Nordea

Annual Report 2016

Nordea Eiendomskreditt AS

Contents

Nordea Eiendomskreditt AS is part of the Nordea group. Nordea's vision is to be a Great European bank, acknowledged for its people, creating superior value for customers and shareholders. Nordea is making it possible for the customers to reach their goals by providing a wide range of products, services and solutions within banking, asset management and insurance. Nordea has around 11 million customers, approximately 600 branch office locations and is among the ten largest universal banks in Europe in terms of total market capitalisation. The Nordea share is listed on the NASDAQ OMX Nordic Exchange in Stockholm, Helsinki and Copenhagen.

Key financial figures - Five year overview

Summary of the income statement (NOKm)

	2016	2015	2014	2013	2012
Net interest income	**1 247**	**1 587**	**2 059**	**2 059**	**1 241**
Net result from items at fair value	16	9	23	24	14
Other operating income	49	44	47	50	51
Total operating income	**1 280**	**1 622**	**2 083**	**2 133**	**1 277**
Staff costs	0	3	3	2	2
Other operating expenses	462	155	155	153	146
Total operating expenses	**462**	**158**	**158**	**155**	**148**
Loan losses (negative figures are reversals)	1	33	14	10	8
Operating profit	**817**	**1 431**	**1 911**	**1 969**	**1 137**
Income tax expense	204	343	553	545	321
Net profit for the year	**613**	**1 088**	**1 359**	**1 423**	**816**

Summary of the balance sheet (NOKm)

	2016	2015	2014	2013	2012
Loans to the public	106 008	106 508	114 930	116 542	113 806
Allowance for loan losses	-69	-76	-46	-40	-33
Other assets	7 673	8 905	5 181	2 890	1 859
Debt securities in issue [1]	83 861	81 160	89 982	87 830	83 793
Other liabilities	17 474	23 626	20 569	23 536	25 202
Equity	12 278	10 551	9 514	8 026	6 636
Total assets	**113 613**	**115 337**	**120 065**	**119 392**	**115 632**
Average total assets	119 682	111 789	117 087	121 950	108 879

[1] Excl. accrued interests

Ratios and key figures

	2016	2015	2014	2013	2012
Basic/diluted Earnings per share (EPS), NOK	39.9	71.0	88.6	92.8	53.2
Equity per share [1] NOK	800.6	688.0	620.4	523.4	432.7
Shares outstanding [1], million	15.3	15.3	15.3	15.3	15.3
Post-tax return on average equity	6.0 %	10.8 %	15.4 %	19.5 %	17.0 %
Cost/income ratio	36.1 %	9.7 %	7.6 %	7.3 %	11.6 %
Loan loss ratio, basis points	0.1	3.1	1.2	0.8	(0.8)
Common Equity Tier 1 capital ratio, excl. Basel I floor [1, 2]	85.8 %	64.1 %	60.5 %	71.8 %	53.0 %
Tier 1 capital ratio, excl. Basel I floor [1, 2]	85.8 %	64.1 %	60.5 %	71.8 %	53.0 %
Total capital ratio, excl. Basel I floor [1, 2]	94.4 %	68.9 %	65.5 %	78.5 %	58.9 %
Common Equity Tier 1 capital ratio, incl. Basel I floor [1, 2]	25.7 %	21.5 %	17.9 %	15.1 %	13.1 %
Tier 1 capital ratio incl. Basel I floor [1, 2]	25.7 %	21.5 %	17.9 %	15.1 %	13.1 %
Total capital ratio incl. Basel I floor [1, 2]	28.3 %	23.2 %	19.4 %	16.5 %	14.6 %
Own funds, NOKm [1, 2]	13 486	11 224	10 126	8 785	7 333
Risk Exposure Amount incl. Basel I floor, NOKm [1]	47 707	48 469	52 281	53 110	50 187

[1] At the end of the period

[2] Including profit

Board of Directors' Report

Introduction

Nordea Eiendomskreditt AS was first incorporated in 1927 as a credit association known as Norges Hypotekforening for Næringslivet and became in 1996 part of the Nordea Group. During the course of autumn 2009, the company's commercial property lending activities were sold to the parent bank, Nordea Bank Norge ASA (NBN). With effect from 2010 the company has operated solely as a mortgage credit institution with the business objective to grant and acquire residential mortgage loans and to fund its lending activities primarily via issuance of covered bonds. Nordea Eiendomskreditt AS is domiciled in Oslo, and its business registration number is 971 227 222.

The company's share capital amounts to NOK 1,702m, made up of 15,336,269 ordinary shares, each of nominal value NOK 111. The entire issued share capital is owned by Nordea Bank Norge ASA, which from 2 January 2017 has been merged into Nordea Bank AB (publ) (NBAB).

Legal structure 2017

On 2 January 2017 the cross-border mergers between Nordea Bank AB (publ) and its subsidiary banks in Denmark, Finland and Norway were executed. The banking business in these countries will, going forward, be carried out in branches of Nordea Bank AB (publ) and the remaining local subsidiaries (e.g. mortgage companies) are now subsidiaries to Nordea Bank AB (publ).

Following the reorganisation in the Nordea Group, Nordea Eiendomskreditt has taken over the product responsibility for residential mortgage loans in Nordea Norway, and as a consequence, the organization will be expanded during 2017.

Pension, defined benefit plan

Nordea Eiendomskreditt decided on 24 October 2016 to change the pension agreement with employees born in 1958 or later from a defined benefit plan to a defined contribution plan. The pension rights earned under the defined benefit plan are placed in paid-up policies and will continue to be presented as defined benefit obligations, as they remain on the company's balance sheet, but the obligations have decreased as the assumptions on future salary increases have been removed. This has led to an up-front gain, decrease of staff cost, amounting to NOK 2.2m including social charges, in the fourth quarter 2016.

Comments on the Income statement

Income

Total operating income was NOK 1,279m (compared to NOK 1,622m in 2015) which gives a decrease of 21%, mainly driven by lower Net interest income.

Net interest income was NOK 1,247m in 2016 (NOK 1,587m in 2015). The decrease is due to lower lending margins in 2016 compared to 2015, caused by interest rate reductions. Interest rates have been repriced in the second half of the year, but the effect was offset by a higher Nibor. The size of the loan portfolio has been higher in 2016 compared to 2015, and has partly offset the decrease in net interest income due to lower margins. Average lending volume was 6.8% higher in 2016 compared to 2015.

Net fee and commission income was positively affected by an increase in lending related commission income, and was up 12% to NOK 48.9m (NOK 43.6m in 2015).

Net result from items at fair value ended at a cost of NOK 16.1m in 2016 (cost of NOK 9.2m in 2015). In accordance with IFRS, net result from items at fair value includes both realized gain/loss from buy-backs of own bonds and corresponding interest rate swaps, as well as fair value changes of interest rate swaps and the corresponding hedged items (fixed-rate lending and fixed-rate bonds) in the hedge portfolio, due to changes in market rates. A loss of NOK 3.5m in 2016 (gain of NOK 7.2m in 2015) is related to derivatives held for economic hedging.

Expenses

Total operating expenses increased from NOK 158m in 2015 to NOK 462m in 2016. The cost is mainly related to management of the lending portfolio and customer contact, a service that is purchased from the parent bank. The fee charged for this service has increased significantly in 2016 due to a changed pricing model. The company also purchases services related to funding and risk management, accounting and reporting from NBN and NBAB. Total operating expenses were equivalent to 0.39% of average total assets (0.14%). Nordea Eiendomskreditt AS does not incur any costs for research and development activities.

Loan losses

Net loan losses for 2016 ended at NOK 0.5m. Allowances for collectively assessed loans decreased by NOK 3.1m during the year. Loan losses for individually assessed loans were NOK 3.6m. Comparable figures for 2015 were an increase in collective allowances of NOK 25.6m and loan losses for individually assessed loans of NOK 7.4m, in total a net cost of NOK 33.0m.

Taxes

Taxes for the year amounted to NOK 204.2m, of which NOK 193.9m relates to tax payable and NOK 10.3m due to changes in deferred tax.

Net profit

Net profit for the year amounted to NOK 612.6m (compared to NOK 1,088.3m for 2015). This gives a return on average equity of 6.0% (10.8%).

Comments on the Balance sheet

Assets and lending activities

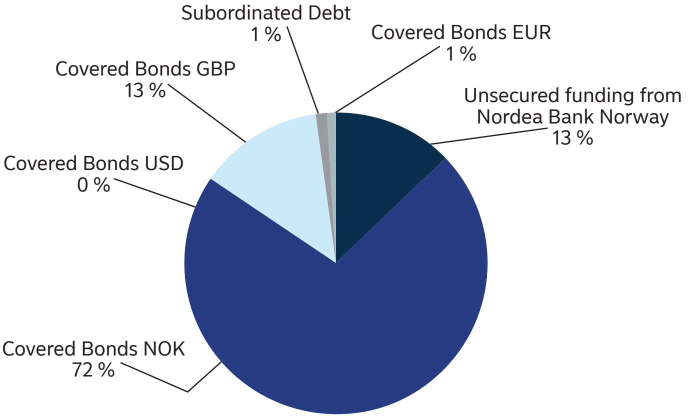
Gross lending to customers at 31 December 2016 amounted to NOK 106.0bn compared to NOK 106.5bn at the end of 2015. Gross lending consists only of residential mortgage loans and loans to holiday homes, used as collateral in securing the covered bonds issued by the company. NOK 98.4bn of the loan portfolio 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 15% in relation to the covered bonds issued.

Liabilities and funding activities
Nordea Eiendomskreditt's main funding source is issuance of covered bonds. Covered bonds are debt instruments, regulated by the Financial Undertakings Act (Act No. 17 of 10 April 2015, 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 hold a licence from the Norwegian FSA and whose articles of association comply with certain mandatory requirements. The cover pool in Nordea Eiendomskreditt consists only of Norwegian residential mortgage loans and loans to holiday homes in Norway.

During 2016 Nordea Eiendomskreditt has issued covered bonds amounting to NOK 21.7bn in the Norwegian domestic market under its NOK 100bn domestic covered bond program, as well as GBP 0.5m and EUR 0.1m under its EUR 10bn EURO program. Issuance is done via taps of outstanding and new bonds via designated dealers. During 2016 bonds amounting to NOK 14.8bn and USD 1bn have matured or been bought back. As of 31 December 2016, Nordea Eiendomskreditt had outstanding covered bonds totalling NOK 71.0bn in the Norwegian market, GBP 1.1bn in the British market and EUR 0.1bn in the European market. Nordea Eiendomskreditt had also subordinated debt outstanding to the amount of NOK 1.2bn.

In addition to the long term funding Nordea Eiendomskreditt also raised short term unsecured funding from the parent bank. At the end of 2016 such borrowings amounted to NOK 12.7bn.

The following figure shows the company's funding structure as of 31 December 2016



Equity
Shareholder's equity ended at NOK 12,278m at 31 December 2016. This includes net profit for the year of NOK 613m.

Allocation of net profit for the year
Nordea Eiendomskreditt AS reported an operating profit for the year of NOK 817m, and a net profit after tax for the year of NOK 613m. The Board of Directors will propose to the Annual General Meeting on 10 March 2017 that the company should transfer the entire net profit for the year to the company's equity reserves. The Board of Nordea Eiendomskreditt is of the view that total equity and capital adequacy following the allocation will be sound, and well in excess of the minimum requirements laid down by the Basel capital adequacy regulations and the Norwegian Capital Adequacy Regulation of 14 December 2006.

Off-balance sheet commitments
The company's business operations include different off-balance sheet items. Interest rate and currency swaps are used to hedge interest rate and currency risk. At the close of 2016, the company was party to interest rate swaps with a nominal value of NOK 78.6bn.

Nordea Eiendomskreditt has covered bonds totalling GBP 1.1bn issued in the British market and EUR 0.1bn issued in the European market. In order to eliminate the foreign exchange risk, the company has entered into currency swaps of the same amount. Counterparties to all derivative contracts are Nordea Group internal. For total exposure regarding off-balance sheet commitments, see note 9 Derivatives and note 14 Commitments.

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

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

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

Risk, liquidity and capital management
Management of risk, liquidity and capital are key success factors in the financial services industry. Exposure to risk is inherent in providing financial services, and the Nordea Group assumes a variety of risks in its ordinary business activities, the most significant being credit risk. The maintaining of risk awareness within the organisation is ingrained in the business strategies. Nordea has clearly defined risk, liquidity and capital management frameworks, including policies and instructions for

different risk types, capital adequacy and for the capital structure. This section describes how risk, liquidity and capital management is handled in the Nordea Group. Nordea Eiendomskreditt is wholly integrated in the Nordea Group's risk and capital management in its applicable parts.

Management principles and control
The Group Board has the ultimate responsibility for limiting and monitoring the Group's risk exposure as well as for setting the targets for the capital ratios. Risk is measured and reported according to common principles and policies approved by the Group Board, which also decides on policies for credit risk, counterparty credit risk, liquidity risk, business risk, operational risk and compliance risk as well as the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP). All policies are reviewed at least annually.

Responsibilitiy of CEO and GEM
The Chief Executive Officer (CEO) has the overall responsibility for developing and maintaining effective risk, liquidity and capital management principles and control in the Nordea Group.

The CEO and Group Executive Management (GEM) regularly review reports on risk exposure and have established a number of committees for risk, liquidity and capital management, the most essential for Nordea Eiendomskreditt being:

- The Asset and Liability Committee (ALCO), chaired by the Group Chief Operating Officer (COO), prepares issues of major importance concerning the Group's financial operations and balance sheet risks, either for decision by the CEO in GEM, or for recommendation by the CEO in GEM and for decision by the Group Board.
- The Financial Management Committee (FMC) has been established next to ALCO and Risk Committee. FMC governs performance management and financial reporting related issues (e.g. Group Valuation Committee).
- The Risk Committee, chaired by the Chief Risk Officer (CRO), oversees the management and control of the Nordea Group's risks at an aggregate level and evaluates the sufficiency of the risk frameworks, controls and processes associated with these risks.
- The Group Executive Management Credit Committee (GEMCC) is chaired by the CEO. As of 1 January 2017, the Executive Credit Committee (ECC) is chaired by the Head of Group Credit Risk Management (GCRM), while the Group Credit Committee Commercial and Business Banking (GCCCBB) and the Group Credit Committee Wholesale Banking (GCCWB) are chaired by the Chief Credit Officer (CCO). These credit committees decide on major credit risk customer limits.

Risk reporting
Risk reporting including reporting the development of REA (Risk Exposure Amount) is regularly made to GEM and the Board of Directors. Group Internal Audit (GIA) makes an independent evaluation of the processes regarding risk and capital management in accordance with the annual audit plan. A separate risk description is reported to the Board of Directors in Nordea Eiendomskreditt once a year according to Norwegian legislation requirements.

Disclosure requirements of the CRR - Capital and risk management report 2016
Additional information on risk and capital management is presented in the Capital and Risk Management Report 2016, in accordance with the Capital Requirements Regulation (CRR), which is based on the Basel III framework issued by the Basel Committee on Banking Supervision. The report is available at www.nordea.com.

Risk management

Credit risk management
Credit Risk Management in first line of defence is responsible for the credit process framework, and Group Risk Management and Control (second line of defence) is responsible for the credit risk management framework, consisting of policies, instructions and guidelines for the Nordea Group. Group Risk Management Control is also responsible for controlling and monitoring the quality of the credit portfolio and the credit process.

Credit risk definition and identification
Credit risk is defined as the potential for loss due to failure of borrowers to meet their obligations to clear a debt in accordance with agreed terms and conditions. The potential for loss is lowered by credit risk mitigation techniques. Credit risk stems mainly from various forms of lending, but also from guarantees and documentary credits, counterparty credit risk in derivatives contracts, transfer risk attributable to the transfer of money from another country and settlement risk. Credit risk in Nordea Eiendomskreditt is mainly related to the lending portfolio. The major part of the lending portfolio is secured by collateral with loan amounts not exceeding 75% of the value of the pledged real estate. The risk of material losses in the portfolio is therefore considered to be limited.

Credit risk mitigation
Credit risk mitigation is an inherent part of the credit decision process. In every credit decision and review, the valuation of collaterals is considered as well as the adequacy of covenants and other risk mitigations. Pledging of collateral is the main credit risk mitigation technique.

Individual and collective assessment of impairment
Throughout the process of identifying and mitigating credit impairments, Nordea continuously reviews the

quality of the credit exposures. Weak and impaired exposures are closely and continuously monitored and reviewed at least on a quarterly basis in terms of current performance, business outlook, future debt service capacity and the possible need for provisions. A provision is recognized if there is objective evidence based on loss events and observable data that the customer's future cash flow is weakened to the extent that full repayment is unlikely, collateral included. Exposures with provision are considered as impaired. The size of the provision is equal to the estimated loss, being the difference between the book value and the discounted value of the future cash flow, including the value of pledged collateral. Impaired exposures can be either servicing or non-servicing.

Exposures that have been past due more than 90 days are automatically regarded as defaulted and non-servicing, and reported as impaired or not impaired depending on the deemed loss potential.

Forbearance is negotiated terms or restructuring due to borrowers' financial stress. The intention with granting forbearance for a limited period of time is to ensure full repayment of the outstanding debt. Examples of negotiated terms are changes in amortization profile, repayment schedule, customer margin as well as ease of financial covenants. Forbearance is undertaken on a selective and individual basis and followed by impairment testing. Loan loss provisions are recognized if necessary. Forborne rated customers without impairment charges are fully covered by either collateral and/or the net present value of future cash flows.

In addition to individual impairment testing of all individually significant customers, collective impairment testing is performed for groups of customers that have not been found to be impaired on individual level. The collective impairment is based on the migration of scored customers in the credit portfolio as well as management judgement. The assessment of collective impairment reacts to up- and down-ratings of customers as well as new customers and customers leaving the portfolio. Also customers going to and from default affect the calculation. Collective impairment is assessed quarterly for each legal unit. The rationale for this two-step procedure with both individual and collective assessment is to ensure that all incurred losses are accounted for up to and including each balance sheet day.

Further information on credit risk is presented in Note 22 Credit risk disclosures to the financial statements.

Credit portfolio
Credit risk is measured, monitored and segmented in different ways. On-balance lending constitutes the major part of the credit portfolio and the basis for impaired loans and loan losses. Credit risk in lending is measured and presented as the principle amount of on-balance sheet claims, i.e. loans to credit institutions and the public-, and off-balance sheet potential claims on customers and counterparts, net after allowances. Credit risk exposure also includes the risk related to derivative contracts, which was NOK 1,161m at year end (NOK 6,561m).

Nordea Eiendomskreditt's total lending to the public decreased insignificantly to NOK 106.0bn at the end of 2016 (NOK 106.5bn). The portfolio includes residential mortgage loans as well as loans to holiday homes, secured by properties in Norway. Including off-balance sheet exposures the total credit risk exposure at year end was NOK 119.7bn (NOK 120.7bn).

Lending to credit institutions amounted to NOK 155.9m at the end of the year (NOK 143.7m), all of which was placed in the parent bank as cash accounts, payable on demand. Nordea Eiendomskreditt also has interest bearing securities amounting to NOK 5,758m at the end of 2016 (NOK 1,498m).

Rating and scoring distribution
One way of assessing credit quality is through analysis of the distribution across risk grades for scored household customers. Information on scoring distribution in the lending portfolio is shown in Note 24 Scoring distribution of the lending portfolio.

Impaired loans
Impaired loans gross in Nordea Eiendomskreditt decreased during the year from NOK 459.4m in 2015 to NOK 434.1m in 2016, corresponding to 41bp of total loans (43bp). From 2015 also non-servicing loans with collectively assessed provision are included. 9% (34%) of impaired loans gross are servicing loans and 91% (66%) are non-servicing loans. Impaired loans net, after individually assessed allowances, amounted to NOK 406.1m (NOK 427.6m), corresponding to 38bp of total loans (40bp). Allowances for individually assessed loans decreased from NOK 31.8m to NOK 28.0m.

Allowances for collectively assessed loans decreased from NOK 43.7m to NOK 40.6m.

The volume of past due loans to household customers (excluding impaired loans) increased to NOK 1,968m (NOK 1,373m) in 2016. Nordea Eiendomskreditt has not taken over any properties for protection of claims due to default.

Loan losses amounted to NOK 0.5m in 2016 (NOK 33.0m). This corresponds to a loan loss ratio of 0.05 basis points.

Counterparty credit risk

Counterparty credit risk is the risk that Nordea Eiendomskreditt's counterpart in an interest or currency derivative contract defaults prior to maturity of the contract and that Nordea Eiendomskreditt at that time has a claim on the counterpart. Counterparty credit risk can also exist in repurchasing agreements and other securities financing transactions. The exposure at the end of 2016 for Nordea Eiendomskreditt was NOK 1,546m (NOK 7,282m), of which the current exposure net (after close-out and collateral reduction) represents NOK 1,161m (NOK 6,561m). 100% of the exposure and 100% of the current exposure net was towards financial institutions.

Market risk

Market risk is defined as the risk of loss in Nordea Eiendomskreditt's holdings and transactions as a result of changes in market rates and parameters that affect the market value, for example changes to interest rates, credit spreads and FX rates. The basic principle is that market risks are eliminated by matching assets, liabilities and off-balance sheet items.

Measurement of market risk

Nordea Eiendomskreditt quantifies its exposure to interest rate risk by using a simulated 1% parallel shift in the yield curve. Interest rate risk is accordingly equivalent to the change in value of the portfolio of assets and liabilities exposed to interest rate risk in the event of a 1% parallel shift of the respective yield curves.

At the close of 2016, Nordea Eiendomskreditt's interest rate sensitivity was NOK -36m calculated in relation to a parallel shift in the yield curve of 1 percentage point. This implies that Nordea Eiendomskreditt AS would gain NOK 36m in the event of a decrease in all interest rates by one percentage point. In this context, 'gain' refers to an increase in the discounted current value of equity capital. The effect of the change in value would materialise in the form of a change in net interest income over future years. The equivalent interest rate sensitivity at the close of 2015 was NOK 27m.

Further information on the methods used in the Nordea Group for managing and measuring interest rate risk can be found in the Nordea Annual Report at www.nordea.com.

Nordea Eiendomskreditt operates with a policy of hedging all currency risk. All assets and liabilities of any material amount that are denominated in foreign currencies are hedged through currency swaps. A change in foreign exchange rate will therefore not have any impact on the net result for the year or on the equity.

Operational risk

Operational risk is defined as the risk of direct or indirect loss, or damaged reputation, resulting from inadequate or failed internal processes, from people and systems, or from external events. Regarding own funds requirement, operational risk also covers legal risk and compliance risk. Operational risk includes legal risk and is inherent in all activities within the organisation, in outsourced activities and in all interactions with external parties.

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

Managing operational risk is part of the management's responsibilities. The operational risks are monitored through regular risk assessment procedures and a systematic quality and risk focused management of changes. Development of new products, services, activities as well as processes and systems shall be risk assessed. Identified risk elements and consequences of risk events are mitigated with, inter alia, up to date Business Continuity Plans.

The key principle for the management of operational risks is the three lines of defence. The first line of defence is represented by the Business Areas and Group Functions who are responsible for their own daily risk management and for operating their business within limits for risk exposure and in accordance with decided framework for internal control and risk management at first line of defence.

The control function Group Operational Risk (GOR), part of Group Risk Management in the second line of defence, is responsible for developing and maintaining the framework for managing operational risks and for supporting, challenging and controlling the line organization in their implementation of the framework. GOR establishes and maintains adequate policies and procedures for operational risk. The Nordea Operational Risk Policy forms part of the risk management and internal control framework and sets out the general principles for operational risk management. Management of operational risks is proactive, emphasising training and risk awareness.

Group Internal Audit performs audits and provides assurance to stakeholders on internal controls and risk management processes in third line of defence. Group Internal Audit also produces reports for the Board of Directors of Nordea Eiendomskreditt on risk management, internal control and monitoring procedures. Further information on the management of operational risk in Nordea can be found in the Nordea Annual Report at www.nordea.com.

Compliance risk

Nordea defines compliance risk as the risk of failing to comply with laws, regulations, rules and prescribed practices and ethical standards, governing Nordea's activities in any jurisdiction, which could result in material financial or reputational loss to the Group, regulatory remarks or sanctions.

The key principle for the management of compliance risk is the three lines of defence. The first line of defence represented by the Business Areas and Group Functions, are risk owners, and are responsible for their own daily risk management and control of compliance risks. Management on all levels are responsible for operating their business within defined limits for risk exposure and in accordance with decided directives, instructions and risk management processes, and for implementing and executing Group level and Business Area level instructions and guidelines.

Group Compliance is a second line of defence risk control function in the Group, coordinating, facilitating and overseeing the effectiveness and integrity of the Group's compliance risk management. Group Compliance provides an independent view on compliance to relevant rules and regulations, to a large degree based on carried out monitoring activities. Furthermore, Group Compliance also advises and supports first line of defence on ways to effectively and efficiently handle compliance obligations. Group Internal Audit performs audits and provides assurance to stakeholders on internal controls and risk management processes in third line of defence.

Liquidity risk

Liquidity risk management

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

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

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

Liquidity risk measurement methods

The liquidity risk management focuses on both short-term liquidity risk and long-term structural liquidity risk. In order to manage short-term funding positions, Nordea measures the funding gap risk, which expresses the expected maximum accumulated need for raising liquidity in the course of the next 30 days. To ensure funding in situations where Nordea is in urgent need of cash and the normal funding sources do not suffice, Nordea holds a liquidity buffer. Limit is set by the Board of Directors for the minimum size of the liquidity buffer.

Since 2011 Survival horizon metric is being used. The Board of Directors has set a limit for minimum survival without access to market funding. In April 2016 that period was prolonged from 30 days to 90 days. Nordea is also compliant with EBA Delegated Act LCR, which came into force in October 2015. The structural liquidity risk of Nordea is measured and limited by the Board of Directors through the Net Balance of Stable Funding (NBSF), which is defined as the difference between stable liabilities and stable assets.

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

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

Liquidity risk analysis

The Liquidity Coverage Ratio (LCR) according to the EBA Delegated Act was 449% at the end of the year.

Capital management

Nordea strives to be efficient in its use of capital and therefore actively manages its balance sheet with respect to assets, liabilities and risk. The goal is to enhance returns to shareholders while maintaining a prudent capital structure.

Minimum capital requirements

Risk exposure amount (REA) is calculated in accordance with the adjusted Norwegian rules for calculating capital requirements. Nordea Eiendomskreditt had 97% of its REA covered by internal rating based (IRB) approaches by the end of 2016. For operational risk the standardised approach is applied.

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

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

The ICAAP also describes Nordea's management, mitigation and measurement of material risks and assesses the adequacy of internal capital by defining internal capital requirements reflecting the risk of the institution. Regulatory buffers were introduced with the implementation of the CRD IV/CRR rules.

Economic Profit (EP)
Nordea uses EP as one of its financial performance indicators. EP is calculated as risk-adjusted profit less the cost of equity. Risk-adjusted profit and EP are measures to support performance management and for shareholder value creation. In investment decisions and customer relationships, EP drives and supports the operational decision making process in Nordea. The EP model also captures both growth and return. Economic capital (EC) and expected losses (EL) are inputs in the EP framework.

Expected loss (EL)
EL reflects the normalised loss level of the individual credit exposure over a business cycle as well as various portfolios. EL is a more stable measure than actual losses, but it will vary with the business cycle as a consequence of shifts in the repayment capacity (PD dimension) and collateral coverage (LGD dimension) distributions.

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

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

Summary of items included in own funds

NOKm	31 Dec[1] 2016	31 Dec[1] 2015
Calculation of own funds		
Equity	12 278	10 551
Proposed/actual dividend	0	0
Common Equity Tier 1 capital before regulatory adjustments	**12 278**	**10 551**
Deferred tax assets	0	0
Intangible assets	0	0
IRB provisions shortfall (-)	-63	-61
Deduction for investments in credit institutions (50%)	0	0
Pension assets in excess of related liabilities	0	0
Other items, net	42	-46
Total regulatory adjustments to Common Equity Tier 1 capital	**-21**	**-107**
Common Equity Tier 1 capital (net after deduction)	**12 257**	**10 444**
Additional Tier 1 capital	0	0
Tier 1 capital (net after deduction)	**12 257**	**10 444**
Tier 2 capital before regulatory adjustments	**1 200**	**780**
IRB provisions excess (+)/shortfall (-)	29	0
Other items, net	0	0
Total regulatory adjustments to Tier 2 capital	**29**	**0**
Tier 2 capital	**1 229**	**780**
Own funds (net after deduction)	**13 486**	**11 224**

[1] Including profit

Capital Adequacy
The net own funds of Nordea Eiendomskreditt amounted to NOK 13,486m at the end of 2016, of which NOK 1,200m is a subordinated loan.

The Tier 1 capital ratio at the close of 2016 including the Basel I floor was 25.7% (21.5%), and the total capital ratio including Basel I floor was 28.3% (23.2%). The total capital ratio requirement including Basel I floor is 17.0%, comprising of a minimum total capital ratio of 8.0% and capital buffers of 9.0%.

Further information - Note 15 Capital adequacy and the Capital and Risk Management (Pillar III) report
Further information on capital management and capital adequacy is presented in Note 15 Capital adequacy and in the Capital and Risk Management Report 2016 at www.nordea.com.

New regulations
The Capital Requirement Directive IV (CRD IV) and Capital Requirement Regulation (CRR) entered into force 1 January 2014. The CRR became applicable in all EU countries from 1 January 2014 while the CRD IV was implemented through national law within all EU member states during 2014.

In Norway, the CRD IV/CRR and associated regulatory standards are not yet incorporated in the EEA agreement. On 30 September 2016, the EEA Joint Committee in Brussel adopted nine decisions by a written procedure incorporating 31 legal acts into the EEA Agreement, all relating to the European financial supervisory framework. Incorporating the regulations establishing the European Financial Supervisory Authorities (ESAs) into the EEA Agreement allows for future incorporation of numerous acts aimed at rectifying flaws in the pre-crisis financial regulatory framework, and secure continued access for financial undertakings from the EEA EFTA States to the Internal Market. This is expected to entail that the Ministry of Finance in Norway in the future can incorporate the CRD IV/CRR as well as other important EU regulatory frameworks.

The main provisions from the CRD IV/CRR rules have been introduced in the Norwegian regulation as well as national regulations. A major deviation from CRD IV/CRR is that the Basel I floor related to REA is not removed and that the capital reduction towards the SME segment is not implemented, as well as several other technical calculation rules. The minimum capital requirements are however harmonised with a CET1 capital ratio of 4.5%, a Tier 1 ratio of 6% and a total capital ratio of 8%. In addition, a CCoB of 2.5% and a SRB of 3% apply. The current CCyB of 1,5% will be increased to 2% from 31 December 2017. Furthermore, Nordea Bank Norge, including subsidiaries, is considered as a systemically important institution and must therefore hold an additional buffer which was increased from 1% to 2% from 1 July 2016.

Proposal on amended CRR, CRD IV and BRRD

In November 2016 the European Commission (EC) published a proposal amending the BRRD, the CRD IV and the CRR. The amendments to the CRR, being a regulation, will be directly applicable in all EU countries once implemented, whereas the amendments to the CRD IV and BRRD, being directives, need to be implemented into national legislation before being applicable. The time for implementation is uncertain given the upcoming negotiations, but it is stated that the amendments will start entering into force in 2019 at the earliest, with some parts being implemented later and subject to phase-in. Some of the main amendments include:

TLAC / MREL

The EC proposes to implement the Financial Stability Board (FSB) Total Loss Absorbing Capacity (TLAC) standard, building on the existing framework of the BRRD, which includes the Minimum Requirement for own funds and Eligible Liabilities (MREL). TLAC requires Global Systemically Important Banks (G-SIBs), referred to as G-SIIs in EU legislation, to have a sufficient amount of highly loss absorbing ("bailinable") liabilities to ensure smooth and fast absorption of losses and recapitalisation in resolution. The purpose of MREL is to achieve the same objective as for the TLAC standard, although it is technically different from the TLAC standard and is applied for both G-SIIs and non G-SII institutions in EU.

In November 2016, the existing MREL framework in the current BRRD was proposed to be amended. According to the proposal, both G-SIIs and non G-SII should meet the so-called firm specific MREL requirement decided by the resolution authorities. The requirement should not exceed the sum of loss absorption amount and recapitalisation amount, both of which are determined by the minimum capital requirement of 8% and Pillar II capital requirement. In order to make it possible for banks to issue eligible instruments in a cost efficient and harmonised way, the EC proposed in November 2016 to introduce a new insolvency hierarchy for non-preferred senior debt.

Pillar II

The proposal introduces a split of Pillar II add-ons into Pillar II Requirements (P2R) and Pillar II Guidance (P2G), where the P2R will increase the Maximum distributable amount (MDA) level while the P2G is a soft measure that does not affect the MDA level.

NSFR

The EC proposes to introduce a binding NSFR that requires institutions to finance their long-term activities (assets and off-balance sheet items) with stable funding. The NSFR proposal aligns NSFR governance, compliance and supervisory actions with the EU Liquidity Coverage Ratio (LCR) requirement.

Leverage ratio

The proposal introduces a binding leverage ratio requirement of 3 % of tier 1, harmonised with the international BCBS standard.

Market risk

In January 2016, the Basel Committee on Banking Supervision (BCBS) concluded its work on the fundamental review of the trading book (FRTB) and published a new standard on the treatment of market risk. The amendments to the CRR incorporate the FRTB rules into EU regulation with some adjustments, such as postponing the implementation to 2021 and including a three year phase-in period. The key features of the framework include a revised boundary for trading book and non-trading book (banking book) exposures, a revised internal model approach and a revised standardised approach.

Revisions to the Basel III capital framework ("Basel IV")

Basel III is a global, regulatory framework on bank capital adequacy, stress testing, and liquidity risk. It was agreed upon by the members of the BCBS in 2010–2011, however some parts are yet to be finalised. More specifically, the BCBS have proposed to introduce a capital floor and revisions to the standardised and IRB approach for credit risk, leverage ratio and operational risk.

The proposed revision to the IRB approach, published in March 2016, include restrictions to the use of IRB approach for certain exposures, such as exposures towards institutions and large corporates, as well as introducing model-parameter floors. The revised standardised approach proposes to base the risk weights on risk drivers and external ratings. Moreover, the BCBS proposal is that the capital floor should be based on the revised standardised approaches for credit-, market- and operational risks. There are also ongoing discussions in the BCBS regarding a potential leverage ratio buffer for G-SIBs.

On 3 January 2017, the BCBS announced that they are working to finalise its reforms and expect to complete its work in the near future.

Regulatory treatment of IFRS 9
In addition to the revised framework, the BCBS on 11 October 2016, published a discussion paper and a consultative document on the policy considerations associated to the regulatory treatment of accounting provisions related to IFRS 9 under the Basel III regulatory capital framework. The discussion paper presents proposals on a revised long-term regulatory treatment of provisions to be applied once the revisions to the SA and IRB approach become applicable. IFRS 9 enters into force in 2018 and the BCBS proposal is, during an interim period, to retain the current regulatory treatment of provisions as applied under both the SA and IRB approach to allow thorough consideration of the longer-term options for the regulatory treatment of provisions.

Internal control and risk management regarding financial reporting

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

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

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

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

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

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

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

Monitoring
Nordea has established a process with the purpose of ensuring a proper monitoring of the quality of the financial reporting and the follow-up regarding possible deficiencies. This interactive process aims to cover all components in the original COSO Framework. The Board of Directors, the Board Audit Committee, the Board Risk Committee and Group Internal Audit have important roles in monitoring the internal control over financial reporting in Nordea.

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

Articles of association regulating the Board of Directors

Section 3-3b of the Norwegian Accounting Act (Norwegian: regnskapsloven) requires the composition and nomination of the Board of Directors to be disclosed.

According to Nordea Eiendomskreditt AS's articles of association, last amended at 26 October 2016, the Board comprises a minimum of 5 members who are elected by the Annual General Meeting. The chairman of the Board shall be elected by separate ballot. The elected directors serve for terms of 2 years. Each year minimum 2 and maximum 4 directors shall retire. The first time minimum half of the directors shall retire according to drawing lots, and the remaining directors shall retire the following year. If an elected director retires before the expiry of the election period, a new director shall be elected for the remaining period at the earliest opportunity. The directors might be re-elected.

According to section 8-5 of the Financial Undertakings Act (Norwegian: finansforetaksloven), the Board of Nordea Eiendomskreditt AS must consist of at least three directors. At least one fourth of the Board of Directors must be external members who do not hold a position as director or employee of another company within the Nordea Group. The chairman of Nordea Eiendomskreditt AS can be an employee of Nordea Bank AB (publ). The chairman of the Board of Directors of Nordea Bank AB (publ) cannot be a director of Nordea Eiendomskreditt AS without the prior approval of the Norwegian Financial Supervisory Authority.

According to Nordea's internal guidelines both genders shall be represented in the Board of Directors.

Further information on the composition of the Board of Directors is disclosed at page 59.

Personnel and working environment

At the end of 2016 Nordea Eiendomskreditt AS had 2 (2) employees. Staffing was equivalent to 1.7 (1.7) full time equivalent positions. Following the reorganisation of the company early in 2010, services related to management of the lending portfolio, customer contact, funding and risk management, accounting and reporting are purchased from other units in the Nordea Group.
As part of the Nordea Group, the company carries out an annual survey of employee satisfaction, and attaches importance to operating with a good working environment. The company's employees are members of the personal insurance and pension schemes in NBN. Both employees in the company are women, of which one holds an executive position. The Board of Directors consists of two women and four men. Due to the limited number of employees in the company, it has not been considered necessary to implement any specific measures for gender equality.

Absence due to sickness during 2016 amounted to 6.28% (4.72%). A total of 27 (18) working days were lost to sickness in 2016. No accidents or injuries were incurred by employees while at work during the preceding year.

Information on remuneration and loans to the company's employees and officers can be found in Note 4 Staff costs.

Legal proceedings

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

Subsequent events

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

Corporate Social Responsibility and environmental concerns

In 2015, Nordea launched a new proactive sustainability strategy. This work has continued during 2016 to create a stable base with firm governance, clear policies and guidelines along with a strengthened ethical business culture. Building on many years of managing the sustainability initiatives within our own operations, this new strategy aims to go further, and includes a new set of short-, mid- and long-term goals, which reflect the outcome of Nordea's materiality analysis carried out during the fall of 2016.

Commitments and policies

Nordea's core sustainability policies are found in Code of Conduct and the Nordea Sustainability Policy. The Code of Conduct is based on the ten principles of the United Nation's Global Compact, while the Nordea Sustainability Policy spells out the Nordea Group's values and commitments to ethical business. These are supported by specific policies to ensure compliance in everyday business. Examples include the human resources policies, the anti-corruption policies, and several investment and credit policies. During 2016 the Code of Conduct has been updated to better reflect the top priorities and expectations from our stakeholders, based on the result of the materiality analysis carried out during the year.

During 2016 Nordea has further increased the focus on compliance at Nordea and have a new structure in place to ensure there is a consistent approach to risk management across the various Business Areas and Group Functions. Besides the appointment of new Head of Compliance, Nordea has rolled out a "Roadmap to Compliance" programme, with training on culture, compliance and communication in all Nordic capitals, which creates conscious risk managers throughout the entire organisation. We also have a groupwide whistleblowing system in place, whereby employees can report concerns anonymously. Our Anti-Money Laundering (AML) unit gives hands-on support specifically concerning AML-related matters.

Protecting human rights

We have a responsibility to ensure our business activities do not negatively impact human rights, and to address any negative impact that may occur. We aim to mitigate the risk of any human rights violations connected to our lending and investment practices, as well as our human resources and supply chain policies and practices.

Nordea's People Agenda lays out our responsibility for ensuring that employees are treated fairly and given equal development opportunities. Our workplaces support diversity, where differences are both respected and appreciated. We seek to provide a safe, healthy and productive environment.

Environmental impact

Group Executive Management in Nordea has set long-term environmental targets to reduce our emissions, with a particular focus on energy and air travel. Nordea Eiendomskreditt's direct impact on the external environment is limited to its use of material and energy, as well as the production of services necessary for the company's business activities.

For more information about Nordea's sustainability work, see the Annual Report of Nordea Bank Norge ASA, the Annual Report of Nordea Bank AB (publ) and Nordea's Sustainability Report available on www.nordea.com/responsibility.

Outlook for 2017

We expect the interest rate level to be low also in 2017, with limited growth in the loan portfolio. Nordea Eiendomskreditt benefits from the strong position of covered bonds in the Norwegian market, and we expect a good issuance rate also in 2017. Housing prices increased by 12.8% in 2016, and the growth is expected to continue in 2017.

Oslo, 10 February 2017

John Arne Sætre Chairman	Nicklas Ilebrand Vice Chairman	Ola Littorin Board member
Marte Kopperstad Board member	Eva I. E. Jarbekk Board member	Alex Madsen Board member

Børre Sten Gundersen
Chief Executive Officer

Financial statements - contents

Notes to the financial statements

Income statement

NOKt	Note	2016	2015
Interest income on loans and deposits with financial institutions	20	3 677	6 109
Interest and related income on loans to customers		2 849 870	3 298 123
Interest and related income on debt securities		14 191	413
Other interest and related income		1	1 743
Total interest and related income		**2 867 738**	**3 306 388**
Interest expense on liabilities to financial institutions	20	134 487	206 810
Interest and related expense on securities issued		1 767 267	1 787 992
Interest expense on subordinated loan capital	20	43 051	39 276
Other interest and related expense [1]		-323 758	-314 799
Total interest and related expense		**1 621 048**	**1 719 279**
Net interest income		**1 246 690**	**1 587 109**
Fee and commission income		52 404	49 049
Fee and commission expense		3 510	5 412
Net fee and commission income		**48 894**	**43 637**
Net result from items at fair value	3, 20	**-16 116**	**-9 152**
Total operating income		**1 279 468**	**1 621 593**
Staff costs	4, 12	-60	2 774
Other operating expenses	5, 20	462 123	154 920
Total operating expenses		**462 063**	**157 694**
Profit before loan losses		**817 405**	**1 463 899**
Loan losses	6	544	33 036
Operating profit		**816 860**	**1 430 863**
Income tax expense	7	204 226	342 567
Net profit for the year		**612 635**	**1 088 296**
Attributable to:			
Shareholders of Nordea Eiendomskreditt AS		612 635	1 088 296
Total allocation		**612 635**	**1 088 296**
Basic/diluted earnings per share, NOK		39.95	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.

Statement of comprehensive income

NOKt	2016	2015
Net profit for the year	**612 635**	**1 088 296**
Items that may be reclassified subsequently to the income statement		
Cash Flow hedges:		
Valuation gains/losses during the year	-139 132	-73 955
Tax on valuation gains/losses during the year	34 783	21 200
Items that may not be reclassified subsequently to the income statement		
Defined benefit plans:		
Remeasurement of defined benefit plans	-4 721	1 064
Tax on remeasurement of defined benefit plans	1 180	-317
Other comprehensive income, net of tax	**-107 889**	**-52 007**
Total comprehensive income	**504 745**	**1 036 289**
Attributable to:		
Shareholders of Nordea Eiendomskreditt AS	504 745	1 036 289
Total	**504 745**	**1 036 289**

Oslo, 10 February 2017

John Arne Sætre
Chairman

Nicklas Ilebrand
Vice Chairman

Ola Littorin
Board member

Marte Kopperstad
Board member

Eva I. E. Jarbekk
Board member

Alex Madsen
Board member

Børre Sten Gundersen
Chief Executive Officer

Balance sheet

NOKt	Note	31 Dec 2016	31 Dec 2015
Assets			
Loans to credit institutions	20	155 900	143 720
Loans to the public	6, 8, 10, 13	105 939 338	106 432 216
Interest-bearing securities	21	5 757 776	1 498 313
Derivatives	9, 18, 20	1 613 137	6 834 690
Fair value changes of the hedged items in portfolio hedge of interest rate risk		29 036	64 358
Other assets	11	154	243 659
Accrued income and prepaid expenses	8	117 385	119 841
Total assets		**113 612 726**	**115 336 796**
Liabilities			
Deposits by credit institutions	11, 20	12 752 409	20 027 995
Debt securities in issue	11, 13, 20	84 251 822	81 628 343
Derivatives	9, 18, 20	1 794 382	273 447
Fair value changes of the hedged items in portfolio hedge of interest rate risk	10	1 047 646	1 601 519
Current tax liabilities	7	193 892	352 261
Other liabilities		2 637	2 738
Accrued expenses and prepaid income	20	1 050	2 336
Deferred tax liabilities	7	83 301	109 005
Retirement benefit obligations	12	7 540	5 194
Subordinated loan capital	20	1 200 310	783 300
Total liabilities		**101 334 989**	**104 786 139**
Equity			
Share capital	20	1 702 326	1 686 990
Share premium	20	3 731 301	1 446 637
Other reserves		-62 770	45 120
Retained earnings		6 906 880	7 371 910
Total equity		**12 277 737**	**10 550 657**
Total liabilities and equity		**113 612 726**	**115 336 796**

Note 16, 17, 19

Assets pledged as security for own liabilities	13	98 375 343	96 821 638
Contingent liabilities	14	704	869
Commitments	14	13 660 782	14 123 350

Statement of changes in equity

NOKt	Share capital [1]	Share premium	Other reserves: Cash flow hedges	Other reserves: Defined benefit plans	Retained earnings	Total equity
Balance at 1 January 2016	**1 686 990**	**1 446 637**	**46 209**	**-1 089**	**7 371 910**	**10 550 657**
Net profit for the year					612 635	612 635
Items that may be reclassified subsequently to the income statement						
Cash Flow hedges:						
Valuation gains/losses during the year			-139 132			-139 132
Tax on valuation gains/losses during the year			34 783			34 783
Items that may not be reclassified subsequently to the income statement						
Defined benefit plans:						
Remeasurement of defined benefit plans				-4 721		-4 721
Tax on remeasurement of defined benefit plans				1 180		1 180
Other comprehensive income, net of tax	0	0	-104 349	-3 540	0	-107 889
Total comprehensive income	0	0	-104 349	-3 540	612 635	504 745
Contributions and distributions						
Group contribution paid					-1 077 665	-1 077 665
Group contribution received					0	0
Increase of share capital	15 336	2 284 664				2 300 000
Balance at 31 December 2016	**1 702 326**	**3 731 301**	**-58 140**	**-4 629**	**6 906 880**	**12 277 737**

NOKt	Share capital [1]	Share premium	Other reserves: Cash flow hedges	Other reserves: Defined benefit plans	Retained earnings	Total equity
Balance at 1 January 2015	**1 686 990**	**1 446 637**	**98 963**	**-1 836**	**6 283 615**	**9 514 368**
Net profit for the year					1 088 296	1 088 296
Items that may be reclassified subsequently to the income statement						
Cash Flow hedges:						
Valuation gains/losses during the year			-73 955			-73 955
Tax on valuation gains/losses during the year			21 200			21 200
Items that may not be reclassified subsequently to the income statement						
Defined benefit plans:						
Remeasurement of defined benefit plans				1 064		1 064
Tax on remeasurement of defined benefit plans				-317		-317
Other comprehensive income, net of tax	0	0	-52 755	747	0	-52 007
Total comprehensive income	0	0	-52 755	747	1 088 296	1 036 289
Contributions and distributions						
Group contribution paid					-1 314 000	-1 314 000
Group contribution received					1 314 000	1 314 000
Balance at 31 December 2015	**1 686 990**	**1 446 637**	**46 209**	**-1 089**	**7 371 910**	**10 550 657**

[1] The company's share capital at 31 December 2016 was NOK 1.702.325.859,-. The number of shares was 15.336.269, each with a quota value of NOK 111,-. All shares were owned by Nordea Bank Norge ASA.

Cash flow statement

NOKt	2016	2015
Operating activities		
Operating profit before tax	816 860	1 430 863
Adjustments for items not included in cash flow	-6 924	29 469
Income taxes paid	-0	-20 815
Cash flow from operating activities before changes in operating assets and liabilities	**809 936**	**1 439 517**
Changes in operating assets		
Change in loans to the public	499 802	8 422 500
Change in interest-bearing securities	-4 229 237	-1 498 313
Change in derivatives, net	6 742 488	-2 191 391
Change in other assets	251 057	-125 448
Changes in operating liabilities		
Change in other liabilities	-770 930	-170 703
Cash flow from operating activities	**3 303 116**	**5 876 162**
Investing activities		
Purchase/sale of tangible fixed assets	0	0
Change in loans and receivables to credit institutions, fixed terms	0	0
Change in holdings of bearer bonds issued by others	0	0
Cash flow from investing activities	**0**	**0**
Financing activities		
Change in deposits by credit institutions	-7 282 227	2 974 185
Receipts on issue of debt securities	26 407 183	13 135 385
Payments on redemption of debt securities	-23 705 891	-21 500 498
Change in subordinated loan capital	420 000	0
Group contribution paid	-1 430 000	-1 800 000
Group contribution received	0	1 314 000
Increase in share capital and share premium	2 300 000	0
Cash flow from financing activities	**-3 290 936**	**-5 876 928**
Cash flow for the year	**12 180**	**-766**
Cash and cash equivalents at 1 January	143 720	144 486
Cash and cash equivalents at 31 December	155 900	143 720
Change	**12 180**	**-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 classifies 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

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1. Basis for presentation

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

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

On xx February 2017 the Board of Directors approved the financial statements, subject to final approval of the Annual General Meeting on 10 March 2017.

2. 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. The new accounting requirements implemented during 2016 and their effects on Nordea Eiendomskreditt's financial statements are described below.

The following new and amended standards and interpretations were implemented by Nordea 1 January 2016 but have not had any significant impact on the financial statements of Nordea Eiendomskreditt:

- Amendments to IAS 1"Disclosures Initiative"
- Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortisation"
- Annual Improvements to IFRSs, 2012-2014 Cycle

3. Changes in IFRSs not yet applied

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 hedge accounting 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. The standard is endorsed by the EU-commission. Earlier application is permitted, but Nordea Eiendomskreditt does not intend to early adopt the standard. Nordea does not either intend to restate the comparative figures for 2017 in the annual report 2018 due to IFRS 9.

Classification and measurement

The classification and measurement requirements in IFRS 9 states that financial assets should be classified as and measured at amortised cost, fair value through profit and loss or fair value through other comprehensive income. The classification of a financial instrument is dependent on the business model for the portfolio where the instrument is included and on whether the cash flows are solely payments of principal and interest (SPPI).

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

Nordea has analysed whether the cash flows from the financial assets held as of 31 December 2016 are SPPI compliant. This has been performed by grouping contracts which are homogenous from a cash flow perspective and conclusions have been drawn for all contracts within that group.

The analysis of the business model and the SPPI review described above have not resulted in any significant changes compared to how the financial instruments are measured under IAS 39. No significant impact is thus expected on Nordea Eiendomskreditt's financial position, financial performance or equity in the period of initial application. No significant impact on the capital adequacy, large exposures, risk management or alternative performance measures are expected in the period of initial application. These tentative conclusions are naturally dependent on the financial instruments on Nordea Eiendomskreditt's balance sheet at transition.

Impairment

The impairment requirements in IFRS 9 are based on an expected loss model as opposed to the current incurred loss model in IAS 39. The scope of IFRS 9 impairment requirements is also broader than IAS 39. IFRS 9 requires all assets measured at amortised cost and fair value through other comprehensive income, as well as off-balance commitments including guarantees and loan commitments, to be included in the impairment test. Currently Nordea does not calculate collective provisions for off balance sheet exposures or the financial instruments classified into the measurement category AFS.

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 increase in credit risk, stage 2 includes assets where there has been a significant increase in credit risk and stage 3 includes defaulted assets. Significant assets in stage 3 are tested for impairment on an individual basis, while for insignificant assets a collective assessment is performed. 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.

One important driver for size of provisions under IFRS 9 is the trigger for transferring an asset from stage 1 to stage 2. Nordea Eiendomskreditt has to decide what parameters to use for identifying the increase in credit risk and how much these parameters need to change in order to constitute a "significant increase". For assets held at transition, Nordea Eiendomskreditt has tentatively decided to use the change in internal rating and scoring data to determine whether there has been a significant increase in credit risk or not. For assets to be recognised going forward, changes to the lifetime Probability of Default (PD) will be used as the trigger. Nordea Eiendomskreditt has concluded it is not possible to calculate the lifetime PDs without undue cost or effort and without the use of hindsight for assets already recognised on the balance sheet at transition. For assets evaluated based on lifetime PDs, Nordea Eiendomskreditt has tentatively decided to use a mix of absolute and relative changes in PD as the transfer criterion. In addition, customers with forbearance measures and customers with payments more than thirty days past due will also be transferred to stage 2. Nordea Eiendomskreditt has not yet determined the threshold for the change in rating, scoring and PDs when assessing whether it is significant or not.

Nordea's current model for calculating collective provisions is based on a deterioration in rating/scoring, but it is not expected that the loss triggers in the current model will equal the triggering event for moving items from stage 1 to stage 2 under IFRS 9.

The provisions under IFRS 9 will be calculated as the exposure at default times the probability of default times the loss given default. For assets in stage 1 this calculation will only be based on the coming 12 months, while it for assets in stage 2 will be based on the expected lifetime of the asset.

For assets where there has been a significant increase in credit risk, Nordea Eiendomskreditt currently holds provisions based on incurred loss, while IFRS 9 will require provisions equal to the lifetime expected loss.

When calculating lifetime losses under IFRS 9, including the staging assessment, the calculation should be based on probability weighted forward looking information. Nordea Eiendomskreditt has tentatively decided to apply three macro-economic scenarios to address the non-linearity in expected credit losses. The different scenarios will be used to adjust the relevant parameters for calculating expected losses and a probability weighted average of the expected losses under each scenario will be recognised as provisions.

It is expected that the new requirements will increase loan loss provisions and decrease equity in the period of initial application. It is not expected to have any material impact on large exposures. The impact on capital adequacy is not possible to determine as it is expected the Basel committee will issue new rules for the transition to IFRS 9, but these are not yet final. It is furthermore expected that the long term effects, once the transitional rules become obsolete, will be negative on capital adequacy, as the reduction in equity is expected to reduce CET 1 capital. It is however not expected the full increase in provisions will decrease CET 1 capital as there are mitigating effects, for instance the current shortfall deduction that are expected to be reduced when provisions are calculated under IFRS 9.

Impairment calculations under IFRS 9 will require more experienced credit judgements by the reporting entities than is required by IAS 39 today and a higher subjectivity is thus introduced. The inclusion of forward looking information adds complexity and makes provisions more dependent on management's view of the future economic outlook. It is expected that the impairment calculations under IFRS 9 will be more volatile and pro-cyclical than under IAS 39, mainly due to the significant subjectivity applied in the forward looking scenarios.

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

Nordea Eiendomskreditt's tentative conclusion is to continue using the IAS 39 hedge accounting requirements also after IFRS 9 has been implemented, but that remains to be confirmed.

IFRS 15 "Revenue from Contracts with Customers"
The IASB published the new standard, IFRS 15 "Revenue from Contracts with Customers" in 2014. Clarifications to the standard were published in April 2016. 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 standard was endorsed by the EU-commission in 2016 and the clarifications are expected to be endorsed in 2017. Nordea Eiendomskreditt does not currently intend to early adopt the standard. The standard does not apply to financial instruments, insurance contracts or lease contracts. Nordea Eiendomskreditt 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 changes in IFRS
The IASB has published the following new or amended standards that are assessed to have no significant impact on Nordea Eiendomskreditt's financial statement, capital adequacy or large exposures in the period of initial application:

- Amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to IAS 7 "Disclosure Initiative"
- New standard IFRS 16 "Leases"

4. Critical judgements and estimation uncertainty

The preparation of financial statements in accordance with generally accepted accounting principles requires, in some cases, the use of judgements and estimates by management. Actual outcome can later, to some extent, differ from the estimates and the assumptions made. In this section a description is made of:

- the sources of estimation uncertainty at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year, and
- the judgements made when applying accounting policies (apart from those involving estimations) that have the most significant effect on the amounts recognised in the financial statements.

Critical judgements and estimates are in particular associated with:

- the fair value measurement of certain financial instruments (hedging portfolio)
- the impairment testing of loans to the public

Fair value measurement of certain financial instruments
Nordea Eiendomskreditt's accounting policy for determining the fair value of financial instruments is described in section 9 "Determination of fair value of financial instruments" and Note 17 Assets and liabilities at fair value.

Critical judgements that have a significant impact on the recognised amounts for financial instruments is exercised when determining fair value of OTC derivatives and other financial instruments that lack quoted prices or recently observed market prices. Those judgements relate to the following areas:

- The choice of valuation techniques.
- The determination of when quoted prices fail to represent fair value (including the judgement of whether markets are active).
- The construction of fair value adjustments in order to incorporate relevant risk factors such as credit risk, model risk and liquidity risk.
- The judgement of which market parameters that are observable.

The critical judgements required when determining fair value of financial instruments that lack quoted prices or recently observed market prices, also introduce a high degree of estimation uncertainty.

In all of these instances, decisions are based upon professional judgement in accordance with Nordea Eiendomskreditt's accounting and valuation policies. The valuation policy is governed by the Group Valuation Committee, which is chaired by the Group CFO.

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

Management is required to exercise critical judgements and estimates when calculating loan impairment allowances on both individually assessed and collectively assessed loans. For more information, see Note 8 Loans and impairment.

The most judgemental area is the calculation of collective impairment allowances. When testing a group of loans collectively for impairment, judgement has to be exercised when identifying the events and/or the observable data that indicate that losses have been incurred in the group of loans. Nordea monitors its portfolio through rating migrations, and a loss event is an event resulting in a negative rating migration. Assessing the net present value of the cash flows generated by the customers in the group contains a high degree of uncertainty. This includes the use of historical data on probability of default and loss given default, supplemented by acquired experience when adjusting the assumptions based on historical data to reflect the current situation.

5. Recognition of operating income and impairment

Net interest income
Interest income and expense are calculated and recognised based on the effective interest rate method or, if considered appropriate, based on a method that results in an interest income or interest expense that is a reasonable approximation of using the effective interest rate method as basis for the calculation. The effective interest includes fees considered to be an integral part of the effective interest rate of a financial instrument (generally fees received as compensation for risk). The effective interest rate equals the rate that discounts the contractual future cash flows to the carrying amount of the financial asset or financial liability.
Interest income and expenses from financial instruments are classified as "Net interest income".

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

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

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

This item also includes realised gains and losses from financial instruments measured at amortised cost, such as interest compensation received and realised gains/losses on buy-backs of issued own debt.
Impairment losses from instruments within other categories than "Financial assets at fair value through profit or loss" are recognised in the item "Net loan losses" (see also the sub-section "Net loan losses" below).

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

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

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

Derivative instruments, quoted securities and foreign exchange spot transactions are recognised on and derecognised (reclassified to the items "Other assets" or "Other liabilities" on the balance sheet between trade date and settlement date) from the balance sheet on the trade date. Other financial instruments are recognised in the balance sheet on settlement date.

Financial assets, other than those for which trade date accounting is applied, are derecognised from the balance sheet when the contractual rights to the cash flows from the financial asset expire or are transferred to another party. The rights to the cash flows normally expire or are transferred when the counterpart has performed by e.g. repaying a loan to Nordea Eiendomskreditt, i.e. on settlement date.

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

7. Translation of assets and liabilities denominated in foreign currencies

The functional currency for Nordea Eiendomskreditt is NOK. Foreign currency is defined as any currency other than the functional currency of the entity. Foreign currency transactions are recorded at the exchange rate on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate on the balance sheet date. Nordea Eiendomskreditt has items only in GBP and EUR in addition to Norwegian kroner. For exchange rates at 31 December 2016, see section 17 Exchange rates. Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction, and unrealised translation differences on unsettled foreign currency monetary assets and liabilities, are recognised in the income statement in the item "Net result on items at fair value".

8. Hedge accounting

Nordea Eiendomskreditt applies the EU carve out version of IAS 39 for portfolio hedges of both assets and liabilities. The EU carve out macro hedging enables a group of derivatives (or proportions thereof) to be viewed in combination and be designated as the hedging instrument. It also removes some of the limitations in fair value hedge accounting relating to hedging core deposits and under-hedging strategies. Nordea Eiendomskreditt uses hedge accounting in order to have a symmetrical accounting treatment of the changes in fair value of the hedged item and changes in fair value of the hedging instruments, as well as to hedge the exposure to variability in future cash flows.
There are three forms of hedge accounting:

- Fair value hedge accounting
- Cash flow hedge accounting
- Hedges of net investments

Fair value hedge accounting
Fair value hedge accounting is used when derivatives are hedging changes in fair value of a recognised asset or liability attributable to a specific risk. The risk of changes in fair value of assets and liabilities in Nordea Eiendomskreditt's financial statements originates from loans with a fixed interest rate, causing interest rate risk. Changes in fair value from derivatives as well as changes in fair value of the hedged item attributable to the risks being hedged, are recognised separately in the income statement in the item "Net result on items at fair value". Given an effective hedge, the two changes in fair value will more or less balance, meaning the net result will be close to zero. The changes in fair value of the hedged item attributable to the risks hedged with the derivative instrument are reflected in an adjustment to the carrying amount of the hedged item, which is also recognised in the income statement. The fair value change of the hedged items held at amortised cost in a portfolio hedge of interest rate risks is reported separately from the portfolio in the item "Fair value changes of the hedged items in portfolio hedge of interest rate risk in the balance sheet".

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

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

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

Cash flow hedge accounting
Cash flow hedge accounting can be used for the hedging of exposure to variations in future interest payments on instruments with variable interest rates and for the hedging of currency exposures. The portion of the gain or loss on the hedging instrument, that is determined to be an effective hedge, is recognised in other comprehensive income and accumulated in the cash flow hedge reserve in equity. The ineffective portion of the gain or loss on the hedging instrument is recycled to the item "Net result from items at fair value in the income statement".

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

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

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

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

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

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

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

In cash flow hedges, changes in the unrealised value of the hedging instrument will prospectively from the last time it was proven effective be accounted for in the income statement. The cumulative gain or loss on the hedging instrument, that has been recognised in the cash flow hedge reserve in equity from the period when the hedge was effective, is reclassified from equity through other comprehensive income to “Net result from items at fair value” in the income statement, if the expected transaction no longer is expected to occur. If the expected transaction no longer is highly probable, but is still expected to occur, the cumulative gain or loss on the hedging instrument that has been recognised in the cash flow hedge reserve from the period when the hedge was effective remains in the cash flow hedge reserve until the transaction occurs or is no longer expected to occur.

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

Fair value is defined as the price that at the measurement date would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants under current market conditions in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability.

The existence of published price quotations in an active market is the best evidence of fair value and when they exist, they are used to measure the fair value of financial assets and financial liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. The absolute level for liquidity and volume required for a market to be considered active vary with the instrument classes. For some classes low price volatility is seen, also for those instruments within the class where the trade frequency is high. For instruments in such a class, the liquidity requirements are lower and correspondingly, the age limit for the prices used for establishing fair value is higher.

The trade frequency and volume are monitored regularly in order to assess if markets are active or non-active.

If quoted prices for a financial instrument fail to represent actual and regularly occurring market transactions or if quoted prices are not available, fair value is established by using an appropriate valuation technique. The adequacy of the valuation technique, including an assessment of whether to use quoted prices or theoretical prices, is monitored on a regular basis.

Valuation techniques can range from simple discounted cash flow analysis to complex option pricing models. Valuation models are designed to apply observable market prices and rates as input whenever possible, but can also make use of unobservable model parameters. The adequacy of the valuation model is assessed by measuring its capability to hit market prices. This is done by comparison of calculated prices to relevant benchmark data, e.g. quoted prices from exchange, the counterparty´s valuations, price data from consensus services etc. Nordea Eiendomskreditt is using valuation techniques to establish fair value for interest bearing securities and OTC-derivatives.

For financial instruments, where fair value is estimated by a valuation technique, it is investigated whether the variables used in the valuation model are predominantly based on data from observable markets. By data from observable markets, Nordea Eiendomskreditt considers data that can be collected from generally available external sources and where this data is judged to represent realistic market prices. If non-observable data has a significant impact on the valuation, the instrument cannot be recognised initially at the fair value estimated by the valuation technique and any upfront gains are thereby deferred and amortised through the income statement over the contractual life of the instrument. The deferred upfront gains are subsequently released to income if the non-observable data becomes observable. Note 17 Assets and liabilities at fair value provides a breakdown of fair values of financial instruments measured on the basis of :

- quoted prices in active markets for the same instrument (level 1),
- valuation techniques using observable data (level 2), and
- valuation techniques using non-observable data (level 3).

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

10. Financial instruments

Classification of financial instruments

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

Financial assets:

- Financial assets at fair value through profit or loss
  - held for trading
  - derivatives used for hedging
- Loans and receivables

Financial liabilities:

- Financial liabilities at fair value through profit or loss
  - held for trading
  - derivatives used for hedging
- Other financial liabilities

All financial assets and liabilities are initially measured at fair value. The classification of financial instruments into different categories forms the basis for how each instrument is subsequently measured on the balance sheet and how changes in its value are recognised. In Note 16 Classification of financial instruments, the classification of the financial instruments in Nordea Eiendomskreditt's balance sheet into different categories is presented.

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets, with fixed or determinable payments, that are not quoted in an active market. These assets and their impairment are further described in the separate section 11 "Loans to the public/credit institutions".

Other financial liabilities

Financial liabilities, other than those classified into the category "Financial liabilities at fair value through profit or loss", are measured at amortised cost. Interest from Other financial liabilities is recognised in the item "Total interest and related expense" in the income statement.

Derivatives

All derivatives are recognised in the balance sheet and measured at fair value. Derivatives with total positive fair values, including any accrued interest, are recognised as assets in the item "Derivatives" on the asset side. Derivatives with total negative fair values, including any accrued interest, are recognised as liabilities in the item "Derivatives" on the liability side.

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

Offsetting of financial assets and liabilities

Nordea Eiendomskreditt offsets financial assets and liabilities on the balance sheet if there is a legal right to offset, in the ordinary course of business and in case of bankruptcy, and if the intent is to settle the items net or realise the asset and settle the liability simultaneously. This is generally achieved through the central counterparty clearing houses that Nordea has agreements with.

11. Loans to the public/credit institutions

Financial instruments classified as “Loans to the public/credit institutions” on the balance sheet and into the category “Loans and receivables” are measured at amortised cost (see also the separate section 6 “Recognition and derecognition of financial instruments in the balance sheet” as well as Note 16 Classification of financial instruments).

Nordea Eiendomskreditt monitors loans as described in the separate section “Risk, liquidity and capital management” in the Board of Director’s Report. Loans to individual customers or groups of customers are identified as impaired if the impairment tests indicate an objective evidence of impairment.

Impairment test of individually assessed loans
Nordea Eiendomskreditt tests significant loans for impairment on an individual basis. The purpose of the impairment tests is to find out if the loans have become impaired. As a first step in the identification process for impaired loans, Nordea Eiendomskreditt monitors whether there are indicators for impairment (loss event) and whether these loss events represent objective evidence of impairment. More information on the identification of loss events can be found in the “Risk, liquidity and capital management” section in the Board of Directors Report.

Loans that are not individually impaired will be transferred to a group of loans with similar risk characteristics for a collective impairment test.

Impairment test of collectively assessed loans
Loans not impaired on an individual basis are collectively tested for impairment.

These loans are grouped on the basis of similar credit risk characteristics that are indicative of the debtors´ ability to pay all amounts due according to the contractual terms. Nordea Eiendomskreditt monitors its portfolio through rating migrations, the credit decision and annual review process supplemented by quarterly risk reviews. Through these processes Nordea Eiendomskreditt identifies loss events indicating incurred losses in a group. A loss event is an event resulting in a deterioration of the expected future cash flows. Only loss events incurred up to the reporting date are included when performing the assessment of the group.
The objective for the group assessment process is to evaluate if there is a need to make a provision due to the fact that a loss event has occurred, which has not yet been identified on an individual basis. This period between the date when the loss event occurred and the date when it is identified on an individual basis is called “Emergence period”. The impairment remains related to the group of loans until the losses have been identified on an individual basis. The identification of the loss is made through a default of the engagement or by other indicators.

Personal customers are monitored through scoring models. These are based mostly on historical data, as default rates and loss rates given a default, and experienced judgement performed by management. Rating and scoring models are described in more detail in the separate section “Risk, liquidity and capital management” in the Board of Directors Report.

Impairment loss
If the carrying amount of the loans is higher than the sum of the net present value of estimated cash flows (discounted with the original effective interest rate), including the fair value of the collaterals, the difference is the impairment loss.

If the impairment loss is not regarded as final, the impairment loss is accounted for in an allowance account representing the accumulated impairment losses. Changes in the credit risk and accumulated impairment losses are accounted for as changes in the allowance account and as “Net loan losses” in the income statement (see also section 5 “Recognition of operating income and impairment”).

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

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

Restructured loans
In this context a restructured loan is defined as a loan where Nordea Eiendomskreditt has granted concessions to the obligor due to its deteriorated financial situation and where this concession has resulted in an impairment loss for Nordea Eiendomskreditt. After a reconstruction the loan is normally regarded as not impaired if it performs according to the new conditions. Concessions made in reconstructions are regarded as final losses

unless Nordea Eiendomskreditt retains the possibility to regain the realised loan losses incurred. In the event of a recovery the payment is reported as a recovery of realised loan losses.

Assets taken over for protection of claims
At initial recognition, all properties taken over for protection of claims are recognised at fair value and the possible difference between the carrying amount of the loan and the fair value of the property taken over is recognised as Net loan losses. In subsequent periods, properties taken over for protection of claims are measured at fair value, and any changes in fair value are recognised in the income statement under the line "Net result from items at fair value". Net loan losses in the income statement are, after the initial recognition of the asset taken over, consequently not affected by any subsequent remeasurement of the asset.

12. Taxes
The item "Income tax expense" in the income statement comprises current and deferred income tax. The income tax expense is recognised in the income statement, except to the extent that the tax effect relates to items recognised in other comprehensive income or directly in equity, in which case the tax effect is recognised in other comprehensive income or in equity respectively.

Current tax is the expected tax expense on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognised, using the balance sheet method, for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, tax loss carry forward and unused tax credits can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Current tax assets and current tax liabilities are offset when the legal right to offset exists.

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

14. Employee benefits
All forms of consideration given by Nordea Eiendomskreditt to its employees as compensation for services performed are employee benefits. Short-term benefits are to be settled within twelve months after the reporting period when the services have been performed. Post-employment benefits are benefits payable after the termination of the employment. Post-employment benefits in the company consist only of pensions.

Short-term benefits
Short-term benefits consist mainly of fixed and variable salary. Both fixed and variable salaries are expensed in the period when the employees have performed services to Nordea Eiendomskreditt. More information can be found in Note 4 Staff costs.

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

Pension costs
Obligations for defined contribution pension plans are recognised as an expense as the employee renders services to the entity and the contribution payable in exchange for that service becomes due. Nordea Eiendomskreditt's net obligation for defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned for their service in the current and prior periods. That benefit is discounted to determine its present value. Actuarial calculations including the projected unit credit method are applied to assess the present value of defined benefit obligations and related costs, based on several actuarial and financial assumptions (as disclosed in Note 12 Retirement benefit obligations).

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

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

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

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

15. Equity

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

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

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

16. Related party transactions

Nordea Eiendomskreditt defines related parties as:
- Shareholders with significant influence
- Other Nordea Group companies
- Key management personnel

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

Shareholders with significant influence
At 31 December 2016 Nordea Bank Norge ASA owned 100% of the share capital of Nordea Eiendomskreditt AS and had significant influence.

Other Nordea Group Companies
Other Nordea Group Companies means the group parent company Nordea Bank AB (publ) and its subsidiaries.

Key management personnel
Key management personnel includes the following positions:
- The Board of Directors
- The Chief Executive Officer (CEO)

For information about compensation, pensions and other transactions with key management personnel, see Note 4 Staff costs.

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

17. Exchange rates

USD 1 = NOK	**2016**	**2015**
Income statement (average)	8.4011	8.0624
Balance sheet (at end of period)	8.6200	8.8206
GBP 1 = NOK		
Income statement (average)	11.3922	12.3230
Balance sheet (at end of period)	10.6126	13.0840
EUR 1 = NOK		
Income statement (average)	9.2943	-
Balance sheet (at end of period)	9.0863	-

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	Year 2016	Year 2015
Financial instruments held for trading [1]	-3 457	7 202
Financial instruments under hedge accounting	-12 660	-16 354
- of which net gains/losses on hedged items	607 901	115 455
- of which net gains/losses on hedging instruments	-620 561	-131 809
Other financial liabilities	0	0
Total	**-16 116**	**-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

Staff costs

NOKt	2016	2015
Salaries and remunerations	1 619	1 829
Pension costs (note 12)	-1 972	585
Social security contributions	227	278
Allocation to profit-sharing [1]	9	44
Other staff costs	57	38
Total	**-60**	**2 774**

[1] Allocation to profit-sharing foundation in 2016 consisted of a new allocation of NOK 20t and release of NOK 11t related to prior years. In 2015 new allocation amounted to NOK 58t and release of NOK 14t for prior years.

Number of employees/full time positions		
Number of employees at 31 Dec (both women)	2	2
Number of full time equivalents at 31 Dec	1.7	1.7
Gender distribution of Board members (percentage at year end)		
- Men	67	80
- Women	33	20
Loans to the Chairman of the Committee of Representatives , members of the Board and Control Committee, or to companys where such persons are officers/board members	0	0

Note 4
Staff costs cont.

Explanations of individually specified remuneration in the table below.

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

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

Benefits - includes insurance and electronic communication allowance.
Pensions - includes changes in the individual's accrued rights under the pension plan during the financial year. The amount stated is the annual change in the present value of the pension obligations (PBO) exclusive of social security tax, which best reflects the change in pension rights for the financial year.

Executive management of Nordea Eiendomskreditt AS	Fixed salary and fees	Variable salary	Other benefits	Pensions	Total remunerations
Marianne Glatved, Managing director	1 045	28	20	150	1 243
Total for the executive management	**1 045**	**28**	**20**	**150**	**1 243**
Board of Directors of Nordea Eiendomskreditt AS					
Eva I. E. Jarbekk	74				74
Alex Madsen	74				74
Total for the directors of Nordea Eiendomskreditt AS	**148**	**-**	**-**	**-**	**148**
Control Committee of Nordea Eiendomskreditt AS					
Anders Ingebrigtsen, chairman	82				82
Thorleif Haug	58				58
Tom Knoff	58				58
Janicke L. Rasmussen	58				58
Total for the Control Committee of Nordea Eiendomskreditt AS	**256**	**-**	**-**	**-**	**256**
Total remuneration of executive management and elected officers of Nordea Eiendomskreditt AS	**1 449**	**28**	**20**	**150**	**1 647**

No director's fee is paid to directors who are employees of the Nordea group. The fees shown in the table are fees paid in 2016 for services provided in 2015.

Loans to employees are made from the balance sheet of Nordea Bank Norway.
The company has not entered into any agreements that entitle the Managing Director or the Chairman of the Board to spesific compensation in the event of any change in their employment or office.

Note 5
Other expenses

NOKt	2016	2015
Services bought from Group companies	457 825	150 227
- hereof related to administration of the lending portfolio	450 188	142 013
- hereof related to treasury services	6 297	6 907
- hereof related to accounting and reporting services	476	480
- hereof other costs	864	827
Consulting	3 142	3 339
Auditors' fee	506	673
Other operating expenses	650	681
Total	**462 123**	**154 920**

Auditor's fee for 2016 comprise NOK 506t incl. VAT, of which NOK 341t relates to audit work and NOK 165t relates to other services.

Note 6
Net loan losses

NOKt	2016	2015
Loan losses divided by class		
Realised loan losses	7 571	3 580
Allowances used to cover realised loan losses	-5 920	-1 566
Provisions	6 824	43 943
Reversals of previous provisions	-7 931	-12 908
Recoveries on previous realised loan losses	0	-14
Net loan losses [1]	**544**	**33 036**

[1] See also note 8 Loans and impairment

Note 7
Taxes

Income tax expense

NOKt	2016	2015
Current tax [1]	193 967	316 483
Deferred tax	10 259	26 084
Total	**204 226**	**342 567**
[1] of which relating to prior years	6	-35 777

Current and deferred tax recognised in Other comprehensive income		
Deferred tax on remeasurements of pension obligations DBP	1 180	-317
Deferred tax relating to cash flow hedges	34 783	21 200
Total	**35 963**	**20 883**

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

NOKt	2016	2015
Profit before tax	816 860	1 430 863
Tax calculated at a tax rate of 25% / 27%	204 220	386 333
Non-deductable expenses	0	0
Tax exempt income	0	-299
Change of tax rate [1]	0	-7 689
Adjustments related to prior years	6	-35 777
Total tax charge	**204 226**	**342 567**
Average effective tax rate	25.0 %	23.9 %

[1] Due to change in corporate tax rate in Norway from 27% to 25% in 2016. The corporate tax continue to stay at 25% for financial institutions also in 2017, hence the same tax rate has been used also for calculating deferred tax in the balance sheet.

Deferred tax

NOKt	2016	2015
Deferred tax expense (-) / income (+)		
Deferred tax due to temporary differences	-10 259	-26 084
Income tax expense, net	**-10 259**	**-26 084**

	Deferred tax assets		Deferred tax liabilities	
NOKt	2016	2015	2016	2015
Deferred tax assets/liabilities related to:				
Financial instruments and derivatives			-84 801	-109 754
Retirement benefit obligations	1 885	1 230		
Other			-385	-481
Netting between deferred tax assets and liabilities	-1 885	-1 230	1 885	1 230
Total deferred tax assets/liabilities	**0**	**0**	**-83 301**	**-109 005**

Movements in deferred tax assets/liabilities net, are as follows:	2016	2015
Balance at 1 January	-109 005	-138 047
Deferred tax relating to items recognised in Other comprehensive income	35 963	20 883
Adjustments relating to prior years	0	34 242
Deferred tax in the income statement	-10 259	-26 084
Balance at 31 December	-83 301	-109 005

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

Deferred tax totalling tnok 83,301 is carried in the balance sheet in full since the company expects to be able to offset this against future earnings. Nordea Eiendomskreditt had no tax losses carried forward at 31 December 2016.

Note 8
Loans and impairment

NOKt	31 Dec 2016	31 Dec 2015
Loans, not impaired	105 573 899	106 048 409
Impaired loans	434 095	459 387
- Servicing	39 693	158 611
- Non-servicing	394 402	300 776
Loans before allowances	**106 007 994**	**106 507 796**
Allowances for individually assessed impaired loans;	-28 017	-31 835
- Servicing	-2 813	-612
- Non-servicing	-25 204	-31 223
Allowances for collectively assessed impaired loans	-40 639	-43 745
Allowances	**-68 656**	**-75 580**
Loans, carrying amount	**105 939 338**	**106 432 216**

Accrued interest on loans to the public was tnok 117,267 at 31 December 2016.

Reconciliation of allowance accounts for impaired loans [2]

NOKt	Individually assessed	Collectively assessed	Total
Opening balance at 1 January 2016	**31 835**	**43 745**	**75 580**
Provisions	6 579	245	6 824
Reversals of previous provisions	-4 581	-3 350	-7 931
Changes through the income statement	**1 999**	**-3 106**	**-1 107**
Allowances used to cover realised loan losses	-5 817	0	-5 817
Closing balance at 31 December 2016	**28 017**	**40 639**	**68 656**

NOKt	Individually assessed	Collectively assessed	Total
Opening balance at 1 January 2015	**28 016**	**18 095**	**46 111**
Provisions	8 434	35 509	43 943
Reversals	-3 049	-9 859	-12 908
Changes through the income statement	**5 385**	**25 650**	**31 035**
Allowances used to cover realised loan losses	-1 566	0	-1 566
Closing balance at 31 December 2015	**31 835**	**43 745**	**75 580**

[2] See also note 6 Loan losses

Key ratios

	31 Dec 2016	31 Dec 2015
Impairment rate, gross[1], (bps)	40.9	43.1
Impairment rate, net[2], (bps)	34.5	36.0
Total allowance rate[3], (bps)	6.5	7.1
Allowance rate, individually assessed impaired loans[4] in %	6.5	6.9
Total allowances in relation to impaired loans[5], in %	15.8	16.5
Non-servicing loans, not impaired[6], in NOKt	77 298	235 574

[1] Impaired loans before allowances divided by total loans before allowances.
[2] Impaired loans after allowances divided by total loans after 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 9

Derivatives and hedge accounting

31 Dec 2016, NOKt	Fair value Positive	Fair value Negative	Total nominal amount
Derivatives held for trading: [1]			
Interest rate swaps	950	75 342	58 500 000
Total derivatives held for trading	**950**	**75 342**	**58 500 000**
Derivatives used for hedge accounting:			
Interest rate swaps	1 441 669	155 478	20 083 000
Currency and interest rate swaps	170 517	1 563 563	14 248 301
Total derivatives used for hedge accounting	**1 612 186**	**1 719 041**	**34 331 301**
- of which fair value hedges [2]	1 441 669	155 478	21 021 000
- of which cash flow hedges [2]	170 517	1 564 103	14 248 301
Total derivatives	**1 613 136**	**1 794 383**	**92 831 301**

[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.

[2] Some cross currency interest rate swaps are used both as fair value hedge and cash flow hedge and the nominal amounts are then reported in both lines.

31 Dec 2015, NOKt	Fair value Positive	Fair value Negative	Total nominal amount
Derivatives held for trading: [1]			
Interest rate swaps	31	65 361	44 500 000
Total derivatives held for trading	**31**	**65 361**	**44 500 000**
Derivatives used for hedge accounting:			
Interest rate swaps	2 062 448	208 086	29 479 610
Currency and interest rate swaps	4 772 211	0	12 262 946
Total derivatives used for hedge accounting	**6 834 659**	**208 086**	**41 742 556**
- of which fair value hedges	2 062 448	208 086	29 479 610
- of which cash flow hedges	4 772 211	0	12 262 946
Total derivatives	**6 834 690**	**273 447**	**86 242 556**

[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 10
Cover Pool

NOKt	31 Dec 2016	31 Dec 2015
Loans to the public (carrying amount)	105 939 338	106 432 216
- hereof pool of eligible loans	98 375 343	96 821 638
Supplementary assets and derivatives	0	0
Total collateralised assets	**98 375 343**	**96 821 638**
Debt securities in issue (carrying amount incl. accrued interests)	84 251 822	81 628 343
Currency valuation changes	1 295 092	-5 391 560
Debt securities in issue, valued according to regulation	**85 546 914**	**76 236 782**
Over-collateralization	15.0 %	27.0 %

Note 11
Debt securities in issue and loans from financial institutions

	31 Dec 2016			31 Dec 2015		
NOKt	Nominal value	Other [1]	Carrying amount	Nominal value	Other [1]	Carrying amount
Covered bonds issued in Norwegian kroner	87 900 000			79 005 000		
Holdings of own covered bonds in Norwegian kroner	-16 941 000			-14 921 000		
Outstanding covered bonds issued in Norwegian kroner	**70 959 000**			**64 084 000**		
Covered bonds issued in USD (in NOK)	0			8 820 610		
Covered bonds issued in GBP (in NOK)	12 066 526			8 177 500		
Covered bonds issued in EUR (in NOK)	908 630			0		
Total outstanding covered bonds	**83 934 156**	**317 666**	**84 251 821**	**81 082 110**	**546 234**	**81 628 343**
Loans and deposits from financial institutions for a fixed term	12 738 000	14 409	12 752 409	20 026 000	1 995	20 027 995
Subordinated loan	1 200 000	310	1 200 310	780 000	3 300	783 300
Total	**97 872 156**	**332 384**	**98 204 540**	**101 888 110**	**551 529**	**102 439 638**

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

Maturity information		
Maximum 1 year	24 523 300	35 503 610
More than 1 year	73 348 856	66 384 500
Total	**97 872 156**	**101 888 110**

Norwegian covered bonds (NOKt)

ISIN code	Issue date	Final payment date	Interest	Interest rate in %	Currency	Outstanding nominal amount
NO0010583941	8/19/2010	21/06/2017	Fixed	4,05	NOK	1 885 000
NO0010584345	9/2/2010	16/06/2021	Fixed	4,25	NOK	9 383 000
NO0010593064	12/22/2010	18/06/2025	Fixed	4,80	NOK	550 000
NO0010636574	2/21/2012	21/06/2017	Float	3M Nibor + 0.78%	NOK	4 594 000
NO0010647241	5/29/2012	19/06/2019	Float	3M Nibor + 0.68%	NOK	12 195 000
NO0010674971	4/19/2013	20/06/2018	Float	3M Nibor + 0.40%	NOK	10 277 000
NO0010692767	11/5/2013	19/06/2019	Fixed	3,05	NOK	2 380 000
NO0010703531	2/14/2014	17/06/2020	Float	3M Nibor + 0.38%	NOK	12 115 000
NO0010729817	1/26/2015	16/06/2021	Float	3M Nibor + 0.20%	NOK	10 455 000
NO0010741903	7/15/2015	17/06/2020	Fixed	1,75	NOK	1 000 000
NO0010758931	3/8/2016	15/06/2022	Fixed	1,80	NOK	2 335 000
NO0010759632	3/17/2016	15/06/2022	Float	3M Nibor + 0.78%	NOK	3 290 000
NO0010766827	6/21/2016	18/06/2031	Fixed	2,20	NOK	500 000
Total						**70 959 000**

Note 11

Debt securities in issue and loans from financial institutions cont.

Covered bonds issued in foreign currency (000)

ISIN code	Issue date	Final payment date	Interest	Interest rate in %	Currency	Outstanding nominal amount
XS1108787703	9/11/2014	9/11/2017	Float	3M GBP Libor + 0.19%	GBP	500 000
XS1210746134	3/30/2015	3/30/2020	Float	3M GBP Libor + 0.25%	GBP	125 000
XS1342698047	1/14/2016	1/14/2019	Float	3M GBP Libor + 0.42%	GBP	500 000
XS1487838291	9/9/2016	9/9/2021	Float	3M GBP Libor + 0.42%	GBP	12 000
XS1451306036	7/19/2016	7/15/2031	Fixed	0,74	EUR	100 000
Total (in NOKt equivalent)						**12 975 156**

Note 12

Retirement benefit obligations

NOKt	31 Dec 2016	31 Dec 2015
Defined benefit plans, net	-7 537	5 192
Total	**-7 537**	**5 192**

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

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

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

During 2016 employees in the DCP has had a contribution of 5% from 1-7.1G and 8% from 7.1-12G. From 1 January 2017 all employees that are in DCP have the following contribution rates:

- Salary representing 0-7.1 times G: 7%
- Salary representing 7.1-12 times G: 18%

In 2016 the Board of Directors of Nordea Eiendomskreditt approved of changing the pension plan for employees born after 1957, as they will be converted from DBP to DCP from 1 January 2017. The transition from a defined benefit to a defined contribution pension scheme gave a non-recurring gain of 2.2mnok in this year's financial statements.

IAS 19 Pension calculations and assumptions

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

Assumptions[1]	**2016**	**2015**
Discount rate[2]	2.65 %	2.89 %
Salary increase	2.75 %	2.75 %
Inflation	1.75 %	1.75 %
Increase in income base amount	3.00 %	3.00 %
Expected return on assets before taxes	2.65 %	2.89 %
Expected adjustments of current pensions	2.00 %	2.00 %

[1] The assumptions disclosed for 2016 have an impact on the liability calculation by year-end 2016, while the assumptions disclosed for 2015 are used for calculating the pension expense in 2016.

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

Note 12

Retirement benefit obligations cont.

Sensitivities - Impact on Pension Benefit Obligation (PBO)	**2016**	**2015**
Discount rate - Increase 50bps	-6.9%	-9.0%
Discount rate - Decrease 50bps	7.7%	10.2%
Salary increase - Increase 50bps	2.0%	5.2%
Salary increase - Decrease 50bps	-1.9%	-4.8%
Inflation - Increase 50bps	6.1%	7.2%
Inflation - Decrease 50bps	-5.6%	-6.5%
Mortality - Increase 1 year	2.6%	2.8%
Mortality - Decrease 1 year	-2.6%	-2.8%

The sensitivity analyses are prepared by changing one actuarial assumption while keeping the other assumptions unchanged. This is a simplified approach since the actuarial assumptions usually are correlated. However, it enables the reader to isolate one effect from another. The method used for calculating the impact on the obligation is the same as when calculating the obligation accounted for in the financial statements. Compared with the 2015 Annual Report there have been no changes in the methods used when preparing the sensitivity analyses.

Net retirement benefit liabilities/assets

NOKt	**2016**	**2015**
Obligations	12 879	10 054
Plan assets	5 342	4 863
Net liability (-)/asset (+)	**-7 537**	**-5 192**

Movements in the obligation

NOKt	**2016**	**2015**
Opening balance	10 054	9 554
Current service cost	290	369
Interest cost	272	239
Pensions paid	0	0
Past service cost	0	0
Settlements	0	0
Remeasurement from changes in financial assumptions	-227	0
Remeasurement from experience adjustments	3 397	-749
Plan change effect due to conversion from DBP to DCP	-2 161	0
Closing balance before social security contribution	**11 626**	**9 413**
Change in provision for social security contribution [1]	1 253	642
Closing balance	**12 879**	**10 054**

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

The average duration of the PBO is 20 years based on discounted cash flows.

Movements in the fair value of plan assets

NOKt	**2016**	**2015**
Opening balance	4 863	4 397
Interest income (calculated using the discount rate)	143	111
Pensions paid	0	0
Settlements	0	0
Contributions by employer	340	170
Remeasurement (actual return less interest income)	-4	184
Closing balance	**5 342**	**4 863**

Asset composition

The combined return on assets in 2016 was 4.3% (6.7%), main drivers were positive returns on equities and real esteate whereas souvereign bonds and other credit investments contributed little to the result. At the end of the year, the equity exposure in the foundation represented 28% (28%) of total assets.

Asset composition in funded schemes

	2016	**2015**
Equity	28 %	28 %
Bonds	55 %	55 %
Real estate	15 %	12 %
Other assets	2 %	5 %

Note 12

Retirement benefit obligations cont.

Defined benefit pension costs

The total net pension cost recognised in Nordea Eiendomskreditt's income statement (as staff costs) for 2016 is tnok -1,972 (tnok 585). The amount covers both funded and unfunded pension plans, as well as AFP premium.

Recognised in the income statement, NOKt	2016	2015
Current service cost	290	369
Net interest	129	127
Past service cost and settlements	0	0
Plan change effect due to conversion from DBP to DCP	-2 161	0
Social Security Contribution	-246	70
Pension cost on defined benefit plans	**-1 987**	**566**

Recognised in other comprehensive income, NOKt	2016	2015
Remeasurement from changes in financial assumptions	28	-1 536
Remeasurement from experience adjustments	3 844	787
Remeasurement of plan assets (actual return less interest income)	-12	-184
Social security contribution	861	-132
Pension cost on defined benefit plans	**4 721**	**-1 064**

Note 13

Assets pledged as security for own liabilities

NOKt	31 Dec 2016	31 Dec 2015
Assets pledged as security for own liabilities:		
Loans to the public	98 375 343	96 821 638
Total	**98 375 343**	**96 821 638**
The above pledges pertain to the following liability and committment items:		
Debt securities in issue (carrying amount)	83 861 199	81 159 907
Total	**83 861 199**	**81 159 907**

Assets pledged as security for own liabilities contain mortgage loans to the public that have been registered as collateral for issued covered bonds. Counterpart is the public. These transactions are long term with maturity 2-5 years.

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

Note 14

Commitments

NOKt	31 Dec 2016	31 Dec 2015
Accepted, not disbursed loans (unutilised portion of approved overdraft facilities)	13 660 782	14 123 350
Other commitments, excluding derivatives [1, 2]	704	869
Total	**13 660 782**	**14 124 219**

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

[2] For information about derivatives, see Note 9 Derivatives and hedge accounting.

Note 15
Capital adequacy

Capital adequacy is a measure of the financial strength of a bank, usually expressed as a ratio of capital to assets. There is a worldwide capital adequacy standard (Basel III) drawn up by the Basel Committee on Banking Supervision. Within the EU, the capital adequacy requirements are outlined in the Capital Requirement Directive IV (CRD IV) and Capital Requirement Regulation (CRR). In Norway, rules for capital adequacy calculations are enforced with local rules resembling CRD IV/CRR.

Over the years, amendments have been made to the first version of the capital adequacy regulation, latest during 2014. The new rules for calculating capital adequacy require higher capitalisation levels and better quality of capital, better risk coverage, the introduction of a leverage ratio as a backstop to the risk based requirement, measures to promote the build-up of capital that can be drawn in periods of stress and the introduction of liquidity standards. The CRD IV was implemented through national law within all EU countries during 2014, while the CRR entered into force in all EU countries from the first of January 2014, whereas in Norway the new rules resembling CRD IV/CRR have been continuously introduced since 1 July 2013, however, several detailed rules remains to be implemented.

The Basel III framework is built on three Pillars;

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

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

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

Nordea Eiendomskreditt's capital levels continue to be adequate to support the risks taken, both from an internal perspective as well as from the perspective of supervisors. Heading into 2017, Nordea will continue to closely follow the development of the new capital requirement regime as well as maintain its open dialogue with the supervisory authorities.

Summary of items included in own funds

NOKm	31 Dec 2016	31 Dec 2015
Calculation of own funds		
Equity	12 278	10 551
Proposed/actual dividend	0	0
Common Equity Tier 1 capital before regulatory adjustments	12 278	10 551
Deferred tax assets	0	0
Intangible assets	0	0
IRB provisions shortfall (-) [1]	-63	-61
Deduction for investments in credit institutions (50%)	0	0
Pension assets in excess of related liabilities	0	0
Other items, net	42	-46
Total regulatory adjustments to Common Equity Tier 1 capital	-21	-107
Common Equity Tier 1 capital (net after deduction)	**12 257**	**10 444**
Additional Tier 1 capital before regulatory adjustments	0	0
Total regulatory adjustments to Additional Tier 1 capital	0	0
Additional Tier 1 capital	0	0
Tier 1 capital (net after deduction)	**12 257**	**10 444**
Tier 2 capital before regulatory adjustments	1 200	780
IRB provisions excess (+)/shortfall (-) [1]	29	0
Total regulatory adjustments to Tier 2 capital	29	0
Tier 2 capital	1 229	780
Own funds (net after deduction)[2]	**13 486**	**11 224**

[1] Including profit for the period.

[2] Own funds adjusted for IRB provision, i.e. adjusted own funds equal NOK 13,521m by 31 Dec 2016.

Note 15
Capital adequacy cont.

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

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

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

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

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

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

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

Minimum capital requirement and REA, Risk Exposure Amount

NOKm	31 Dec 2016 Minimum capital requirement	31 Dec 2016 REA	31 Dec 2015 Minimum capital requirement	31 Dec 2015 REA
Credit risk	**900**	**11 247**	**1 073**	**13 415**
- of which counterparty credit risk	25	309	117	1 456
IRB	873	10 907	954	11 930
- of which corporate	0	0	0	0
- of which advanced	0	0	0	0
- of which foundation	0	0	0	0
- of which institutions	14	166	0	0
- of which retail	859	10 741	954	11 930
- of which secured by immovable property collateral	815	10 187	905	11 319
- of which other retail	44	554	49	611
- of which other	0	0	0	0

Note 15
Capital adequacy cont.

Minimum capital requirement and REA, Risk Exposure Amount

NOKm	31 Dec 2016 Minimum capital requirement	31 Dec 2016 REA	31 Dec 2015 Minimum capital requirement	31 Dec 2015 REA
Standardised	27	340	119	1 485
- of which central governments or central banks	0	0	0	0
- of which regional governments or local authorities	0	0	0	0
- of which public sector entities	0	0	0	0
- of which multilateral development banks	0	0	0	0
- of which international organisations	0	0	0	0
- of which institutions	27	340	119	1 485
- of which corporate	0	0	0	0
- of which retail	0	0	0	0
- of which secured by mortgages on immovable property	0	0	0	0
- of which in default	0	0	0	0
- of which associated with particularly high risk	0	0	0	0
- of which covered bonds	0	0	0	0
- of which institutions and corporates with a short-term credit assessment	0	0	0	0
- of which collective investments undertakings (CIU)	0	0	0	0
- of which equity	0	0	0	0
- of which other items	0	0	0	0
Credit Value Adjustment Risk				
Market risk				
- of which trading book, Internal Approach	0	0	0	0
- of which trading book, Standardised Approach	0	0	0	0
- of which banking book, Standardised Approach	0	0	0	0
Operational risk	**238**	**2 977**	**220**	**2 747**
Standardised	238	2 977	220	2 747
Additional risk exposure amount due to Article 3 CRR	5	63	11	135
Sub total	**1 143**	**14 287**	**1 304**	**16 297**
Adjustment for Basel I floor				
Additional capital requirement according to Basel I floor[1]	2 674	33 420	2 573	32 172
Total	**3 817**	**47 707**	**3 877**	**48 469**

[1] Norwegian regulatory requirement as reported under the Basel II regulation framework

Capital adequacy ratios

	31 Dec 2016[1]	31 Dec 2015[1]
Excl. Basel I floor		
CET1 capital ratio (%)	85.8	64.1
Tier 1 capital ratio (%)	85.8	64.1
Total capital ratio (%)	94.4	68.9
Capital adequacy quotient (own funds divided by capital requirement)	11.8	8.6
Incl. Basel I floor		
CET1 capital ratio (%)	25.7	21.5
Tier 1 capital ratio (%)	25.7	21.5
Total capital ratio (%)	28.3	23.2
Capital adequacy quotient (own funds divided by capital requirement)	3.5	2.9

[1] Including profit for the period.

Note 15
Capital adequacy cont.

Analysis of Capital Requirements

Exposure class	**Average risk weight (%)**	**Capital requirement 1**
Corporate IRB	0	0
Institutions IRB	5	13
Retail IRB	10	859
Sovereigh	0	0
Other	20	27
Total credit risk	**10**	**900**

[1] 8% minimum capital requirement, NOKm

Leverage ratio	**31 Dec 2016**	**31 Dec 2015**
Tier 1 capital, transitional definition, NOKm[1]	12 257	10 444
Leverage ratio exposure, NOKm	120 378	130 142
Leverage ratio, percentage	10,2	8,0

[1] Including profit for the period.

[2] Leverage ratio as per 31 Dec 2016 is xalculated according to Delegated Act.

Note 16
Classification of financial instruments

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

31 December 2016

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					
Cash and balances with sentral banks	155 900				155 900
Loans to credit institutions	105 939 338				105 939 338
Loans to the public					0
Interest-bearing securities		5 757 776			5 757 776
Derivatives		950	1 612 186		1 613 137
Fair value changes of the hedged items in portfolio hedge of interest rate risk	29 036				29 036
Other assets				154	154
Prepaid expenses and accrued income	117 385				117 385
Total assets	**106 241 659**	**5 758 726**	**1 612 186**	**154**	**113 612 726**

	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			12 752 409		12 752 409
Debt securities in issue			84 251 822		84 251 822
Derivatives	75 342	1 719 041			1 794 382
Fair value changes of the hedged items in portfolio hedge of interest rate risk			1 047 646		1 047 646
Current tax liabilities				193 892	193 892
Other liabilities				2 637	2 637
Accrued expenses and prepaid income			253	797	1 050
Deferred tax				83 301	83 301
Retirement benefit obligations				7 540	7 540
Subordinated loan capital			1 200 310		1 200 310
Total liabilities	**75 342**	**1 719 041**	**99 252 440**	**288 167**	**101 334 989**

[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 16

Classification of financial instruments cont.

31 December 2015

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	143 720				143 720
Loans to the public	106 432 216				106 432 216
Interest-bearing securities		1 498 313			1 498 313
Derivatives			6 834 690		6 834 690
Fair value changes of the hedged items in portfolio hedge of interest rate risk	64 358				64 358
Other assets	243 659				243 659
Prepaid expenses and accrued income	119 841				119 841
Total assets	**107 003 794**	**1 498 313**	**6 834 690**	**0**	**115 336 796**

	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			20 027 995		20 027 995
Debt securities in issue			81 628 343		81 628 343
Derivatives	65 331	208 116			273 447
Fair value changes of the hedged items in portfolio hedge of interest rate risk			1 601 519		1 601 519
Current tax liabilities				352 261	352 261
Other liabilities				2 738	2 738
Accrued expenses and prepaid income			721	1 615	2 336
Deferred tax				109 005	109 005
Retirement benefit obligations				5 194	5 194
Subordinated loan capital			783 300		783 300
Total liabilities	**65 331**	**208 116**	**104 041 878**	**470 813**	**104 786 139**

[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 17

Assets and liabilities at fair value

	31 Dec 2016		31 Dec 2015	
NOKt	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans	106 124 274	105 039 386	106 640 294	110 883 566
Interest-bearing securities	5 757 776	5 757 776	1 498 313	1 498 313
Derivatives	1 613 137	1 613 137	6 834 690	6 834 690
Other financial assets	0	0	243 659	243 659
Prepaid expenses and accrued income	117 385	117 385	119 841	119 841
Total financial assets	**113 612 572**	**112 527 684**	**115 336 796**	**119 580 069**
Financial liabilities				
Deposits and debt instruments	99 252 186	99 822 748	104 041 157	103 954 314
Derivatives	1 794 382	1 794 382	273 447	273 447
Other financial liabilities	253	253	0	0
Accrued expenses and prepaid income	0	0	0	0
Total financial liabilities	**101 046 822**	**101 617 383**	**104 314 604**	**104 227 761**

Note 17
Assets and liabilities at fair value cont.

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

Assets and liabilities at fair value on the balance sheet

Categorisation into the fair value hierarchy

31 Dec 2016, NOKt	Quoted prices in active markets for the same instrument (Level 1)	Valuation technique using observable data (Level 2)	Valuation technique using non-observable data (Level 3)	Total
Assets at fair value on the balance sheet [1]				
Interest-bearing securities		5 757 776		5 757 776
Derivatives		1 613 137		1 613 137
Total assets	**0**	**7 370 913**	**0**	**7 370 913**
Liabilities at fair value on the balance sheet [1]				
Derivatives		1 794 382		1 794 382
Total liabilities	**0**	**1 794 382**	**0**	**1 794 382**

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

31 Dec 2015, NOKt	Quoted prices in active markets for the same instrument (Level 1)	Valuation technique using observable data (Level 2)	Valuation technique using non-observable data (Level 3)	Total
Assets at fair value on the balance sheet [1]				
Interest-bearing securities		1 498 313		1 498 313
Derivatives		6 834 690		6 834 690
Total assets	**0**	**8 333 003**	**0**	**8 333 003**
Liabilities at fair value on the balance sheet [1]				
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 period.

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

Level 1 in the fair value hierarchy consists of assets and liabilities valued using unadjusted quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an on-going basis. Nordea Eiendomskreditt AS has no financial assets or financial liabilities measured according to level 1.

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

Level 3 in the fair value hierarchy consists of those types of assets and liabilities which fair values cannot be obtained directly from quoted market prices or indirectly using valuation techniques or models supported by observable market prices or rates. Nordea Eiendomskreditt AS has no financial assets or financial liabilities measured according to level 3.

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

Note 17
Assets and liabilities at fair value cont.

For interest-bearing securities the categorisation into the three levels are based on the internal pricing methodology. These instruments can either be directly quoted in active markets (Level 1) or measured using a methodology giving a quote based on observable inputs (Level 2). Level 3 bonds are characterised by illiquidity.

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

Fair value of financial assets and liabilities are generally calculated as the theoretical net present value of the individual instruments, based on independently sourced market parameters as described above, and assuming no risks and uncertainties. This calculation is supplemented by a portfolio adjustment.

Nordea Eiendomskreditt incorporates credit valuation adjustments (CVA) and debit valuation adjustments (DVA) into derivative valuations. CVA and DVA reflect the impact on fair value of the counterparty´s credit risk and Nordea Eiendomskreditt's own credit quality, respectively. Calculations are based on estimates of exposure at default, probability of default and recovery rates, on a counterparty basis.

Generally, exposure at default for CVA and DVA is based on expected exposure and estimated through the simulation of underlying risk factors. Where possible, probabilities of defaults (PDs) and recovery rates are sourced from the CDS markets. For counterparties where this information is not directly available, PDs and recovery rates are estimated using a cross sectional approach where the illiquid counterparties are mapped to comparable liquid CDS names.

Another important part of the portfolio adjustment serves to adjust the net open market risk exposures from mid-prices to ask or bid prices (depending on the net position). For different risk categories, exposures are aggregated and netted according to internal guidelines and aggregated market price information on bid-ask spreads are applied in the calculation. Spreads are updated on a regular basis.

Transfers between Level 1 and 2

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

The valuation processes for fair value measurements in Level 3

Financial instruments

Nordea has an independent valuation control unit, Group Valuation Control (GVC) established as part of the CFO organistaion. GVC has the responsibility of setting the Nordea valuation framework as well as overseeing and independently assessing valuations of financial instruments held at fair value on Nordea´s balance sheet. GVC issues the Nordea Group Valuation Policy, which is approved by the Group Valuation Committee. The Group Valuation Committee is chaired by the Group CFO. It governs valuation matters and also serves as escalation point for valuation issues.

The valuation control process in Nordea consists of several steps. The first step is to determine the end of day (EOD) marking of mid-prices. It is the responsibility of the business areas to determine correct prices used for the valuation process. These prices are either internally marked prices set by a trading unit or externally sourced prices. The valuation prices and valuation approaches are then controlled and tested by independent control units. The cornerstone in the control process is the independent price verification (IPV). The IPV test comprises verification of the correctness of valuations by using independently sourced data that best reflects the market. Finally the results of valuation testing and valuations are analysed and any findings are escalated with the Group Valuation Committee as decision making body.

The verification of the correctness of prices and other parameters is for most products carried out daily. Third-party information, such as broker quotes and pricing services, is used as benchmark data in the verification. The quality of the benchmark data is assessed on a regular basis. This quality assessment is used in the measurement of the valuation uncertainty.

The valuation adjustment at portfolio level and the deferrals of day 1 P/L on Level 3 trades are calculated and reported on a monthly basis. The actual assessment of instruments in the fair value hierarchy is performed on a continous basis.

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

31 Dec 2016, NOKt	Carrying amount	Fair value	Level in fair value hierarchy	Level in fair value hierarchy
Assets not held at fair value on the balance sheet				
Loans	106 124 274	105 039 386	3	3
Other financial assets	154	154	3	3
Prepaid expenses and accrued income	117 385	117 385	3	3
Total assets	**106 241 813**	**105 156 925**		
Liabilities not held at fair value on the balance sheet				
Deposits and debt instruments	99 252 186	99 822 748	3	3
Other financial liabilities	0	0	3	3
Accrued expenses and prepaid income	0	0	3	3
Total liabilities	**99 252 186**	**99 822 748**		

Note 17
Assets and liabilities at fair value cont.

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

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

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

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

Note 18
Financial instruments set off on balance or subject to netting agreements

				Amounts not set off but subject to master netting agreements and similar agreements			
31 December 2016, NOKt	Gross recognised financial assets[1]	Gross recognised financial liabilities set off on the balance sheet	Net carrying amount on the balance sheet	Financial instruments	Financial collateral received	Cash collateral received	Net amount
Assets							
Derivatives	1 613 137		1 613 137	-451 835			1 161 302
Reverse repurchase agreements			0				0
Securities borrowing agreements			0				0
Total	**1 613 137**	**0**	**1 613 137**	**-451 835**	**0**	**0**	**1 161 302**

				Amounts not set off but subject to master netting agreements and similar agreements			
31 December 2016, NOKt	Gross recognised financial liabilities[1]	Gross recognised financial assets set off on the balance sheet	Net carrying amount on the balance sheet	Financial instruments	Financial collateral pledged	Cash collateral pledged	Net amount
Liabilities							
Derivatives	1 794 382		1 794 382	-451 835			1 342 547
Repurchase agreements			0				0
Securities lending agreements			0				0
Total	**1 794 382**	**0**	**1 794 382**	**-451 835**	**0**	**0**	**1 342 547**

[1] All amounts are measured at fair value.

Note 18

Financial instruments set off on balance or subject to netting agreements cont.

31 December 2015, NOKt	Gross recognised financial assets[1]	Gross recognised financial liabilities set off on the balance sheet	Net carrying amount on the balance sheet	Amounts not set off but subject to master netting agreements and similar agreements			Net amount
				Financial instruments	Financial collateral received	Cash collateral received	
Assets							
Derivatives	6 834 690		6 834 690	-273 447			6 561 242
Reverse repurchase agreements			0				0
Securities borrowing agreements			0				0
Total	**6 834 690**	**0**	**6 834 690**	**-273 447**	**0**	**0**	**6 561 242**

31 December 2015, NOKt	Gross recognised financial liabilities[1]	Gross recognised financial assets set off on the balance sheet	Net carrying amount on the balance sheet	Amounts not set off but subject to master netting agreements and similar agreements			Net amount
				Financial instruments	Financial collateral pledged	Cash collateral pledged	
Liabilities							
Derivatives	273 447		273 447	-273 447			0
Repurchase agreements			0				0
Securities lending agreements			0				0
Total	**273 447**	**0**	**273 447**	**-273 447**	**0**	**0**	**0**

[1] All amounts are measured at fair value.

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

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

Note 19

Maturity analysis for assets and liabilities

Contractual undiscounted cash flows

31 Dec 2016, NOKt

	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Total
Interest-bearing financial assets	155 900	3 646 721	6 350 590	36 677 528	85 402 592	132 233 331
Non interest-bearing financial assets					146 575	146 575
Non-financial assets					0	0
Total assets	**155 900**	**3 646 721**	**6 350 590**	**36 677 528**	**85 549 167**	**132 379 906**
Interest-bearing financial liabilities		4 016 607	22 075 018	69 899 967	7 955 381	103 946 973
Non interest-bearing financial liabilities					1 047 646	1 047 646
Non-financial liabilities and equity					12 566 158	12 566 158
Total liabilities and equity	**0**	**4 016 607**	**22 075 018**	**69 899 967**	**21 569 184**	**117 560 776**
Derivatives, cash inflow		186 030	6 441 362	9 969 639	1 236 287	17 833 319
Derivatives, cash outflow		324 710	5 914 190	10 419 193	1 239 837	17 897 931
Net exposure		**-138 680**	**527 172**	**-449 554**	**-3 550**	**-64 612**
Exposure	**155 900**	**-508 565**	**-15 197 256**	**-33 671 994**	**63 976 432**	**14 754 517**
Cumulative exposure	**155 900**	**-352 665**	**-15 549 921**	**-49 221 915**	**14 754 517**	

The table is based on contractual maturities for on balance sheet financial instruments. For derivatives, the expected cash inflows and outflows are disclosed for both derivative assets and derivative liabilities, as derivatives are managed on a net basis. In addition to the on balance sheet and derivative instruments, Nordea Eiendomskreditt has credit commitments amounting to tnok 13,660,782, which could be drawn on at any time.

31 Dec 2015, NOKt

	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Total
Interest-bearing financial assets	343 880	3 030 750	5 669 530	33 913 274	88 937 075	131 894 509
Non interest-bearing financial assets					7 262 548	7 262 548
Non-financial assets					0	0
Total assets	**343 880**	**3 030 750**	**5 669 530**	**33 913 274**	**96 199 623**	**139 157 057**
Interest-bearing financial liabilities		20 363 736	16 809 705	54 352 474	16 665 883	108 191 798
Non interest-bearing financial liabilities					1 875 688	1 875 688
Non-financial liabilities and equity					11 021 470	11 021 470
Total liabilities and equity	**0**	**20 363 736**	**16 809 705**	**54 352 474**	**29 563 041**	**121 088 956**
Derivatives, cash inflow		276 476	10 082 620	11 048 637	534 651	21 942 385
Derivatives, cash outflow		323 755	6 388 692	8 450 394	147 963	15 310 805
Net exposure		**-47 279**	**3 693 928**	**2 598 243**	**386 688**	**6 631 580**
Exposure	**343 880**	**-17 380 265**	**-7 446 247**	**-17 840 957**	**67 023 270**	**24 699 681**
Cumulative exposure	**343 880**	**-17 036 385**	**-24 482 632**	**-42 323 589**	**24 699 681**	

The table is based on contractual maturities for on balance sheet financial instruments. For derivatives, the expected cash inflows and outflows are disclosed for both derivative assets and derivative liabilities, as derivatives are managed on a net basis. In addition to the on balance sheet and derivative instruments, Nordea Eiendomskreditt has credit commitments amounting to tnok 14,123,350, which could be drawn on at any time.

Note 20

Related-party transactions

NOKt	2016			2015		
	Nordea Bank Norge ASA	Nordea Bank AB	Nordea Bank Finland Plc.	Nordea Bank Norge ASA	Nordea Bank AB	Nordea Bank Finland Plc.
Profit and loss account						
Interest income on loans with financial institutions	3 677			6 109		
Total income	3 677	-	-	6 109	-	-
Interest expenses on liabilities to financial institutions	134 487			206 807		
Interest and related expense on securities issued incl. hedging	-373 468	45 397		-313 291		
Net gains/losses on items at fair value	525 186	98 458		124 926		
Interest and related expense on subordinated loan capital	43 051			39 276		
Commission and fee expense for banking services	23			22		
Other operating expenses	455 910	1 159	381	148 413	1 208	248
Total expenses	785 189	145 013	381	206 153	1 208	248
Balance sheet						
Loans and receivables to credit institutions	156 057			143 720		
Derivatives	1 613 137			6 834 690		
Total assets	1 769 193	-	-	6 978 409	-	-
Deposits by credit institutions	12 738 000			20 026 000		
Issued bonds	-		553 628	-		357 614
Derivatives	431 381	1 363 001		273 447		
Accrued expenses and prepaid income	7 578			3 929		
Subordinated loan capital	1 200 000			780 000		
Share capital and share premium	5 433 627			3 133 627		
Total libilities and equity	19 810 586	1 363 001	553 628	24 217 003	-	357 614
Off balance sheet items						
Interest rate swaps (nominal value)	85 215 875	6 342 281		90 977 722		

In addition to the transactions recognised above, Nordea Eiendomskreditt AS also purchases loans to the public, which constitute Nordea Eiendomskreditt's cover pool, 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. In 2016, loans amounting to NOK 37.5 billion have been transferred from Nordea Bank Norge ASA to Nordea Eiendomskreditt AS.

Nordea Eiendomskreditt AS is a wholly owned subsidiary of Nordea Bank Norge ASA, which again is a wholly owned subsidiary of Nordea Bank AB. Transactions between Nordea Eiendomskreditt AS and other legal entities in the Nordea Group are performed according to market based principles in conformity with OECD requirements on transfer pricing.

Note 21

Interest-bearing securities

	31 Dec 2016		31 Dec 2015	
NOKt	Aquired amount	Carrying amount	Aquired amount	Carrying amount
Financial assets				
State and sovereigns	2 418 255	2 434 882	1 498 025	1 498 313
Mortgage institutions	3 317 220	3 322 894	0	0
Total	**5 735 475**	**5 757 776**	**1 498 025**	**1 498 313**

Note 22
Credit risk disclosures

Credit risk management and credit risk analysis is described in the Risk, Liquidity and Capital management section of the Board of Directors´ Report. Additional information on credit risk is also disclosed in the Capital and Risk Management Report (Pillar III) 2016, which is available on www.nordea.com. Much of the information in this note is collected from the Pillar III report in order to fulfil the disclosure requirement regarding credit risk in the Annual Report.

The Pillar III report contains the disclosures required by the Capital Requirements Regulation (CRR). The Pillar III disclosure is aligned to how Nordea manages credit risk and is believed to be the best way to explain the credit risk exposures in Nordea. Credit risk exposures occur in different forms and are divided into the following types:

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

The figures in the table represents maximum exposure for credit risk in the company.

Credit risk exposures for loans and derivatives

NOKm	31 Dec 2016	31 Dec 2015
Loans to credit institutions	156	144
Interest-bearing securities	5 758	1 498
Loans to the public incl accrued interest	106 057	106 552
- of which household	106 057	106 552
Total loans and receivables	**111 970**	**108 194**
Off balance credit exposure		
- of which lending to the public	13 661	14 123
- of which derivatives	1 161	6 561
Off balance credit exposure	**14 822**	**20 685**
Exposure At Default (EAD)	**126 792**	**128 879**

Loan-to-value distribution

NOKm	31 Dec 2016	31 Dec 2015
<50%	87.2 %	84.7 %
50-70%	9.5 %	11.3 %
70-80%	1.6 %	2.1 %
80-90%	0.8 %	0.9 %
>90%	0.9 %	0.9 %
Total	**100 %**	**100 %**

Past due loans excluding impaired loans

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

NOKm	31 Dec 2016	31 Dec 2015
6-30 days	1 532	948
31-60 days	168	141
61-90 days	58	45
>90 days	209	239
Total	**1 968**	**1 373**
Past due not impaired loans divided by loans to the public after allowances	2%	1%

In the Annual Report for 2015 past due loans were disclosed exclusive of non-performing loans, and the 2015 figures above have been restated according to new disclosure where impaired loans are excluded.

Interest-bearing securities
For more information about credit risk related to interest-bearing securities, see Note 21 where the carrying amount of interest-bearing securities is split on different types of counterparties.

Note 23

Scoring distribution of the lending portfolio

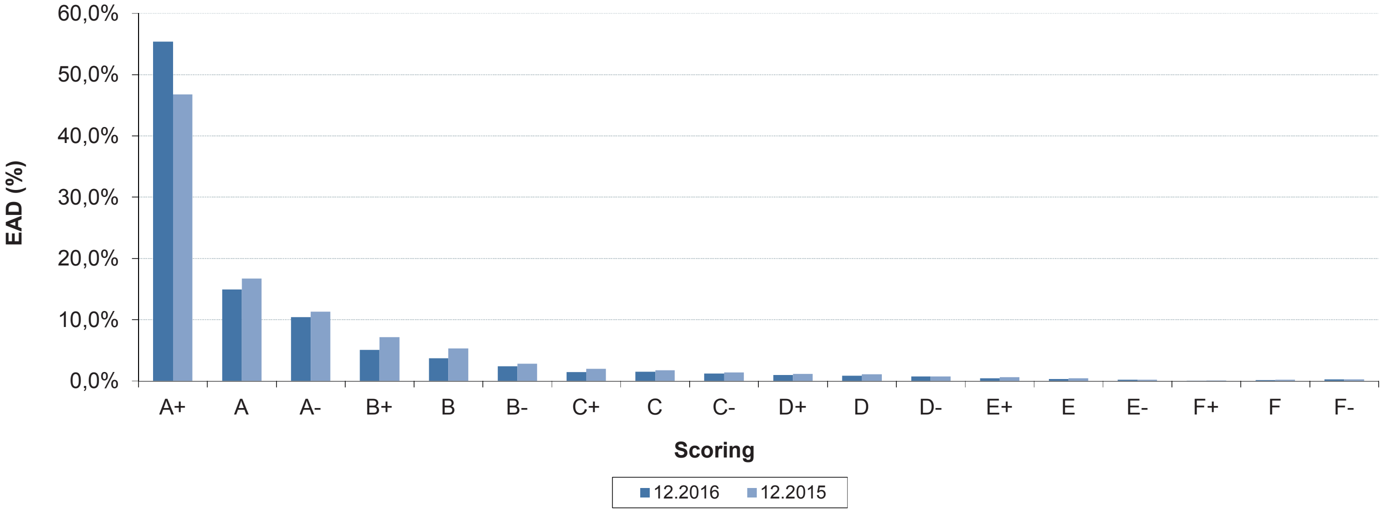
Scoring models are pure statistical methods to predict the probability of customer default. The models are used in the household segment as well as for small corporate customers. Bespoke behavioural scoring models, developed on internal data, are used to support the credit approval process in Nordea Bank Norge. This is also valid for loans in Nordea Eiendomskreditt's lending portfolio.

As a supplement to the behavioural scoring models also bureau information is used in the credit process. The internal behaviour scoring models are used to identify the PD (Probability of Default), in order to calculate the economic capital and REA (Risk Exposure Amount) for customers.

The scoring model is validated annually. According to the model, performing customers are allocated into one of 18 categories, with customers in category A+ representing the best ability to service the debt.

31 Dec 2016

Risk grade distribution, Exposure at Default



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To the General Meeting of Nordea Eiendomskreditt AS

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Nordea Eiendomskreditt AS which comprise the balance sheet as at 31 December 2016, income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the Key Audit Matter
Loan to customers	
(We also refer to note 6, 8, 10 and 13.) The mortgage company has loans to private individuals amounting to NOKt 105 939 338 secured by real estate and has issued covered bonds. Processes and controls have been established to ensure that the company complies with the	In order to comply with the requirements in the regulations applicable to covered bonds, the mortgage company has established controls in the process of granting and transferring loans. These controls ensure the mortgage company has reviewed the applications for loans and associated documentation. The process includes formal controls and division of

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

The value of the collateral at any time shall be above 75 % of the loan value and for vacation property, above 60 % of the loan value. The company has realized only limited losses on loans in 2016. As the requirements and the processes and controls are of fundamental importance for the mortgage company's operations and compliance with the regulations, we have focused our attention on this subject.

responsibilities, which are directed at ensuring that the process has been carried out prior to granting or transfer of loans from the parent bank to the mortgage company.

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

Our testing substantiated that the mortgage company's investigation and processes support that the regulations in this area are complied with.

IT systems supporting processes over financial reporting

The mortgage company's financial accounting and reporting processes are dependent on complex systems and there is a risk that automated accounting procedures and related IT dependent manual controls are not designed and operating effectively. This can lead to uncertainty related to ongoing IT operations and risk of misstatements in the financial reporting. A particular area of focus for our audit procedures related to change management controls and logical access controls.

We place reliance on IT general controls for the applications, systems and related platforms that support the mortgage company's accounting and financial reporting.

For relevant IT systems and controls relating to financial reporting we assessed and tested the design and operating effectiveness.

We examined the framework of governance over the bank's IT organisation and the controls over program development and changes, access to programs and data and IT operations.

- For logical access to programs and data, audit activities included testing that new access, removal of access rights and that access rights were periodically monitored for appropriateness.
- Other areas tested included security configurations, controls over changes to IT-systems including appropriate segregation of duties.

Additional substantive testing procedures have been performed due to deviations in certain IT controls

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within change management controls and logical access controls.

The combination of our test of IT controls and substantive testing performed gave us sufficient evidence to enable us to rely on the operation of the bank's IT systems that were relevant for financial reporting.

Other information

Management is responsible for the other information. The other information comprises the Board of Directors' report, statements on Corporate Governance and Corporate Social Responsibility, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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

The Board of Directors and the Managing Director (management) are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it

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exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, included International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

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

Opinion on Registration and Documentation

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

Bergen, 10 February 2017
PricewaterhouseCoopers AS

Marius Kaland Olsen
State Authorised Public Accountant

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

The Chief Executive Officer and the Board of Directors have today considered and approved the Board of Director's Report and the annual accounts of Nordea Eiendomskreditt AS for 2016, including comparative figures for 2015 (the "2016 Annual Report").

The Annual Report has been prepared in accordance with IFRS as adopted by the EU, and additional Norwegian disclosure requirements pursuant to the Accounting Act, the Regulations for Annual Accounts and the Securities Trading Act. According to our best knowledge, the 2016 Annual Report has been prepared in accordance with the applicable accounting standards and gives a true and fair view of the company's assets, liabilities and net profit as of 31 December 2016 and as of 31 December 2015.

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

Oslo, 10 February 2017

John Arne Sætre
Chairman

Nicklas Ilebrand
Vice Chairman

Ola Littorin
Board member

Marte Kopperstad
Board member

Eva I. E. Jarbekk
Board member

Alex Madsen
Board member

Børre Sten Gundersen
Chief Executive Officer

Board of Directors of Nordea Eiendomskreditt at 31 December 2016

Board of Directors

Members	**Title**	**Board member since**
John Arne Sætre, Chairman	Head of Personal Banking Nordea Norway	2016
Nicklas Ilebrand, Vice Chairman	Head of Personal Banking Products, Nordea Bank AB	2016
Ola Littorin	Head of Long Term Funding in Group Treasury, Nordea Bank AB	2013
Marte Kopperstad	Head of Personal Banking Segments and Strategy, Nordea Norway	2016
Eva I. E. Jarbekk	Lawyer and partner, Advokatfirmaet Føyen Torkildsen	2010
Alex Madsen	Partner, Sjølyst Regnskap ANS	2014

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