (the European Securities and Markets Authority) has published a guideline for Alternative Performance Measures. Nordea publishes this information regarding definitions and calculations for Nordea Eiendomskreditt on the shared site for investor relations at www.nordea.com.

Exchange rates

	Jan-Jun 2016	Full year 2015	Jan-Jun 2015
USD 1 = NOK			
Income statement (average)	8.4498	8.0624	7.7489
Balance sheet (at end of period)	8.3776	8.8206	7.8568
GBP 1 = NOK			
Income statement (average)	12.1163	12.3230	11.8050
Balance sheet (at end of period)	11.2532	13.0840	12.3573

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 Retail Banking segment of the Nordea Bank Norge group.

Note 3 Net result from items at fair value

Net gains/losses for categories of financial instruments

NOKt	Jan-Jun 2016	Jan-Jun 2015	Year 2015
Financial instruments held for trading ¹	-18 030	-1 501	7 202
Financial instruments under hedge accounting	13 155	-14 686	-16 354
– of which net gains/losses on hedged items	-27 455	-430 822	115 455
– of which net gains/losses on hedging instruments	40 609	416 136	-131 809
Other financial liabilities	-117	0	0
Total	-4 992	-16 187	-9 152

¹ No assets or liabilities were classified as held for trading other than interest-bearing securities and derivatives held for economic hedging, which do not meet the requirements for hedge accounting according to IAS 39.

Note 4 Loans and impairment

Net loan losses

NOKt	Jan-Jun 2016	Jan-Jun 2015	Jan-Dec 2015
Realised loan losses	4 202	1 899	3 580
Allowances to cover realised loan losses	-2 664	-1 467	-1 566
Recoveries on previous realised loan losses	0	0	-14
Provisions	3 205	12 766	43 943
Reversals of previous provisions	-1 099	-1 944	-12 908
Total loan losses for the period	3 644	11 252	33 036

Reconciliation of allowance accounts for impaired loans

NOKt	Jan-Jun 2016			Jan-Jun 2015			Jan-Dec 2015		
	Individually assessed	Collectively assessed	Total	Individually assessed	Collectively assessed	Total	Individually assessed	Collectively assessed	Total
Opening balance at beginning of period	31 835	43 745	75 580	28 016	18 095	46 111	28 016	18 095	46 111
Provisions	2 960	245	3 205	3 031	9 735	12 766	8 434	35 509	43 943
Reversals	-1 099	0	-1 099	-1 944	0	-1 944	-3 049	-9 859	-12 908
Changes through the income statement	1 861	245	2 106	1 087	9 735	10 822	5 385	25 650	31 035
Allowances to cover realised loan losses	-2 664	0	-2 664	-1 467	0	-1 467	-1 566	0	-1 566
Closing balance at end of period	31 032	43 989	75 021	27 636	27 830	55 466	31 835	43 745	75 580

Loans and impairment

NOKt	30 Jun 2016	30 Jun 2015	31 Dec 2015
Loans, not impaired	118 979 436	105 345 296	106 048 409
Impaired loans;	430 618	42 521	459 387
- Performing	22 924	4 000	158 611
- Non-performing	407 694	38 521	300 776
Loans before allowances	119 410 054	105 387 817	106 507 796
Allowances for individually assessed impaired loans;	-31 032	-27 636	-31 835
- Performing	-2 263	-3 287	-612
- Non-performing	-28 769	-24 348	-31 223
Allowances for collectively assessed impaired loans	-43 989	-27 830	-43 745
Allowances	-75 021	-55 466	-75 580
Loans, carrying amount	119 335 033	105 332 350	106 432 216

Key ratios

	30 Jun 2016	30 Jun 2015	31 Dec 2015
Impairment rate, gross ¹ , (bsp)	36.1	4.0	43.1
Impairment rate, net ² , (bsp)	33.5	1.4	36.0
Total allowance rate ³ , (bsp)	6.3	5.3	7.1
Allowance rate, individually assessed impaired loans ⁴ , in %	7.2	65.0	6.9
Total allowances in relation to impaired loans ⁵ , in %	17.42	130.4	16.5
Non-performing loans, not impaired ⁶ , in NOKt	22 426	281 502	235 574

¹ Impaired loans before allowances divided by total loans before allowances.

² Impaired loans after allowances divided by total loans before allowances.

³ Total allowances divided by total loans before allowances.

⁴ Allowances for individually assessed impaired loans divided by gross impaired loans, rate for 31 Dec 2015 has been restated.

⁵ Total allowances divided by gross impaired loans

⁶ Past due loans, not impaired due to future cash flows

Note 5 Classification of financial instruments

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.

NOKt	Loans and receivables	Assets at fair value through profit and loss – Held for trading ¹	Derivatives used for hedging	Non-financial assets	Total
Assets					
Loans to credit institutions	298 901				298 901
Loans to the public	119 335 033				119 335 033
Interest-bearing securities		2 246 255			2 246 255
Derivatives			5 052 336		5 052 336
Fair value changes of the hedged items in portfolio hedge of interest rate risk	51 557				51 557
Other assets				-3	-3
Prepaid expenses and accrued income	124 497			124	124 621
Total 30 June 2016	119 809 988	2 246 255	5 052 336	121	127 108 699
Total 31 December 2015	107 003 794	1 498 313	6 834 690	0	115 336 796
Total 30 June 2015	107 220 530	3 464	4 755 627	328 189	112 307 810

NOKt	Liabilities at fair value through profit and loss – Held for trading ¹	Derivatives used for hedging	Other financial liabilities	Non-financial liabilities	Total
Liabilities					
Deposits by credit institutions			18 960 533		18 960 533
Debt securities in issue			94 453 273		94 453 273
Derivatives	45 462	1 225 851			1 271 313
Fair value changes of the hedged items in portfolio hedge of interest rate risk			1 670 057		1 670 057
Current tax liabilities				106 943	106 943
Other liabilities				4 087	4 087
Accrued expenses and prepaid income			382	1 842	2 224
Deferred tax liabilities				95 786	95 786
Retirement benefit obligations				6 498	6 498
Subordinated loan capital			783 076		783 076
Total 30 June 2016	45 462	1 225 851	115 867 321	215 156	117 353 790
Total 31 December 2015	65 331	208 116	104 041 878	470 813	104 786 139
Total 30 June 2015	77 082	202 101	101 652 353	308 354	102 239 890

¹ No assets or liabilities were classified as held for trading other than interest-bearing securities and derivatives held for economic hedging, which do not meet the requirements for hedge accounting according to IAS 39.

Note 6 Derivatives and hedge accounting

30 June 2016, NOKt	Fair value		Total nominal amount
	Positive	Negative	
Derivatives held for trading ¹ :			
Interest rate swaps	0	45 462	34 500 000
Total	0	45 462	34 500 000
Derivatives used for hedge accounting:			
Interest rate swaps	1 777 706	171 360	30 265 590
Currency interest rate swaps	3 274 630	1 054 491	21 037 481
Total	5 052 336	1 225 851	51 303 070
Total derivatives	5 052 336	1 271 313	85 803 070

31 December 2015, NOKt	Fair value		Total nominal amount
	Positive	Negative	
Derivatives held for trading ¹ :			
Interest rate swaps	31	65 361	44 500 000
Total	31	65 361	44 500 000
Derivatives used for hedge accounting:			
Interest rate swaps	2 062 448	208 086	29 479 610
Currency interest rate swaps	4 772 211		12 262 946
Total	6 834 659	208 086	41 742 556
Total derivatives	6 834 690	273 447	86 242 557

30 June 2015, NOKt	Fair value		Total nominal amount
	Positive	Negative	
Derivatives held for trading ¹ :			
Interest rate swaps	3 464	77 082	41 500 000
Total	3 464	77 082	41 500 000
Derivatives used for hedge accounting:			
Interest rate swaps	1 393 362	202 101	27 840 824
Currency interest rate swaps	3 362 265		14 962 285
Total	4 755 626	202 101	42 803 108
Total derivatives	4 759 091	279 183	84 303 108

¹ No derivatives were classified as held for trading other than derivatives held for economic hedging, which do not meet the requirements for hedge accounting according to IAS 39.

Note 7 Fair value of financial assets and liabilities

NOKt	30 June 2016		31 December 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans	119 685 491	121 394 640	106 640 294	110 883 566
Interest-bearing securities	2 246 255	2 246 255	1 498 313	1 498 313
Derivatives	5 052 336	5 052 336	6 834 690	6 834 690
Other financial assets	0	0	243 659	243 659
Prepaid expenses and accrued income	124 497	124 497	119 841	119 841
Total financial assets	127 108 579	128 817 728	115 336 796	119 580 069

	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Deposits and debt instruments	115 866 939	115 896 634	104 041 157	103 954 314
Derivatives	1 271 313	1 271 313	273 447	273 447
Other financial liabilities	0	0	0	0
Accrued expenses and prepaid income	382	382	0	0
Total financial liabilities	117 138 635	117 168 329	104 314 604	104 227 761

The determination of fair value is described in the Annual Report 2015, Note 17 Assets and liabilities at fair value.

Note 8 Financial assets and liabilities measured at fair value on the balance sheet

Categorisation into fair value hierarchy

	Quoted prices in active markets for same instrument (Level 1)	Valuation technique using observable data (Level 2)	Valuation technique using non-observable data (Level 3)	Total
30 June 2016, NOKt				
Financial assets¹				
Interest-bearing securities		2 246 255		2 246 255
Derivatives		5 052 336		5 052 336
Total assets	0	7 298 591	0	7 298 591
Financial liabilities¹				
Derivatives		1 271 313		1 271 313
Total liabilities	0	1 271 313	0	1 271 313
31 December 2015, NOKt				
Financial assets¹				
Interest-bearing securities		1 498 313		1 498 313
Derivatives		6 834 690		6 834 690
Total assets	0	8 333 003	0	8 333 003
Financial liabilities¹				
Derivatives		273 447		273 447
Total liabilities	0	273 447	0	273 447

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

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

Fair value of financial assets and liabilities are generally calculated as the theoretical net present value of the individual instruments, based on independently sourced market parameters as described above, and assuming no risks and uncertainties. For more information about valuation techniques and inputs used in the fair value measurement, see the Annual Report 2015, Note 17 Assets and liabilities at fair value.

Transfers between Level 1 and Level 2

There has not been any transfers between Level 1 and Level 2 in the first half year of 2016. When transfers between levels occur, these are considered to have occurred at the end of the reporting period.

Note 9 Capital adequacy

These figures are according to part 8 of CRR, Capital Requirements Regulation

Summary of items included in own funds

NOKm	30 Jun 2016	31 Dec ¹ 2015	30 Jun 2015
Calculation of own funds:			
Equity in the consolidated situation	9 434	10 551	9 451
Proposed/actual dividend			
Common Equity Tier 1 capital before regulatory adjustments	9 434	10 551	9 451
Deferred tax assets			
Intangible assets			
IRB provisions shortfall (-)	-78	-61	-73
Deduction for investments in credit institutions (50%)			
Pension assets in excess of related liabilities			
Other items, net	-8	-46	-35
Total regulatory adjustments to Common Equity Tier 1 capital	-86	-107	-108
Common Equity Tier 1 capital (net after deduction)	9 348	10 444	9 343
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)	9 348	10 444	9 343
Tier 2 capital before regulatory adjustments	780	780	780
IRB provisions excess (+)/shortfall (-)	28		
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	28		
Tier 2 capital	808	780	780
Own funds (net after deduction)	10 156	11 224	10 123

¹ Including profit

Own funds including profit

NOKm	30 Jun 2016	31 Dec 2015	30 Jun 2015
Common Equity Tier 1 capital, including profit	9 669	10 444	10 140
Total Own funds, including profit	10 477	11 224	10 920

Note 9 Capital adequacy cont.

Minimum capital requirement and REA

	30 Jun 2016	30 Jun 2016	31 Dec 2015	31 Dec 2015	30 Jun 2015	30 Jun 2015
	Minimum Capital requirement	REA	Minimum Capital requirement	REA	Minimum Capital requirement	REA
NOKm						
Credit risk	1 092	13 649	1 073	13 415	1 090	13 619
– counterparty credit risk	87	1 081	117	1 456	88	1 104
IRB	1 001	12 508	954	11 930	997	12 463
– corporate						
– <i>advanced</i>						
– <i>foundation</i>						
– institutions						
– retail	1 001	12 508	954	11 930	997	12 463
– <i>secured by immovable property collateral</i>	955	11 933	905	11 319	936	11 697
– <i>other retail</i>	46	575	49	611	61	766
– other	0	0	0	0	0	0
Standardised	91	1 141	119	1 485	93	1 156
– central governments or central banks						
– regional governments or local authorities						
– public sector entities						
– multilateral development banks						
– international organisations						
– institutions	91	1 141	119	1 485	93	1 156
– corporate						
– retail						
– secured by mortgages on immovable property						
– in default						
– associated with particularly high risk						
– covered bonds						
– institutions and corporates with a short-term credit assessment						
– collective investments undertakings (CIU)						
– equity						
– other items						
Credit Value Adjustment Risk						
Market risk						
– trading book, Internal Approach						
– trading book, Standardised Approach						
– banking book, Standardised Approach						
Operational risk	238	2 977	220	2 747	220	2 747
Standardised	238	2 977	220	2 747	220	2 747
Additional risk exposure amount due to Article 3 CRR	11	140	11	135		
Sub total	1 341	16 766	1 304	16 297	1 310	16 366
Adjustment for Basel I floor						
Additional capital requirement according to Basel I floor	2 943	36 778	2 573	32 172	2 534	31 677
Total	4 284	53 544	3 877	48 469	3 844	48 043

Note 9 Capital adequacy cont.

Minimum Capital Requirement & Capital Buffers

Percentage	Minimum Capital requirement	Capital Buffers					Total
		CCoB	CCyB	SII	SRB	Capital Buffers total	
Common Equity Tier 1 capital	4.5	2.5	1.5	1.0	3.0	8.0	12.5
Tier 1 capital	6.0	2.5	1.5	1.0	3.0	8.0	14.0
Own funds	8.0	2.5	1.5	1.0	3.0	8.0	16.0

NOKm

Common Equity Tier 1 capital	2 409	1 339	803	535	1 606	4 284	6 693
Tier 1 capital	3 213	1 339	803	535	1 606	4 284	7 496
Own funds	4 284	1 339	803	535	1 606	4 284	8 567

Common Equity Tier 1 available to meet Capital Buffers

Percentage points of REA	30 Jun ² 2016	31 Dec ^{1,2} 2015	30 Jun 2015
Common Equity Tier 1 capital ¹	11.0	15.2	38.4

¹ Including profit of the period

² Including Basel I floor

Capital ratios

Percentage	30 Jun 2016	31 Dec 2015	30 Jun 2015
Common Equity Tier 1 capital ratio, including profit	57.7	64.1	62.0
Tier 1 capital ratio, including profit	57.7	64.1	62.0
Total Capital ratio, including profit	62.5	68.9	66.7
Common Equity Tier 1 capital ratio, excluding profit	55.8	57.4	57.1
Tier 1 capital ratio, excluding profit	55.8	57.4	57.1
Total Capital ratio, excluding profit	60.6	62.2	61.9

Capital ratios including Basel I floor

Percentage	30 Jun 2016	31 Dec 2015	30 Jun 2015
Common Equity Tier 1 capital ratio, including profit	18.1	21.5	21.1
Tier 1 capital ratio, including profit	18.1	21.5	21.1
Total Capital ratio, including profit	19.6	23.2	22.7
Common Equity Tier 1 capital ratio, excluding profit	17.5	19.3	19.4
Tier 1 capital ratio, excluding profit	17.5	19.3	19.4
Total Capital ratio, excluding profit	19.0	20.9	21.1

Leverage ratio

	30 Jun 2016	31 Dec ¹ 2015	30 Jun 2015
Tier 1 capital, transitional definition, NOKm ¹	9 348	10 444	9 343
Leverage ratio exposure, NOKm	141 964	130 142	126 495
Leverage ratio, percentage	6.6	8.0	7.4

¹ Including profit of the period

Note 9 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:
Retail, of which secured by real estate:	116 328	13 448	120 672	4 344	10
<i>of which</i>					
– rating grades 6	91 847	12 092	95 753	3 906	5
– rating grades 5	13 235	797	13 493	257	11
– rating grades 4	5 413	280	5 504	91	23
– rating grades 3	3 068	132	3 110	43	44
– rating grades 2	1 665	133	1 708	43	72
– rating grades 1	539	7	541	2	117
– unrated	2		2		
– defaulted	559	7	561	2	238
Retail, of which other retail:	3 258	1 108	3 616	358	16
<i>of which</i>					
– rating grades 6	2 406	968	2 719	313	8
– rating grades 5	442	79	467	25	17
– rating grades 4	166	18	172	6	32
– rating grades 3	100	18	106	6	45
– rating grades 2	63	23	71	8	50
– rating grades 1	29	0	29	0	72
– unrated					
– defaulted	52	2	52	0	219
<u>Other non credit-obligation assets:</u>	<u>0</u>		<u>0</u>		<u>100</u>

Nordea does not have the following IRB exposure classes: equity exposures, items representing securitisation positions, central governments and central banks, qualifying revolving retail.

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

Note 10 Risks and uncertainties

Nordea Eiendoms kreditt's sole business activity is lending secured by residential properties and holiday houses, and the company's main risk exposure is credit risk, which means the ability of its borrowers to service their loans. Secondly, the company is exposed to changes in the residential property market and the market for holiday houses.

Nordea Eiendoms kreditt is also exposed to risks such as market risk, liquidity risk and operational risk. Further

information on the composition of the company's risk exposure and risk management can be found in the Annual Report for 2015.

None of the exposures and risks mentioned above are expected to have any significant adverse effect on the company over the next three months.

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

Note 11 Transactions with related parties

Nordea Eiendoms kreditt considers that its related parties include its parent company, other companies in the Nordea Group, and key persons in senior positions.

Interest rate risk and currency risk that arise as part of Nordea Eiendoms kreditt's normal business activities, are hedged using interest rate and currency swaps. Counterparties to all derivative contracts are Nordea Group internal. The volume and fair value of the derivative contracts are shown in note 6.

Nordea Bank Norge also provides short term unsecured funding to Nordea Eiendoms kreditt, and at the end of the second quarter 2016 such borrowings amounted to NOK 19.0 billion.

Loans to the public, which constitute Nordea Eiendoms kreditt's cover pool, are purchased from Nordea Bank Norge. Instalments, early redemptions and refinancings will over time reduce the company's loan portfolio. Loans that cease to be a part of the portfolio,

are replaced by new purchases of loans from the parent bank, if deemed necessary to maintain the level of overcollateralization. This year to date, loans amounting to NOK 30.9 billion have been transferred from Nordea Bank Norge ASA to Nordea Eiendoms kreditt AS.

Transferred loans are continued to be managed by Nordea Bank Norge. For this service Nordea Eiendoms kreditt has paid Nordea Bank Norge an amount of NOK 225.3 million in the first six months of 2016.

Nordea Eiendoms kreditt also buys services related to funding and risk control, accounting and reporting, and IT services from other Nordea companies according to agreements entered into. All group internal transactions are settled according to market based principles on conformity with OECD requirements on transfer pricing.

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