



Interim Report 3rd quarter 2019

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 one of the largest banks in the Nordic region and among the ten largest financial groups in Europe in terms of total market capitalization with around 10 million customers. The Nordea share is listed on the Nasdaq Helsinki, Nasdaq Copenhagen and Nasdaq Stockholm exchanges.

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

Key financial figures

Summary of the income statement (NOKm)

	Jan-Sep 2019	Jan-Sep 2018	Year 2018
Net interest income	1 320	1 020	1 328
Net result from items at fair value	-39	-9	-25
Other operating income	45	27	33
Total operating income	1 327	1 038	1 337
Staff costs	14	13	19
Other expenses	414	271	356
Total operating expenses	428	284	375
Loan losses (negative figures are reversals)	-12	6	6
Operating profit	911	747	955
Income tax expense	228	187	239
Net profit for the period	683	561	717

Summary of the balance sheet (NOKm)

	30 Sep 2019	30 Sep 2018	31 Dec 2018
Loans to the public, gross	243 866	114 467	111 920
Allowance for loan losses	-95	-59	-56
Other assets	6 575	7 691	8 583
Debt securities in issue	99 333	85 922	82 564
Other liabilities	131 775	22 887	24 445
Equity	19 238	13 291	13 437
Total assets	250 346	122 100	120 447
Average total assets	191 749	130 115	127 959

Ratios and key figures

	30 Sep 2019	30 Sep 2018	31 Dec 2018
Basic/diluted Earnings per share (EPS), annualised basis, NOK	59,4	48,7	46,7
Equity per share ¹ , NOK	1 254,4	866,6	876,2
Shares outstanding ¹ , million	15,3	15,3	15,3
Post-tax return on average equity	5,3 %	5,7 %	5,4 %
Cost/income ratio	32,2 %	27,4 %	28,1 %
Loan loss ratio, annualised, basis points	-0,9	0,7	0,5
Common Equity Tier 1 capital ratio, excl. Basel I floor ^{1,2}	31,9%	91,9 %	46,7 %
Tier 1 capital ratio, excl. Basel I floor ^{1,2}	31,9%	91,9 %	46,7 %
Total capital ratio, excl. Basel I floor ^{1,2}	36,0%	100,7 %	50,9 %
Common Equity Tier 1 capital ratio, incl. Basel I floor ^{1,2}	16,4 %	25,0 %	26,9 %
Tier 1 capital ratio, incl. Basel I floor ^{1,2}	16,4 %	25,0 %	26,9 %
Total capital ratio, incl. Basel I floor ^{1,2}	18,4 %	27,4 %	29,4 %
Own funds, NOKm ^{1,2}	20 656	13 914	14 615
Risk Exposure Amount incl. Basel I floor ¹ , NOKm	112 102	50 793	49 748
Number of employees (Full-time equivalents) ¹	16,5	15,5	15,5

¹ At the end of the period.

² Excluding the year to date profit for interim figures.

Board of Directors' Report

Introduction

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

Nordea Eiendoms kreditt's business objective is to grant and acquire residential mortgages, loans secured by mortgages over holiday houses and construction loans for residential properties and holiday houses secured by mortgages over real estate, and to finance its lending activities mainly by issuing of covered bonds (bonds with a priority right of recourse to the company's collateral for its lending).

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, increasing Nordea Eiendoms kreditt's loan volume to NOK 244bn at 30 Sep 2019. The loan portfolio comprises only residential loans, loans to holiday homes and residential construction loans bought from the parent bank or originated in Nordea Eiendoms kreditt after the change of business model. Nordea Eiendoms kreditt AS is a wholly owned subsidiary of Nordea Bank Abp.

Income Statement

Operating profit for the first nine months of 2019 was NOK 911 million (NOK 747 million). The profit reported is equivalent to a post-tax return on average equity of 5.3% (5.7%) on an annualised basis.

Net interest income for the nine months ending 30 Sep 2019 showed an increase of 29% compared to the same period last year and amounted to NOK 1.320 million (NOK 1.020 million). Lending to the public has been 50% higher in the nine months of 2019 compared to same period last year. The margins have been tighter, but the net effect is an increase in net interest income of NOK 300 million.

Total operating expenses for the first nine months amounted to NOK 428 million (NOK 284 million). NOK 14 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, liquidity management, risk control, reporting and IT related services.

Loan losses and provisions recognised in the accounts for the first nine months amounted to NOK -12 million (NOK 6.1 million). Loan loss provision has increased from NOK 56.4 million at the beginning of the year, to NOK 94.7 million at 30 September 2019. The increase is related to transfer of loans from the parent bank during the second quarter and model-based adjustments in the third quarter. Realised loan losses were NOK 5.8 million. See note 5 and note 6 for further information about loan losses and impairment.

Total assets amounted to NOK 250 billion at 30 September 2019 (NOK 122 billion).

Capital position and risk-weighted exposure

Nordea Eiendoms kreditt's Common Equity Tier 1 capital ratio excluding Basel I floor was 32%, excluding profit at the end of the third quarter, a decrease of 0.9 percentage points from the end of the previous quarter. This was primarily due to increased IRB credit risk REA in the retail portfolio. The Total Capital ratio excluding Basel I floor decreased 1.0 percentage points to 36.0%, excluding profit.

Risk Exposure Amount (REA) was NOK 57.401 million excluding Basel I, an increase of NOK 1.495 million, compared to the previous quarter. The main driver for the increase in REA was the IRB retail portfolio, primarily stemming from unfavourable rating migration, increased ECB floors as well as an inflow of residential mortgage loans.

The Common Equity Tier 1 ratio including Basel I rules was 16.4%, excluding profit at the end of the third quarter, and the Own Funds was NOK 20 656 million. The Tier 1 capital and the Common Equity Tier 1 capital were NOK 18 337 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 license 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 homes in Norway.

During the nine months of 2019 Nordea Eiendoms kreditt issued covered bonds amounting to NOK 34.4 billion in the Norwegian domestic market under its NOK 150bn domestic covered bond programme. In the same period NOK 12.1 billion and GBP 500 million have matured. As of 30 September 2019, Nordea Eiendoms kreditt has outstanding covered bonds totalling NOK 93.0 billion in the Norwegian market, GBP 0.4 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 2.3 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 third quarter of 2019 such borrowings amounted to NOK 128.0 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 243.8 billion as of 30 September 2019 (NOK 114.4 billion), bought from Nordea Bank Abp, filial i Norge, or issued from Nordea Eiendoms kreditt's balance sheet since May 2019. NOK 164 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 65% in relation to gross issued covered bonds.

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 third quarter of 2019, the company was party to interest rate swaps with a nominal value of NOK 53.1 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 September 2019, impaired loans amounted to NOK 795 million which corresponds to 0.33% of the total loan portfolio. Allowances of NOK 41 million have been made, and net impaired loans were NOK 754 million at 30 September 2019 compared to NOK 520 million at 30 September 2018.

Nordea Eiendoms kreditt AS

Oslo, 12 November 2019



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	Jan-Sep 2019	Jan-Sep 2018	Q3 2019	Q3 2018	Year 2018
Operating income						
Interest income calculated using the effective interest rate method		3 624 831	2 204 444	2 910 878	694 181	2 910 878
Other interest income		58 344	41 363	57 323	15 232	57 323
Interest expense		2 362 684	1 225 993	1 639 785	409 418	1 639 785
Net interest income	3	1 320 491	1 019 814	584 949	299 995	1 328 416
Fee and commission income		57 395	43 119	25 179	13 504	56 442
Fee and commission expense		11 943	16 163	5 294	9 006	23 169
Net fee and commission income		45 453	26 956	19 885	4 497	33 273
Net result from items at fair value	4	-38 664	-8 927	-22 512	942	-24 620
Other operating income		156				
Total operating income		1 327 435	1 037 842	582 478	305 432	1 337 069
Staff costs		14 015	13 404	5 415	4 755	19 364
Other operating expenses		414 077	270 810	203 682	87 100	355 779
Total operating expenses		428 092	284 213	209 097	91 855	375 143
Profit before loan losses		899 343	753 628	373 381	213 557	961 925
Loan losses	5	-11 933	6 112	-15 578	1 962	6 469
Operating profit		911 276	747 497	388 959	211 614	955 456
Income tax expense		227 819	186 874	97 240	52 904	238 935
Net profit for the period		683 457	560 623	291 719	158 712	716 521
Attributable to:						
Shareholder of Nordea Eiendomskreditt AS		683 457	560 623	291 719	158 712	716 521
Total		683 457	560 623	291 719	158 712	716 521
Basic/diluted earnings per share, NOK		44,6	36,6	19,0	10,3	46,7

Statement of comprehensive income

NOKt	Jan-Sep 2019	Jan-Sep 2018	Q3 2019	Q3 2018	Year 2018
Net profit for the period	683 457	560 623	291 719	158 712	716 521
Items that may be reclassified subsequently to the income statement					
Cash flow hedges:					
Valuation gains/losses during the period	29 424	-31 270	13 074	4 698	-38 681
Tax on valuation gains/losses during the period	-7 396	7 835	-3 268	-1 179	9 710
Items that may not be reclassified subsequently to the income statement					
Defined benefit plans:					
Remeasurement of defined benefit plans	-6 482	2 711	-3 684	393	-2 473
Tax on remeasurement of defined benefit plans	1 616	-678	921	-98	618
Other comprehensive income, net of tax	17 162	-21 401	7 043	3 813	-30 826
Total comprehensive income	700 619	539 221	298 762	162 524	685 695
Attributable to:					
Shareholders of Nordea Eiendomskreditt AS	700 619	539 221	298 762	162 524	685 695
Total	700 619	539 221	298 762	162 524	685 695

Balance sheet

NOKt	Note	30 Sep 2019	30 Sep 2018	31 Dec 2018
Assets				
Loans to credit institutions		227 229	221 159	915 581
Loans to the public	6	243 770 959	114 408 685	111 863 513
Interest-bearing securities		5 246 768	6 603 120	6 654 031
Derivatives	8	776 495	719 515	868 244
Fair value changes of the hedged items in portfolio hedge of interest rate risk		10 151	12 852	18 618
Retirement benefit asset		0	2 161	0
Other assets		100	149	196
Accrued income and prepaid expenses		314 727	131 996	126 348
Total assets	7	250 346 429	122 099 637	120 446 531
Liabilities				
Deposits by credit institutions		128 303 244	19 089 379	21 030 942
Debt securities in issue		99 333 369	85 921 883	82 564 221
Derivatives	8	226 267	1 806 731	1 293 892
Fair value changes of the hedged items in portfolio hedge of interest rate risk		572 944	452 370	521 981
Current tax liabilities		176 160	186 879	228 064
Other liabilities		14 227	4 220	39 220
Accrued expenses and prepaid income		42 632	35 035	7 548
Deferred tax liabilities		114 550	101 065	108 770
Provisions		1 140	190	168
Retirement benefit obligations		21 469	10 858	14 419
Subordinated loan capital		2 302 327	1 200 301	1 200 106
Total liabilities		231 108 330	108 808 911	107 009 331
Equity				
Share capital		1 717 662	1 702 326	1 702 326
Share premium		8 815 965	3 731 301	3 731 301
Other reserves		-68 544	-76 281	-85 706
Retained earnings		8 089 559	7 372 758	8 089 279
Net profit for the period		683 457	560 623	
Total equity		19 238 099	13 290 727	13 437 200
Total liabilities and equity		250 346 429	122 099 637	120 446 531
Assets pledged as security for own liabilities				
Assets pledged as security for own liabilities		163 812 788	105 819 092	100 615 613
Contingent liabilities		362	535	362
Commitments		21 366 700	12 798 353	12 357 191

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 2019	1 702 326	3 731 301	-80 984	-4 722	8 089 279	13 437 200
Total comprehensive income			22 028	-4 866	683 457	700 619
Capital contribution ³						280
New issue	15 336	5 084 664				5 100 000
Closing balance at 30 Sep 2019	1 717 662	8 815 965	-58 956	-9 588	8 772 736	19 238 099

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
Effects from 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			-28 971	-1 855	716 521	685 695
Group contribution paid					-440 500	-440 500
Closing balance at 31 Dec 2018	1 702 326	3 731 301	-80 984	-4 722	8 089 279	13 437 200

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
Effects from 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			-23 435	2 033	560 623	539 221
Group contribution paid					-440 500	-440 500
Closing balance at 30 Sep 2018	1 702 326	3 731 301	-75 448	-834	7 933 381	13 290 727

¹ The company's share capital at 30 Sep 2019 was NOK 1.717.662.128,-. The number of shares was 15 336 269, each with a quota value of NOK 112,-. All shares are owned by Nordea Bank Abp.

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

³ Capital contribution due to a share based payments program in accordance with IFRS 2.

Nordea Eiendoms kreditt AS

Oslo, 12 November 2019



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

Cash flow statement

NOKt	Jan-Sep 2019	Jan-Sep 2018	Year 2018
Operating activities			
Operating profit before tax	911 276	747 497	955 456
Adjustments for items not included in cash flow	-6 049	2 894	805
Income taxes paid	-279 723	-279 723	-279 723
Cash flow from operating activities before changes in operating assets and liabilities	625 504	470 668	676 538
Changes in operating assets			
Change in loans to the public	-131 933 567	21 043 554	23 590 878
Change in interest-bearing securities	1 305 871	-1 016 856	-1 040 524
Change in derivatives, net	-904 934	932 503	270 936
Change in other assets	95	44 687	19 440
Changes in operating liabilities			
Change in deposits by credit institutions	107 272 302	-28 726 983	-26 808 707
Change in debt securities in issue	16 769 148	8 320 263	4 814 454
Change in other liabilities	-24 993	-544 685	-305 443
Cash flow from operating activities	-6 890 574	523 151	1 217 572
Financing activities			
Change in subordinated loan capital	1 102 221	0	0
Group contribution paid	0	-440 500	-440 500
Increase in share capital and share premium	5 100 000	0	0
Cash flow from financing activities	6 202 221	-440 500	-440 500
Cash flow for the period	-688 352	82 650	777 071
Cash and cash equivalents at beginning of period	915 581	138 509	138 509
Cash and cash equivalents at end of period	227 229	221 159	915 581
Change	-688 352	82 650	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 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 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 to the public, 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 of Nordea Eiendomskreditt AS have been prepared in accordance with IAS 34 “Interim Financial Reporting”, as endorsed by the EU commission. In addition, certain complementary rules in the Norwegian Accounting Act with supported regulation have been applied.

The accounting policies and methods of computation are unchanged in comparison to Note 1 in the Annual Report 2018, except for related to the items presented in the section “Changed accounting policies and presentation” below. For more information see Note 1 in the Annual Report 2018.

Changed accounting policies and presentation

The following changes in accounting policies and presentation were implemented by Nordea Eiendomskreditt at 1 January 2019:

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 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 unchanged. Additional disclosures are also required. The new standard is effective for annual periods beginning on or after 1 January 2019. The standard was endorsed by the EU-Commission in 2017.

The impact on Nordea Eiendomskreditt’s financial statements is insignificant. There was no impact on equity or capital adequacy at transition.

Other amendments

The following new and amended standards issued by IASB were implemented by Nordea Eiendomskreditt 1 January 2019 but have not had any significant impact on the financial statements of the company:

- Amendments to IAS 19: Plan Amendments, Curtailment or Settlement
- Annual Improvements to IFRS Standards 2015-2017 Cycle

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-Sep 2019	Jan-Sep 2018	Full year 2018
GBP 1 = NOK			
Income statement (average)	11,0688	10,8498	10,8554
Balance sheet (at end of period)	11,1755	10,6689	11,1351
EUR 1 = NOK			
Income statement (average)	9,7720	9,5900	9,6033
Balance sheet (at end of period)	9,8937	9,4665	9,9470

Note 2 Segment information

The activities of Nordea Eiendoms kreditt 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 Eiendoms kreditt AS are judged to be the same risks and yield requirements. Nordea Eiendoms kreditt AS is part of the Personal Banking Business Area in Nordea.

Note 3 Net interest income

NOKt	Jan-Sep 2019	Jan-Sep 2018	Full year 2018
Interest income calculated using the effective interest rate method	3 624 829	2 204 444	2 910 878
Other interest income	58 344	41 363	57 323
Interest income	3 683 173	2 245 807	2 968 201
Interest income			
Interest income on loans and deposits with financial institutions	5 105	1 430	2 522
Interest and related income on loans to customers	3 598 533	2 210 219	2 919 031
Interest and related income on debt securities	58 344	41 363	57 323
Other interest and related income	21 191	-7 206	-10 675
Interest income	3 683 173	2 245 806	2 968 201
Interest expense			
Interest expense on liabilities to financial institutions	1 080 976	285 853	355 826
Interest and related expense on securities issued	1 405 376	1 115 245	1 516 913
Interest expense on subordinated loan capital	49 065	26 490	35 726
Other interest and related expense ¹	-172 733	-201 595	-268 680
Interest expense	2 362 684	1 225 993	1 639 785
Net interest income	1 320 489	1 019 814	1 328 416

Note 4 Net result from items at fair value

NOKt	Jan-Sep 2019	Jan-Sep 2018	Year 2018
Financial instruments at FVPL - Mandatorily ¹	-29 182	15 312	13 495
Financial instruments under hedge accounting	-9 482	-24 244	-38 115
- of which net gains/losses on hedged items	-105 951	388 985	317 629
- of which net gains/losses on hedging instruments	96 468	-413 229	-355 744
Total	-38 664	-8 932	-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, which do not meet the requirements for hedge accounting according to IAS 39.

Note 5 Loan losses

Net loan losses			
NOKt	Jan-Sep 2019	Jan-Sep 2018	Jan-Dec 2018
Net loan losses, Stage 1	-605	2 064	2 419
Net loan losses, Stage 2	-2 411	760	426
Total loan losses, non-defaulted¹	-3 016	2 824	2 845
Stage 3, defaulted			
Net loan losses, individually assessed, collectively calculated	-10 656	-968	-1 459
Realised loan losses	5 763	3 218	5 734
Decrease of provisions to cover realised loan losses	-3 062	-1 943	-4 162
New/increase in provisions	1 406	5 497	6 399
Reversals of provisions	-2 368	-2 500	-2 889
Net loan losses, defaulted	-8 917	3 304	3 624
Net loan losses	-11 933	6 128	6 469

Key ratios			
	Jan-Sep 2019	Jan-Sep 2018	Jan-Dec 2018
Loan loss ratio, basis points	-0,87	0,67	0,53
- of which stage 1	-0,06	0,22	0,20
- of which stage 2	-0,18	0,08	0,03
- of which stage 3	-0,65	0,37	0,30

Note 6 Loans and impairment

Loans and impairment

NOKt	30 Sep 2019	30 Sep 2018	31 Dec 2018
Loans measured at amortised cost, not impaired (Stage 1 and 2)	243 070 788	113 907 572	111 391 842
Impaired loans (Stage 3)	794 825	559 706	528 112
- of which servicing	280 128	106 737	113 789
- of which non-servicing	514 697	452 969	414 323
Loans before allowances	243 865 613	114 467 278	111 919 955
Allowances for individually assessed impaired loans (Stage 3)	-40 892	-39 973	-37 814
- of which servicing	-3 631	-2 129	-1 849
- of which non-servicing	-37 261	-37 844	-35 965
Allowances for collectively assessed impaired loans (Stage 1 and 2) ¹	-53 762	-18 620	-18 627
Allowances	-94 654	-58 593	-56 441
Loans, carrying amount	243 770 959	114 408 685	111 863 513

¹ During Q2 2019 Nordea Eiendomskreditt purchased a loan portfolio of NOK 128bn including an allowance for collectively assessed impaired loans of NOK 56m from the parent bank. As a result of this transfer the increase in allowances for collectively assessed impaired loans (stage 1 and 2) is higher than the corresponding net loan losses within stage 1 and 2 in the income statement.

Movements of allowance accounts for loans measured at amortised cost

NOKt	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2019	-4 503	-14 124	-37 814	-56 441
Changes due to origination and acquisition	-7 443	-4 136	-2 947	-14 526
Changes due to transfers from Stage 1 to Stage 2	343	-17 932	0	-17 589
Changes due to transfers from Stage 1 to Stage 3	19	0	-2 124	-2 105
Changes due to transfers from Stage 2 to Stage 1	-1 400	4 681	0	3 280
Changes due to transfers from Stage 2 to Stage 3	0	447	-3 071	-2 624
Changes due to transfers from Stage 3 to Stage 1	-87	0	705	617
Changes due to transfers from Stage 3 to Stage 2	0	-494	1 783	1 289
Changes due to changes in credit risk without stage transfer	-4 198	-7 841	-1 444	-13 484
Changes due to repayments and disposals	916	3 294	4 294	8 504
Write-off through decrease in allowance account	0	0	3 062	3 062
Changes due to update in the institution's methodology for estimation (net)	3 017	-4 319	-3 336	-4 638
Balance at 30 Sep 2019	-13 337	-40 425	-40 892	-94 654

Key ratios

	30 Sep 2019	30 Sep 2018	31 Dec 2018
Impairment rate, (stage 3) gross, basis points ²⁾	32,6	48,9	47,2
Impairment rate (stage 3), net, basis points ³⁾	30,9	45,4	43,8
Total allowance rate (stage 1, 2 and 3), basis points ⁴⁾	3,9	5,1	5,0
Allowances in relation to credit impaired loans (stage 3), % ⁵⁾	5,1	714,2	7,2
Allowances in relation to loans in stage 1 and 2, basis points ⁶⁾	2,2	1,6	1,7

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

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

⁴⁾ Total allowances divided by total loans measured at amortised cost before allowances.

⁵⁾ Allowances for impaired loans (stage 3) divided by impaired loans measured at amortised cost (stage 3) before allowances.

⁶⁾ Allowances for not impaired loans (stage 1 and 2) divided by not impaired loans measured at amortised cost (stage 1 and 2) before allowances.

Note 7 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	<u>Fair value through profit or loss (FVPL)</u>				Total
	Amortised cost (AC)	Mandatorily	Derivatives used for hedging	Non-financial assets	
Assets					
Loans to credit institutions	227 229				227 229
Loans to the public	243 770 959				243 770 959
Interest-bearing securities		5 246 768			5 246 768
Derivatives		0	776 495		776 495
Fair value changes of the hedged items in portfolio hedge of interest rate risk	10 151				10 151
Other assets	100				100
Prepaid expenses and accrued income	313 358			1 369	314 727
Total 30 September 2019	244 321 797	5 246 768	776 495	1 369	250 346 429

NOKt	<u>Fair value through profit or loss (FVPL)</u>				Total
	Amortised cost (AC)	Mandatorily	Derivatives used for hedging	Non-financial liabilities	
Liabilities					
Deposits by credit institutions	128 303 244				128 303 244
Debt securities in issue	99 333 369				99 333 369
Derivatives		59 686	166 581		226 267
Fair value changes of the hedged items	572 944				572 944
Current tax liabilities				176 160	176 160
Other liabilities	71			14 156	14 227
Accrued expenses and prepaid income	1 651			40 981	42 632
Deferred tax liabilities				114 550	114 550
Provisions				1 140	1 140
Retirement benefit obligations				21 469	21 469
Subordinated loan capital	2 302 327				2 302 327
Total 30 September 2019	230 513 607	59 686	166 581	368 456	231 108 330

Note 8 Derivates and hedge accounting

30 Sep 2019, NOKt	Fair value		Total nominal amount
	Positive	Negative	
Derivatives at FVPL - Mandatorily ¹ :			
Interest rate swaps	0	59 686	32 000 000
Total	0	59 686	32 000 000
Derivatives used for hedge accounting:			
Interest rate swaps	592 786	36 545	21 078 000
Currency interest rate swaps	183 709	130 036	5 866 256
Total	776 495	166 581	26 944 256
Total derivatives	776 495	226 267	58 944 256

31 Dec 2018, NOKt	Fair value		Total nominal amount
	Positive	Negative	
Derivatives at FVPL - Mandorily 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 interest rate swaps	43 625	1 113 971	12 384 756
Total	868 244	1 229 191	31 262 756
Total derivatives	868 244	1 293 892	91 512 756

30 Sep 2018, NOKt	Fair value		Total nominal amount
	Positive	Negative	
Derivatives at FVPL - Mandorily ¹ :			
Interest rate swaps	50	53 846	54 250 000
Total	50	53 846	54 250 000
Derivatives used for hedge accounting:			
Interest rate swaps	0	177 894	19 508 000
Currency interest rate swaps	719 465	1 574 991	12 384 756
Total	719 465	1 752 885	31 892 756
Total derivatives	719 515	1 806 731	86 142 756

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 9 Fair value of financial assets and liabilities

NOKt	30 Sep 2019		31 Dec 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans	244 008 339	250 172 205	112 797 712	113 204 509
Interest-bearing securities	5 246 768	5 246 768	6 654 031	6 654 031
Derivatives	776 495	776 495	868 244	868 244
Other assets	100	100	0	0
Prepaid expenses and accrued income	313 358	313 358	126 116	126 116
Total financial assets	250 345 060	256 508 926	120 446 103	120 852 900
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Deposits and debt instruments	230 511 885	231 293 360	105 317 250	106 001 163
Derivatives	226 267	226 267	1 293 892	1 293 892
Other financial liabilities	71	71	0	0
Accrued expenses and prepaid income	1 651	1 651	345	345
Total financial liabilities	230 739 874	231 521 349	106 611 487	107 295 400

The determination of fair value is described in the Annual Report 2018, Note 18 Assets and liabilities at fair value.

Note 10 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 Sep 2019, NOKt				
Financial assets ¹				
Interest-bearing securities		5 246 768		5 246 768
Derivatives		776 495		776 495
Total assets	0	6 023 263	0	6 023 263
Financial liabilities ¹				
Derivatives		226 267		226 267
Total liabilities	0	226 267	0	226 267

	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 Dec 2018, NOKt				
Financial assets 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
Financial liabilities 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 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 2018, Note 18 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 so far this year. When transfers between levels occur, these are considered to have occurred at the end of the reporting period.

Note 11 Cover Pool

NOKt	30 Sep 2019		31 Dec 2018	
	Nominal value	Net Present Value	Nominal value	Net Present Value
Pool of eligible loans	163 812 788	163 756 738	100 615 613	100 745 233
Supplementary assets and derivatives:				
- whereof CIRS	6 794	97 563	-956 448	-1 070 343
- whereof IRS	0	810 153		644 696
Total cover pool	163 819 582	164 664 454	99 659 165	100 319 586
Debt securities in issue (net outstanding amount)	98 882 050	99 969 464	82 149 307	83 248 134
Over-collateralization calculated on net outstanding covered bonds	65,7%	64,7%	21,3%	20,5%
Debt securities in issue (issue amount)	98 882 050	99 969 464	96 528 307	97 627 134
Over-collateralization calculated on issued covered bonds (gross outstanding covered bonds) ¹	65,7%	64,7%	3,2%	2,8%

¹without 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 Interim Report.

Note 12 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 2018.

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 13 Capital adequacy

Summary of items included in own funds

NOKm	30 Sep 2019	31 Dec ¹ 2018	30 Sep 2018
Calculation of own funds			
Equity	18 555	13 437	12 730
Proposed/actual dividend			
Common Equity Tier 1 capital before regulatory adjustments	18 555	13 437	12 730
Deferred tax assets			
Intangible assets			
IRB provisions shortfall (-)	-258	-96	-94
Deduction for investments in credit institutions (50%)			
Pension assets in excess of related liabilities			-2
Other items, net	40	62	67
Total regulatory adjustments to Common Equity Tier 1 capital	-218	-34	-28
Common Equity Tier 1 capital (net after deduction)	18 337	13 403	12 702
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)	18 337	13 403	12 702
Tier 2 capital before regulatory adjustments	2 300	1 200	1 200
IRB provisions excess (+)	19	12	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	19	12	12
Tier 2 capital	2 319	1 212	1 212
Own funds (net after deduction)²	20 656	14 615	13 914

¹ Including profit for the period

² Own Funds adjusted for IRB provision, i.e. adjusted own funds equal NOK 20,895m by 30 Sep 2019

Own Funds, including profit

NOKm	30 Sep 2019	31 Dec 2018	30 Sep 2018
Common Equity Tier 1 capital, including profit	18 577	13 403	12 880
Total Own Funds, including profit	20 895	14 615	14 093

Note 13 Capital adequacy cont.

Minimum capital requirement and REA

	30 Sep 2019	30 Sep 2019	31 Dec ¹ 2018	31 Dec ¹ 2018	30 Jun 2018	30 Jun 2018
	Minimum Capital requirement	REA	Minimum Capital requirement	REA	Minimum Capital requirement	REA
NOKm						
Credit risk	4 421	55 262	2 109	26 360	921	11 506
- of which counterparty credit risk	14	175			3	34
IRB	4 403	55 042	2 095	26 190	918	11 473
- sovereign					9	114
- corporate						
- <i>advanced</i>						
- <i>foundation</i>						
- institutions	14	181	22	280	21	259
- retail	4 388	54 850	2 073	25 910	888	11 100
- <i>secured by immovable property collateral</i>	3 752	46 900	1 889	23 611	714	8 920
- <i>other retail</i>	636	7 950	184	2 299	174	2 180
- other	1	11			0	0
Standardised	18	220	14	170	3	34
- central governments or central banks						
- regional governments or local authorities						
- public sector entities						
- multilateral development banks						
- international organisations						
- institutions	18	220	14	170	3	34
- corporate						
- retail						
- secured by mortgages on immovable properties						
- in default						
- associated with particularly high risk						
- covered bonds						
- institutions and corporates with a short-term credit assessment						
- collective investments undertakings (CIU)						
- equity						
- other items						
Credit Value Adjustment Risk						
Market risk						
- trading book, Internal Approach						
- trading book, Standardised Approach						
- banking book, Standardised Approach						
Settlement risk						
Operational risk	169	2 116	185	2 317	185	2 317
Standardised	169	2 116	185	2 317	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	23	1	13		
Additional risk exposure amount due to Article 3 CRR						
Sub total	4 592	57 401	2 295	28 690	1 106	13 823
Adjustment for Basel I floor						
Additional capital requirement according to Basel I floor	4 376	54 701	1 685	21 058	2 958	36 970
Total	8 968	112 102	3 980	49 748	4 063	50 793

Note 13 Capital adequacy cont.

Minimum Capital Requirement & Capital Buffers

Percentage	Minimum Capital requireme nt	Capital Buffers					Total
		CCoB	CCyB	O-SII	SRB	Capital Buffers total	
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	5 045	2 803	2 240		3 363	8 405	13 450
Tier 1 capital	6 726	2 803	2 240		3 363	8 405	15 131
Own funds	8 968	2 803	2 240		3 363	8 405	17 373

Common Equity Tier 1 available to meet Capital Buffers

Percentage points of REA	30 Sep ² 2019	31 Dec ^{1,2} 2018	30 Sep ² 2018
Common Equity Tier 1 capital	10,4	20,9	19,0

¹ Including profit for the period

² Including Basel I floor

Capital ratios

Percentage	30 Sep 2019	31 Dec 2018	30 Sep 2018
Common Equity Tier 1 capital ratio, including profit	32,4	46,7	93,2
Tier 1 capital ratio, including profit	32,4	46,7	93,2
Total capital ratio, including profit	36,4	50,9	102,0
Common Equity Tier 1 capital ratio, excluding profit	31,9	44,3	91,9
Tier 1 capital ratio, excluding profit	31,9	44,3	91,9
Total capital ratio, excluding profit	36,0	48,5	100,7

Capital ratios including Basel I floor

Percentage	30 Sep 2019	31 Dec 2018	30 Sep 2018
Common Equity Tier 1 capital ratio, including profit	16,6	26,9	25,4
Tier 1 capital ratio, including profit	16,6	26,9	25,4
Total capital ratio, including profit	18,6	29,4	27,7
Common Equity Tier 1 capital ratio, excluding profit	16,4	25,5	25,0
Tier 1 capital ratio, excluding profit	16,4	25,5	25,0
Total capital ratio, excluding profit	18,4	28,0	27,4

Leverage ratio

	30 Sep ² 2019	31 Dec ^{1,2} 2018	30 Sep ² 2018
Tier 1 capital, transitional definition, NOKm	18 337	13 403	12 702
Leverage ratio exposure, NOKm	260 934	125 723	127 935
Leverage ratio, percentage	7,0	10,7	9,9

¹ Including profit for the period

² Leverage ratio is calculated according to the Delegated Act

Note 13 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:	3 243		3 243		6
<i>of which</i>					
- rating grades 6	3 243		3 243		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:	213 924	4 708	215 525	1 601	22
<i>of which</i>					
- scoring grades A	159 413	4 088	160 803	1 390	20
- scoring grades B	35 269	420	35 412	143	21
- scoring grades C	13 119	146	13 168	50	24
- scoring grades D	5 295	46	5 311	16	40
- scoring grades E					
- scoring grades F					
- not scored	313	8	316	2	40
- defaulted	515	0	515	0	239
Retail, of which other retail:	30 245	16 659	35 908	5 667	22
<i>of which</i>					
- scoring grades A	11 878	14 238	16 718	4 841	7
- scoring grades B	3 415	1 459	3 912	496	15
- scoring grades C	1 379	437	1 528	149	26
- scoring grades D	2 600	217	2 673	74	37
- scoring grades E	9 316	248	9 400	84	39
- scoring grades F	1 494	23	1 502	8	57
- not scored	56	31	66	13	47
- defaulted	107	6	109	2	268
Other non credit-obligation assets:	11		11		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 14 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 derivatives contracts are Nordea Group internal. The volume and fair value of the derivative contracts are shown in note 8.

Nordea Bank Abp, filial i Norge provides short term unsecured funding to Nordea Eiendoms kreditt, and at the end of the third quarter 2019 such borrowings amounted to NOK 128 billion.

Loans to the public, which constitute Nordea Eiendoms kreditt's cover pool, have up until May 2019 been purchased from Nordea Bank Abp, filial i Norge. In the first five months of 2019 loans amounting to NOK 146 billion have been transferred from the parent bank. From May 2019 the company has implemented a new business model where loans are originated from and booked directly in the company's

balance sheet. At implementation, a loan portfolio of NOK 128 bn was purchased from the bank, increasing Nordea Eiendoms kreditt's loan volume to NOK 242bn. In order to maintain the capital ratio levels, a share capital injection of NOK 5.100 from Nordea Bank Abp was executed at 7 March 2019.

Transferred loans are continued to be managed by Nordea Bank Abp, filial i Norge. For loans issued directly from Nordea Eiendoms kreditt, credit assessment and other processes in relation to the loan origination, as well as managing the loans throughout the lifetime, are performed in Nordea Bank Abp, filial i Norge. For this service Nordea Eiendoms kreditt has paid an amount of NOK 375 million in the first nine months of 2019.

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.

Nordea Eiendoms kreditt AS
Essendrops gt. 7
0107 Oslo
Tel +47 22 48 50 00
www.nordea.com