



Interim Report 2nd quarter 2018

Nordea Eiendoms kreditt AS



Nordea Eiendoms kreditt 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 their dreams, we are there to provide relevant financial solutions. We are the largest bank in the Nordic region and among the ten largest financial groups in Europe in terms of total market capitalization with around 11 million customers. The Nordea share is listed on the Nasdaq Stockholm, Nasdaq Helsinki and Nasdaq Copenhagen exchanges.

Read more about us on [Nordea.com](https://www.nordea.com).

Key financial figures

Summary of income statement (NOKm)

	Jan-Jun 2018	Jan-Jun 2017	Year 2017
Net interest income	720	762	1 576
Net result from items at fair value	-10	-23	-2
Other operating income	22	29	42
Total operating income	732	767	1 616
Staff costs	9	8	17
Other expenses	184	198	396
Total operating expenses	192	206	414
Loan losses (negative figures are reversals)	4	8	27
Operating profit	536	553	1 175
Income tax expense	134	141	294
Net profit for the period	402	413	881

Summary of balance sheet (NOKm)

	30 Jun 2018	30 Jun 2017	31 Dec 2017
Loans to the public, gross	116 631	133 705	135 511
Allowance for loan losses	-59	-72	-89
Other assets	7 471	7 619	7 111
Debt securities in issue	85 870	80 899	77 731
Other liabilities	25 045	47 667	51 635
Equity	13 128	12 686	13 167
Total assets	124 043	141 252	142 533
Average total assets	133 350	129 407	131 021

Ratios and key figures

	30 Jun 2018	30 Jun 2017	31 Dec 2017
Basic/diluted Earnings per share (EPS), annualised basis, NOK	52.4	53.8	57.5
Equity per share ¹ , NOK	856.0	827.2	858.5
Shares outstanding ¹ , million	15.3	15.3	15.3
Post-tax return on average equity	6.1 %	6.6 %	6.9 %
Cost/income ratio	26.3 %	26.9 %	25.6 %
Loan loss ratio, annualised, basis points	0.7	1.3	2.2
Common Equity Tier 1 capital ratio, excl. Basel I floor ^{1,2}	95.5 %	73.0 %	83.5 %
Tier 1 capital ratio, excl. Basel I floor ^{1,2}	95.5 %	73.0 %	83.5 %
Total capital ratio, excl. Basel I floor ^{1,2}	104.6 %	80.3 %	91.6 %
Common Equity Tier 1 capital ratio, incl. Basel I floor ^{1,2}	24.6 %	20.7 %	21.2 %
Tier 1 capital ratio, incl. Basel I floor ^{1,2}	24.6 %	20.7 %	21.2 %
Total capital ratio, incl. Basel I floor ^{1,2}	27.0 %	22.8 %	23.2 %
Own funds, NOKm ^{1,2}	13 923	13 467	13 923
Risk Exposure Amount incl. Basel I floor ¹ , NOKm	51 567	59 026	59 927
Number of employees (Full-time equivalents) ¹	15.5	15.0	15.5

¹ At the end of the period

² Excluding the year to date result for interim figures

Nordea Eiendoms kreditt

Introduction

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

Nordea Eiendoms kreditt'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 Eiendoms kreditt AS is a wholly owned subsidiary of Nordea Bank AB (publ).

Income statement

Profit from ordinary activities after loan losses but before tax for the first six months of 2018 was NOK 536 million (NOK 553 million). The profit reported is equivalent to a post-tax return on average equity of 6.1% (6.6%) on an annualised basis.

Net interest income for the six months ending 30 June 2018 showed a decrease of 5.5% compared to the same period last year and amounted to NOK 720 million (NOK 762 million). The loan portfolio has been higher during the first half year of 2018 compared to the same period in 2017, but the margins have been tighter, and this is the main reason for the decrease in net interest income.

Total operating expenses for the first six months amounted to NOK 192 million (NOK 206 million). NOK 9 million of operating expenses is staff related. Other operating expenses are mainly related to services bought from the parent bank, such as management of the loan portfolio and customer contact, as well as funding and risk control.

Loan losses and provisions recognised in the accounts for the first six months amounted to NOK 4.2 million (NOK 7.6 million). Loan loss provision has increased from NOK 56.3 million at the beginning of the year, to NOK 59.1 million at 30 June 2018, with the increase split on all three stages. Realised loan losses were NOK 1.0 million. See note 4 and note 5 for further information about loan losses and impairment for loans in the three stages according to IFRS 9, that were implemented from 1 January 2018.

Total assets amounted to NOK 124.0 billion as of 30 June 2018 (NOK 141.3 billion).

Capital position and risk-weighted exposure

Nordea Eiendoms kreditt's Common Equity Tier 1 capital ratio excluding Basel I floor was 95.5%, excluding profit at the end of the second quarter, an increase of 5.4 percentage points from the end of the previous quarter. This was primarily due to a decrease in REA, stemming from amortization in mortgage loans. The Total Capital ratio excluding Basel I floor increased 5.9 percentage points to 104.6%, excluding profit.

Risk Exposure Amount (REA) was NOK 13 307 million excluding Basel I rules, a decrease of NOK 803 million, compared to the previous quarter. The main driver for the decrease in REA was decreased volumes in the retail portfolio due to amortization in mortgage loans.

The Common Equity Tier 1 ratio including Basel I rules was 24.6%, excluding profit at the end of the second quarter, and the Own Funds was NOK 13 923 million. The Tier 1 capital and the Common Equity Tier 1 capital were NOK 12 711 million (no additional Tier 1 capital).

Funding

Nordea Eiendoms kreditt'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, Norwegian: Finansforetaksloven), 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 holds a licence from the Norwegian FSA and whose articles of association comply with certain mandatory requirements. The cover pool in Nordea Eiendoms kreditt consists entirely of Norwegian residential mortgage loans and loans to holiday houses in Norway.

During the first six months of 2018 Nordea Eiendoms kreditt issued covered bonds amounting to NOK 15.5 billion in the Norwegian domestic market under its NOK 100bn domestic covered bond programme and GBP 0.3 billion under its EUR 10bn EMTN covered bond programme. As of 30 June 2018, Nordea Eiendoms kreditt had outstanding covered bonds totalling NOK 74.7 billion in the Norwegian market, GBP 0.9 billion in the British market and EUR 0.1 billion in the European market. Nordea Eiendoms kreditt also had subordinated debt outstanding to the amount of NOK 1.2 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 Eiendoms kreditt also raised short term unsecured funding from the parent bank. At the end of the second quarter of 2018 such borrowings amounted to NOK 21.0 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 to the public amounted to NOK 116.6 billion as of 30 June 2018 (NOK 133.7 billion) and consists entirely of residential mortgage loans and loans to holiday houses, that are bought from and managed by Nordea Bank AB (publ), filial i Norge. NOK 109.8 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 25.9% 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 2018, the company was party to interest rate swaps with a nominal value of NOK 71.5 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 2018 impaired loans amounted to NOK 525.2 million which corresponds to 0.45% of the total loan portfolio. Allowances of NOK 40.3 million have been made, and net impaired loans were NOK 484.9 million at 30 June 2018 compared to NOK 389.4 million at 30 June 2017.

Nordea Eiendomskreditt AS

Oslo, 19 July 2018



John Arne Sætre
Chairman



Nicklas Ilebrand
Vice Chairman



Ola Littorin
Board member



Marte Kopperstad
Board member



Alex Madsen
Board member



Anne Sofie Knoph
Employee representative



Børre S. Gundersen
Chief Executive Officer

Income statement

NOKt	Note	Jan-Jun 2018	Jan-Jun 2017	Q2 2018	Q2 2017	Year 2017
Operating income						
Interest income on loans and deposits with financial institutions		1 022	2 930	630	2 584	3 685
Interest and related income on loans to customers		1 514 527	1 532 807	725 934	857 704	3 087 253
Interest and related income on debt securities		26 131	25 396	14 995	12 123	47 716
Other interest and related income		-5 286	124	-5 441	82	383
Total interest and related income		1 536 394	1 561 257	736 118	872 492	3 139 037
Interest expense on liabilities to financial institutions		220 208	136 028	97 017	105 799	347 030
Interest and related expense on securities issued		722 240	756 825	385 901	365 278	1 418 004
Interest expense on subordinated loan capital		17 645	17 883	9 444	8 609	34 602
Other interest and related expense ¹		-143 519	-111 131	-70 810	-52 821	-236 558
Total interest and related expense		816 575	799 606	421 552	426 866	1 563 078
Net interest income		719 819	761 651	314 566	445 628	1 575 959
Fee and commission income		29 615	30 039	14 429	16 458	60 162
Fee and commission expense		7 156	1 473	3 907	729	18 225
Net fee and commission income		22 459	28 565	10 522	15 729	41 937
Net result from items at fair value	3	-9 874	-23 133	-9 717	5 073	-1 935
Total operating income		732 405	767 084	315 371	466 430	1 615 961
Staff costs		8 649	8 004	3 676	3 232	17 376
Other operating expenses		183 709	198 238	89 369	110 136	396 214
Total operating expenses		192 358	206 243	93 045	113 370	413 590
Profit before loan losses		540 047	560 841	222 327	353 060	1 202 371
Loan losses	4	4 165	7 632	3 027	7 279	27 341
Operating profit		535 881	553 209	219 300	345 780	1 175 030
Income tax expense		133 970	140 698	55 574	88 841	293 760
Net profit for the period		401 911	412 511	163 726	256 939	881 270
Attributable to:						
Shareholder of Nordea Eiendoms kreditt AS		401 911	412 511	163 726	256 939	881 270
Total		401 911	412 511	163 726	256 939	881 270
Basic/diluted earnings per share, NOK		26.2	26.9	10.7	16.7	57.5

¹ Includes net interest income from derivatives, measured at fair value and related to Nordea Eiendoms kreditt'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 2017.

Statement of comprehensive income

NOKt	Jan-Jun 2018	Jan-Jun 2017	Q2 2018	Q2 2017	Year 2017
Net profit for the period	401 911	412 511	163 726	256 939	881 270
Items that may be reclassified subsequently to the income statement					
Cash flow hedges:					
Valuation gains/losses during the period	-35 967	-5 001	-42 706	6 191	8 169
Tax on valuation gains/losses during the period	9 015	1 250	10 680	-1 548	-2 042
Items that may not be reclassified subsequently to the income statement					
Defined benefit plans:					
Remeasurement of defined benefit plans	2 318	-287	46	-280	2 351
Tax on remeasurement of defined benefit plans	-580	72	-12	70	-588
Other comprehensive income, net of tax	-25 214	-3 966	-31 992	4 433	7 890
Total comprehensive income	376 697	408 545	131 734	261 372	889 160
Attributable to:					
Shareholders of Nordea Eiendoms kreditt AS	376 697	408 545	131 734	261 372	889 160
Total	376 697	408 545	131 734	261 372	889 160

Balance sheet

NOKt	Note	30 Jun 2018	30 Jun 2017	31 Dec 2017
Assets				
Loans to credit institutions		20 585	313 522	138 509
Loans to the public	5, 8	116 572 325	133 632 741	135 421 520
Interest-bearing securities	8, 9	6 617 157	5 790 024	5 603 387
Derivatives	7, 8, 9	683 127	1 345 608	1 194 840
Fair value changes of the hedged items in portfolio hedge of interest rate risk		16 021	29 384	26 142
Retirement benefit asset		1 796	0	0
Other assets		2	999	4
Accrued income and prepaid expenses	8	132 103	139 450	148 564
Total assets	6	124 043 115	141 251 727	142 532 966
Liabilities				
Deposits by credit institutions	8	21 247 733	43 697 100	47 832 472
Debt securities in issue	8	85 869 806	80 898 760	77 730 925
Derivatives	7, 8, 9	1 714 164	1 577 585	1 349 553
Fair value changes of the hedged items in portfolio hedge of interest rate risk		603 545	944 027	835 069
Current tax liabilities		133 976	140 840	279 728
Other liabilities		9 025	3 826	5 872
Accrued expenses and prepaid income	8	25 698	7 052	21 168
Deferred tax liabilities		99 787	81 979	99 968
Provisions		224	0	0
Retirement benefit obligations		10 762	14 091	11 036
Subordinated loan capital		1 200 192	1 200 184	1 200 279
Total liabilities	6	110 914 913	128 565 445	129 366 069
Equity				
Share capital		1 702 326	1 702 326	1 702 326
Share premium		3 731 301	3 731 301	3 731 301
Other reserves		-80 094	-66 736	-54 880
Retained earnings		7 372 758	6 906 880	7 788 150
Net profit for the period		401 911	412 511	
Total equity		13 128 202	12 686 282	13 166 897
Total liabilities and equity		124 043 115	141 251 727	142 532 966
Assets pledged as security for own liabilities		109 815 949	125 967 763	127 465 821
Contingent liabilities		535	704	535
Commitments		13 049 498	15 114 554	14 221 101

Statement 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 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 opening balance at 1 Jan 2018	1 702 326	3 731 301	-52 013	-2 867	7 813 258	13 192 005
Total comprehensive income			-26 952	1 738	401 911	376 697
Group contribution paid					-440 500	-440 500
Closing balance at 30 Jun 2018	1 702 326	3 731 301	-78 965	-1 129	7 774 669	13 128 202

NOKt	Share capital ¹	Share premium	Other reserves		Retained earnings	Total equity
			Cash flow hedges	Defined benefit plans		
Opening balance at 1 Jan 2017	1 702 326	3 731 301	-58 140	-4 629	6 906 880	12 277 737
Total comprehensive income			6 127	1 763	881 270	889 160
Closing balance at 31 Dec 2017	1 702 326	3 731 301	-52 013	-2 867	7 788 150	13 166 897

NOKt	Share capital ¹	Share premium	Other reserves		Retained earnings	Total equity
			Cash flow hedges	Defined benefit plans		
Opening balance at 1 Jan 2017	1 702 326	3 731 301	-58 140	-4 629	6 906 880	12 277 737
Total comprehensive income			-3 751	-215	412 511	408 545
Closing balance at 30 Jun 2017	1 702 326	3 731 301	-61 890	-4 845	7 319 391	12 686 282

¹ The company's share capital at 30 June 2018 was NOK 1.702.325.859,-. The number of shares was 15 336 269, each with a quota value of NOK 111,-. All shares are owned by Nordea Bank AB (publ).

² Related to IFRS 9. See Note 1 in the Interim Report for first quarter 2018 for more information.

Nordea Eiendoms kreditt AS

Oslo, 19 July 2018



John Arne Sætre
Chairman



Nicklas Ilebrand
Vice Chairman



Ola Littorin
Board member



Marte Kopperstad
Board member



Alex Madsen
Board member



Anne Sofie Knoph
Employee representative



Børre S. Gundersen
Chief Executive Officer

Cash flow statement

NOKt	Jan-Jun 2018	Jan-Jun 2017	Year 2017
Operating activities			
Operating profit before tax	535 881	553 209	1 175 030
Adjustments for items not included in cash flow	3 201	3 800	20 657
Income taxes paid	-279 723	-193 750	-193 887
Cash flow from operating activities before changes in operating assets and liabilities	259 359	363 259	1 001 800
Changes in operating assets			
Change in loans to the public	18 879 754	-27 697 203	-29 502 839
Change in interest-bearing securities	-1 047 730	-52 430	181 188
Change in derivatives, net	876 324	50 732	-26 533
Change in other assets	58 668	-3 076	-54 934
Changes in operating liabilities			
Change in deposits by credit institutions	-26 555 114	30 929 746	35 038 265
Change in debt securities in issue	8 420 019	-3 016 501	-6 483 701
Change in other liabilities	-568 703	-416 906	-170 637
Cash flow from operating activities	322 577	157 621	-17 391
Investing activities			
Purchase/sale of tangible fixed assets	0	0	0
Change in loans and receivables to credit institutions, fixed terms	0	0	0
Change in holdings of bearer bonds issued by others	0	0	0
Cash flow from investing activities	0	0	0
Financing activities			
Change in subordinated loan capital	0	0	0
Group contribution paid	-440 500	0	0
Group contribution received	0	0	0
Increase in share capital and share premium	0	0	0
Cash flow from financing activities	-440 500	0	0
Cash flow for the year	-117 924	157 621	-17 391
Cash and cash equivalents at 1 January	138 509	155 900	155 900
Cash and cash equivalents at end of the period	20 585	313 521	138 509
Change	-117 924	157 621	-17 391

Comments on the cash flow statement

The cash flow statement shows inflows and outflows of cash and cash equivalents during the year. Nordea Eiendoms kreditt'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, short-term funding 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

The interim financial statements are presented in accordance with IAS 34 "Interim Financial Reporting".

The same accounting policies and methods of computation are followed as compared to the Annual Report 2017. For more information see Note 1 in the Annual Report 2017. For changes implemented during 2018, see "Changed accounting policies and presentation" below.

Changed accounting policies and presentation

The following new and amended standards were implemented by Nordea Eiendomskreditt at 1 January 2018:

IFRS 9 "Financial instruments"

The new standard IFRS 9 "Financial instruments" covers classification and measurement, impairment and general hedge accounting and replaces the earlier requirements covering these areas in IAS 39. The classification, measurement and impairment requirements in IFRS 9 were implemented by Nordea Eiendomskreditt as from 1 January 2018. Nordea Eiendomskreditt continues to use the IAS 39 hedge accounting requirements.

IFRS 15 "Revenue from Contracts with Customers"

The new standard IFRS 15 "Revenue from Contracts with Customers" 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 standard does not apply to financial instruments, insurance contracts or lease contracts.

The standard was implemented by Nordea Eiendomskreditt as from 1 January 2018. However, the implementation had no effect on the financial statements or capital adequacy.

Changes in IFRSs not yet applied

IFRS 16 "Leases"

The IASB has published the new standard, IFRS 16 "Leases". The new standard changes the accounting requirements for lessees. All leases (except for short term- and low value leases) should be accounted for on the balance sheet of the lessee as a right to use the asset and a corresponding liability, and the lease payments should be recognised as amortisation and interest expense. The accounting requirements for lessors are unchanged. Additional disclosures are also required. The new standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted. The standard was endorsed by the European Commission in 2017. Nordea Eiendomskreditt does not intend to early adopt the standard.

The main impact on Nordea Eiendomskreditt's financial statements is expected to come from the accounting of property leases. Such leasing contracts will be accounted for on the balance sheet to a larger extent than today. No significant impact is currently expected on the income statement or equity, although the presentation is expected to change in the income.

Other amendments to IFRS

Other amendments to IFRS are not assessed to have any significant impact on Nordea Eiendomskreditt's financial statements, capital adequacy or large exposures in the period of initial application.

Exchange rates

	Jan-Jun 2018	Full year 2017	Jan-Jun 2017
USD 1 = NOK			
Income statement (average)	7.9292	8.2698	8.4793
Balance sheet (at end of period)	8.1588	8.2050	8.3871
GBP 1 = NOK			
Income statement (average)	10.9078	10.6496	10.6693
Balance sheet (at end of period)	11.7347	11.09104	10.8848
EUR 1 = NOK			
Income statement (average)	9.5953	9.3317	9.1771
Balance sheet (at end of period)	9.5115	9.8403	9.5713

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 result from items at fair value

Net gains/losses for categories of financial instruments

NOKt	Jan-Jun 2018
Financial instruments at FVPL - Mandatorily ¹	4 483
Financial instruments under hedge accounting	-14 357
- of which net gains/losses on hedged items	251 214
- of which net gains/losses on hedging instruments	-265 572
Total	-9 874

¹ No Financial Instruments at "Fair value through profit and loss (FVPL) - Mandatorily" comprises of interest bearing securities and derivatives held for economic hedging, which do not meet the requirements for hedge accounting according to IAS 39.

NOKt	Jan-Jun 2017	Full Year 2017
Financial instruments held for trading ¹	-941	17 766
Financial instruments under hedge accounting	-22 192	-19 701
- of which net gains/losses on hedged items	108 693	198 516
- of which net gains/losses on hedging instruments	-130 886	-218 217
Total	-23 133	-1 935

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 Net loan losses

Net loan losses

NOKt	Jan-Jun 2018 ¹
Net loan losses, Stage 1	1 560
Net loan losses, Stage 2	1 090
Total loan losses, non-defaulted	2 650
<u>Stage 3, defaulted</u>	
Net loan losses, individually assessed, collectively calculated	-1 875
Realised loan losses	1 062
Decrease of provisions to cover realised loan losses	-72
Recoveries on previous realised loan losses	-
New/increase in provisions	4 512
Reversals of provisions	-2 111
Net loan losses, defaulted	1 515
Net loan losses	4 165

Key ratios

	Jan-Jun 2018 ¹
Loan loss ratio, basis points	0.71
- of which stage 1	0.27
- of which stage 2	0.19
- of which stage 3	0.26

¹ Based on IFRS 9

Net loan losses

NOKt	Jan-Jun 2017 ²	Jan-Dec 2017 ²
Realised loan losses	3 833	6 684
Allowances to cover realised loan losses	-2 948	-4 633
Provisions	9 010	30 129
Reversals of previous provisions	-2 262	-4 839
Total loan losses for the period	7 632	27 341

Key ratios

	Jan-Jun 2017 ²	Jan-Dec 2017 ²
Loan loss ratio, basis points	1.3	2.2

² Based on IAS 39

Note 5 Loans and impairment

Loans and impairment

NOKt	30 Jun 2018 ¹	30 Jun 2017 ²	31 Dec 2017 ²
Loans measured at amortised cost, not impaired (Stage 1 and 2)	116 105 854	133 288 970	135 048 500
Impaired loans (Stage 3)	525 224	416 227	462 333
- of which servicing	86 596	20 929	17 939
- of which non-servicing	438 628	395 298	444 394
Loans before allowances	116 631 078	133 705 197	135 510 833
Allowances for individually assessed impaired loans (Stage 3)	-40 313	-26 837	-26 056
- of which servicing	-2 206	-1 767	-1 356
- of which non-servicing	-38 107	-25 070	-24 700
Allowances for collectively assessed impaired loans (Stage 1 and 2)	-18 441	-45 619	-63 257
Allowances	-58 754	-72 456	-89 313
Loans, carrying amount	116 572 325	133 632 741	135 421 520

¹Based on IFRS 9

²Based on IAS 39

Movements of allowance accounts for loans measured at amortised cost

NOKt	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2018¹	2 529	13 749	39 818	56 097
Changes due to origination and acquisition		63	582	645
Changes due to change in credit risk (net)	1 819	2 842	2 797	7 457
Changes due to repayments and disposals	-281	-1 862	-2 811	-4 954
Write-off through decrease in allowance account			-72	-72
Other changes	-418			-418
Translation differences				0
Balance at 30 Jun 2018	3 649	14 792	40 313	58 754

¹Based on IFRS 9

Key ratios

	30 Jun 2018 ¹
Impairment rate (stage 3), gross, basis points	45.0
Impairment rate (stage 3), net, basis points	41.6
Total allowance rate (stage 1, 2 and 3), basis points	5.0
Allowances in relation to credit impaired loans (stage 3), basis points	767.5
Collective allowances in relation to loans in stage 1 and 2, basis points	1.6

¹Based on IFRS 9

	30 Jun 2017	31 Dec 2017
Impairment rate, gross ¹ , basis points	31.1	34.1
Impairment rate, net ² , basis points	25.7	27.5
Total allowance rate ³ , basis points	5.4	6.6
Allowance rate, individually assessed impaired loans ⁴ , in %	6.4	5.6
Total allowances in relation to impaired loans ⁵ , in %	17.4	19.3
Non-servicing loans, not impaired ⁶ , in NOKt	114 918	44 284

These key ratios are based on IAS 39. Please note that the concept of stages did not exist in IAS 39.

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

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

³Total allowances divided by total loans before allowances.

⁴Allowances for individually assessed impaired loans divided by gross impaired loans.

⁵Total allowances divided by gross impaired loans.

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

Note 6 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.

	Fair value through profit or loss (FVPL)				
	Amortised cost (AC)	Mandatorily	Derivatives used for hedging	Non-financial assets	Total
Assets					
Loans to credit institutions	20 585				20 585
Loans to the public	116 572 325				116 572 325
Interest-bearing securities		6 617 157			6 617 157
Derivatives		2 331	680 796		683 127
Fair value changes of the hedged items in portfolio hedge of interest rate risk	16 021				16 021
Retirement benefit assets				1 796	1 796
Other assets				2	2
Prepaid expenses and accrued income	131 843			260	132 103
Total 30 June 2018	116 740 774	6 619 488	680 796	2 057	124 043 115

	Fair value through profit or loss (FVPL)				
	Amortised cost (AC)	Mandatorily	Derivatives used for hedging	Non-financial liabilities	Total
Liabilities					
Deposits by credit institutions	21 247 733				21 247 733
Debt securities in issue	85 869 806				85 869 806
Derivatives		64 450	1 649 714		1 714 164
Fair value changes of the hedged items in portfolio hedge of interest rate risk	603 545				603 545
Current tax liabilities				133 976	133 976
Other liabilities	3 237			5 789	9 025
Accrued expenses and prepaid income	302			25 396	25 698
Deferred tax liabilities				99 787	99 787
Provisions				224	224
Retirement benefit obligations				10 762	10 762
Subordinated loan capital	1 200 192				1 200 192
Total 30 June 2018	108 924 815	64 450	1 649 714	275 934	110 914 913

Note 7 Derivatives and hedge accounting

30 June 2018, NOKt	Fair value		Total nominal amount
	Positive	Negative	
Derivatives at FVPL - Mandatorily¹:			
Interest rate swaps	2 331	64 450	52 500 000
Total	2 331	64 450	52 500 000
Derivatives used for hedge accounting:			
Interest rate swaps	0	153 245	18 998 000
Currency interest rate swaps	680 796	1 496 469	12 384 756
Total	680 796	1 649 714	31 382 756
Total derivatives	683 127	1 714 164	83 882 756

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

31 December 2017, NOKt	Fair value		Total nominal amount
	Positive	Negative	
Derivatives held for trading²:			
Interest rate swaps	46	38 971	45 500 000
Total	46	38 971	45 500 000
Derivatives used for hedge accounting:			
Interest rate swaps	1 194 794	130 337	18 784 000
Currency interest rate swaps	0	1 180 245	9 114 756
Total	1 194 794	1 310 582	27 898 756
Total derivatives	1 194 840	1 349 553	73 398 756

30 June 2017, NOKt	Fair value		Total nominal amount
	Positive	Negative	
Derivatives held for trading²:			
Interest rate swaps	0	58 491	44 500 000
Total	0	58 491	44 500 000
Derivatives used for hedge accounting:			
Interest rate swaps	1 038 773	161 987	18 143 000
Currency interest rate swaps	306 835	1 357 107	14 248 301
Total	1 345 608	1 519 094	32 391 301
Total derivatives	1 345 608	1 577 585	76 891 301

² 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 8 Fair value of financial assets and liabilities

NOKt	30 June 2018		31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans	116 608 931	120 844 818	135 586 171	133 848 501
Interest-bearing securities	6 617 157	6 617 157	5 603 387	5 603 387
Derivatives	683 127	683 127	1 194 840	1 194 840
Accrued income and prepaid expenses	131 843	131 843	148 303	148 303
Total financial assets	124 041 058	128 276 945	142 532 701	140 795 031
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Deposits and debt instruments	108 921 276	110 068 326	127 598 745	128 822 011
Derivatives	1 714 164	1 714 164	1 349 553	1 349 553
Other financial liabilities	3 237	3 237	0	0
Accrued expenses and prepaid income	302	302	418	418
Total financial liabilities	110 638 979	111 786 029	128 948 717	130 171 982

The determination of fair value is described in the Annual Report 2017, Note 17 Assets and liabilities at fair value.

Note 9 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 2018, NOKt				
Financial assets¹				
Interest-bearing securities		6 617 157		6 617 157
Derivatives		683 127		683 127
Total assets	0	7 300 284	0	7 300 284
Financial liabilities¹				
Derivatives		1 714 164		1 714 164
Total liabilities	0	1 714 164	0	1 714 164
	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
31 December 2017, NOKt				
Financial assets¹				
Interest-bearing securities		5 603 387		5 603 387
Derivatives		1 194 840		1 194 840
Total assets	0	6 798 227	0	6 798 227
Financial liabilities¹				
Derivatives		1 349 553		1 349 553
Total liabilities	0	1 349 553	0	1 349 553

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 2017, 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 2018. When transfers between levels occur, these are considered to have occurred at the end of the reporting period.

Note 10 Capital adequacy

Summary of items included in own funds

NOKm	30 Jun ² 2018	31 Dec ¹ 2017	30 Jun 2017
Calculation of own funds			
Equity in the consolidated situation	12 726	13 168	12 274
Proposed/actual dividend		-441	
Common Equity Tier 1 capital before regulatory adjustments	12 726	12 727	12 274
Deferred tax assets			
Intangible assets			
IRB provisions shortfall (-)	-84	-75	-77
Deduction for investments in credit institutions (50%)			
Pension assets in excess of related liabilities	-2		
Other items, net	71	43	45
Total regulatory adjustments to Common Equity Tier 1 capital	-15	-32	-32
Common Equity Tier 1 capital (net after deduction)	12 711	12 695	12 242
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)	12 711	12 695	12 242
Tier 2 capital before regulatory adjustments	1 200	1 200	1 200
IRB provisions excess (+)	12	28	25
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	12	28	25
Tier 2 capital	1 212	1 228	1 225
Own funds (net after deduction)²	13 923	13 923	13 467

¹ Including profit for the period

² Own Funds adjusted for IRB provision, i.e. adjusted own funds equal 13996m by 30 Jun 2018

Minimum capital requirement and REA

NOKm	30 Jun 2018	30 Jun 2018	31 Dec 2017	31 Dec 2017	30 Jun 2017	30 Jun 2017
	Minimum Capital requirement	REA	Minimum Capital requirement	REA	Minimum Capital requirement	REA
Credit risk	879	10 990	1 012	12 652	1 113	13 918
- of which counterparty credit risk	2	30	3	43	4	46
IRB	876	10 944	1 006	12 581	1 105	13 809
- sovereign	9	114	6	77	7	91
- corporate					0	0
- advanced					0	0
- foundation					0	0
- institutions	13	161	13	161	13	155
- retail	854	10 669	987	12 343	1 085	13 563
- secured by immovable property collateral	716	8 946	790	9 879	1 034	12 931
- other retail	138	1 723	197	2 464	51	632
- other	0	0				
Standardised	3	46	6	71	8	109
- central governments or central banks						
- regional governments or local authorities						
- public sector entities						
- multilateral development banks						
- international organisations						
- institutions	3	46	6	71	8	109
- corporate						
- retail						
- secured by mortgages on immovable properties						
- in default						

	30 Jun 2018	30 Jun 2018	31 Dec 2017	31 Dec 2017	30 Jun 2017	30 Jun 2017
	Minimum Capital requirement	REA	Minimum Capital requirement	REA	Minimum Capital requirement	REA
NOKm						
- 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	185	2 317	204	2 550	204	2 550
Standardised	185	2 317	204	2 550	204	2 550
Additional risk exposure amount due to Article 3 CRR					24	295
Sub total	1 064	13 307	1 216	15 202	1 341	16 763
Adjustment for Basel I floor						
Additional capital requirement according to Basel I floor	3 061	38 260	3 578	44 725	3 381	42 263
Total	4 125	51 567	4 794	59 927	4 722	59 026

Minimum Capital Requirement & Capital Buffers

Percentage	Minimum Capital requirement	Capital Buffers				Capital Buffers total	Total
		CCoB	CCyB	SII	SRB		
Common Equity Tier 1 capital	4.5	2.5	2.0		3.0	7.5	12.0
Tier 1 capital	6.0	2.5	2.0		3.0	7.5	13.5
Own funds	8.0	2.5	2.0		3.0	7.5	15.5
NOKm							
Common Equity Tier 1 capital	2 321	1 289	1 029		1 547	3 865	6 185
Tier 1 capital	3 094	1 289	1 029		1 547	3 865	6 959
Own funds	4 125	1 289	1 029		1 547	3 865	7 990

Common Equity Tier 1 available to meet Capital Buffers

	30 Jun ² 2018	31 Dec ^{1,2} 2017	30 Jun ² 2017
Percentage points of REA			
Common Equity Tier 1 capital	18.6	15.2	14.7

¹Including profit for the period

²Including Basel I floor

Capital ratios

	30 Jun ² 2018	31 Dec 2017	30 Jun 2017
Percentage			
Common Equity Tier 1 capital ratio, excluding profit	95.5	80.6	73.0
Tier 1 capital ratio, excluding profit	95.5	80.6	73.0
Total capital ratio, excluding profit	104.6	88.6	80.3

Capital ratios including Basel I floor

	30 Jun ² 2018	31 Dec 2017	30 Jun 2017
Percentage			
Common Equity Tier 1 capital ratio, excluding profit	24.6	20.4	20.7
Tier 1 capital ratio, excluding profit	24.6	20.4	20.7
Total capital ratio, excluding profit	27.0	22.5	22.8

Leverage ratio

	30 Jun ² 2018	31 Dec ^{1,2} 2017	30 Jun ² 2017
Tier 1 capital, transitional definition, NOKm	12 711	12 695	12 242
Leverage ratio exposure, NOKm	130 054	148 632	147 639
Leverage ratio, percentage	9,8	8,5	8,3

¹ Including profit for the period

² Leverage ratio is calculated according to the Delegated Act

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:
Sovereign, foundation IRB:	3 076		3 076		4
<i>of which</i>					
- rating grades 7	3 076		3 076		4
- rating grades 6					
- rating grades 5					
- rating grades 4					
- rating grades 3					
- rating grades 2					
- rating grades 1					
- unrated					
- defaulted					
Institutions, foundation IRB:	3 541		3 541		5
<i>of which</i>					
- rating grades 6	3 541		3 541		5
- rating grades 5					
- rating grades 4					
- rating grades 3					
- rating grades 2					
- rating grades 1					
- unrated					
- defaulted					
Retail, of which secured by real estate:	109 868	12 215	114 021	4 153	8
<i>of which</i>					
- scoring grades A	89 419	11 061	93 180	3 761	5
- scoring grades B	13 044	817	13 322	278	11
- scoring grades C	4 854	246	4 938	83	23
- scoring grades D	2 119	88	2 149	30	41
- scoring grades E					
- scoring grades F					
- not scored	28		27		41
- defaulted	404	3	405	1	242
Retail, of which other retail:	6 835	835	7 119	284	24
<i>of which</i>					
- scoring grades A	2 965	693	3 201	236	7
- scoring grades B	549	59	570	20	14
- scoring grades C	207	27	216	9	26
- scoring grades D	861	21	869	7	37
- scoring grades E	1 519	28	1 528	10	40
- scoring grades F	675	7	677	2	57
- not scored	24		23		34
- defaulted	35	0	35	0	124
Other non credit-obligation assets:	0		0		100

Nordea Eiendomskreditt 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 11 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 2017.

None of the exposures and risks mentioned above is 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 12 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 cross currency swaps. Counterparties to all derivative contracts are Nordea Group internal. The volume and fair value of the derivative contracts are shown in note 7.

Nordea Bank AB (publ), filial i Norge also provides short term unsecured funding to Nordea Eiendoms kreditt, and at the end of the second quarter 2018 such borrowings amounted to NOK 21.0 billion.

Loans to the public, which constitute Nordea Eiendoms kreditt's cover pool, are purchased from Nordea Bank AB (publ), filial i 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, or for other strategic reasons. No new loans have been transferred from the parent bank so far in 2018.

Transferred loans are continued to be managed by Nordea Bank AB, Norwegian Branch. For this service Nordea Eiendoms kreditt has paid an amount of NOK 173.1 million in the first six months of 2018.

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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