Nordea

Annual Report 2017

Nordea Eiendomskreditt AS

Contents

Nordea Eiendomskreditt AS is part of the Nordea Group. Nordea build strong and close relationships through our engagement with customers and society. Whenever people strive to reach their goals and realize their dreams, we are there to provide relevant financial solutions. We are the largest bank in the Nordic region and among the ten largest financial groups in Europe in terms of total market capitalization with around 11 million customers. The Nordea share is listed on the Nasdaq Stockholm, Nasdaq Helsinki and Nasdaq Copenhagen exchanges.

Read more about us on Nordea.com.

Key financial figures - Five year overview

Summary of income statements (NOKm)

	2017	2016	2015	2014	2013
Net interest income	1 576	1 247	1 587	2 059	2 059
Net result from items at fair value	-2	-16	-9	-23	24
Other operating income	42	49	44	47	50
Total operating income	**1 616**	**1 279**	**1 622**	**2 083**	**2 133**
Staff costs	17	-0	-3	-3	-2
Other expenses	396	462	-155	-155	-153
Total operating expenses	**414**	**462**	**-158**	**-158**	**-155**
Loan losses (negative figures are reversals)	27	1	33	14	10
Operating profit	**1 175**	**817**	**1 431**	**1 911**	**1 969**
Income tax expense	294	204	343	553	545
Net profit for the period	**881**	**613**	**1 088**	**1 359**	**1 423**

Summary of balance sheet (NOKm)

	2017	2016	2015	2014	2013
Loans to the public	135 511	106 008	106 508	114 930	116 542
Allowance for loan losses	-89	-69	-76	-46	-40
Other assets	7 111	7 673	8 905	5 181	2 890
Debt securities in issue	77 731	84 252	81 160	89 982	87 830
Other liabilities	51 635	17 083	23 626	20 569	23 536
Equity	13 167	12 278	10 551	9 514	8 026
Total assets	**142 533**	**113 613**	**115 337**	**120 065**	**119 392**
Average total assets	131 021	119 682	111 789	117 087	121 950

Ratios and key figures

	2017	2016	2015	2014	2013
Basic/diluted Earnings per share (EPS), annualised basis, NOK	57,5	39,9	71,0	88,6	92,8
Equity per share[1], NOK	858,5	800,6	688,0	620,4	523,4
Shares outstanding[1], million	15,3	15,3	15,3	15,3	15,3
Post-tax return on average equity	6,9 %	6,0 %	10,8 %	15,4 %	19,5 %
Cost/income ratio	25,6 %	36,1 %	9,7 %	7,6 %	7,3 %
Loan loss ratio, annualised, basis points	2,2	0,1	3,1	1,2	0,8
Common Equity Tier[1] capital ratio, excl. Basel I floor[1,2]	83,5 %	85,8 %	64,1 %	60,5 %	71,8 %
Tier 1 capital ratio, excl. Basel I floor1[,2]	83,5 %	85,8 %	64,1 %	60,5 %	71,8 %
Total capital ratio, excl. Basel I floor[1,2]	91,6 %	94,4 %	68,9 %	65,5 %	78,5 %
Common Equity Tier 1 capital ratio, incl. Basel I floor[1,2]	21,2 %	25,7 %	21,5 %	17,9 %	15,1 %
Tier 1 capital ratio, incl. Basel I floor[1,2]	21,2 %	25,7 %	21,5 %	17,9 %	15,1 %
Total capital ratio, incl. Basel I floor[1,2]	23,2 %	28,3 %	23,2 %	19,4 %	16,5 %
Own funds, NOKm[1,2]	13 923	13 486	11 224	10 126	8 785
Risk Exposure Amount incl. Basel I floor1, NOKm	59 927	47 707	48 469	52 281	53 110

[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. 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 Nordea Bank AB (publ) (NBAB).

Change of domicile

On 6 September 2017, the Board of Directors of the parent bank Nordea Bank AB (publ) initiated a process to re-domicile the parent company from Sweden to Finland. The decision is subject to approval from the shareholders at the Annual General Meeting 2018 and is also conditional upon receiving the requisite regulatory approvals. A re-domicilation is planned to have effect from tentatively 1 October 2018. The change of domicile is not expected to have any direct effect on Nordea Eiendomskreditt AS.

Comments on the Income statement

Income

Total operating income was NOK 1,616m (compared to NOK 1,279m in 2016) which gives an increase of 26%, mainly driven by higher Net interest income.

Net interest income was NOK 1,576m in 2017 (NOK 1,247m in 2016). The increase is due to higher loan volume and higher lending margins in 2017 compared to 2016. Average lending volume was 9.8% higher in 2017 compared to 2016.

Net fee and commission income was positively affected by an increase in lending related commission income, but also commission expense increased due to a new Liquidity Transfer and Support agreement with the parent bank. Net fee and commission income ended at NOK 41.9m in 2017 (NOK 48.9m in 2016).

Net result from items at fair value ended at a cost of NOK 1.9m in 2017 (cost of NOK 16.1m in 2016). 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 gain of NOK 17.8m in 2017 (loss of NOK 3.5m in 2016) is related to derivatives held for economic hedging.

Expenses

Total operating expenses expenses was NOK 414m in 2017, a decrease from NOK 462m in 2016. The cost is mainly related to staff costs and services bought from the parent bank Nordea Bank AB (publ). These services are related to management of the loan portfolio and customer contact, funding and risk management, accounting and reporting. Management of the loan portfolio is the main part and the fee charged for this service was adjusted in 2017. The cost/income ratio was 25.6% in 2017 (36.1% in 2016). Nordea Eiendomskreditt AS does not incur any costs for research and development activities.

Loan losses

Net loan losses for 2017 ended at NOK 27.3m. Allowances for collectively assessed loans increased by NOK 22.6m during the year. Loan losses for individually assessed loans were NOK 4.7m. Comparable figures for 2016 were a decrease in collective allowances of NOK 3.1m and loan losses for individually assessed loans of NOK 3.6m, in total a net cost of NOK 0.5m.

Taxes

Taxes for the year amounted to NOK 293.7m, of which NOK 279.7m relates to tax payable and NOK 14.0m due to changes in deferred tax.

Net profit

Net profit for the year amounted to NOK 881.3m (compared to NOK 612.6m for 2016). This gives a return on average equity of 6.9% (6.0%).

Comments on the Balance sheet

Assets and lending activities

Gross lending to customers at 31 December 2017 amounted to NOK 135.5bn compared to NOK 106.0bn at the end of 2016. 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 127.5bn 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 62% 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), 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 2017 Nordea Eiendomskreditt has issued covered bonds amounting to NOK 5.9bn in the Norwegian domestic market under its NOK 100bn domestic covered bond program. Issuance is done via taps of outstanding and new bonds via designated dealers. During 2017 bonds amounting to NOK 7.5bn and GBP 0.5bn have matured or been bought back. As of 31 December 2017, Nordea Eiendomskreditt had outstanding covered bonds totalling NOK 69.3bn in the Norwegian market, GBP 0.6bn 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 2017 such borrowings amounted to NOK 47.8bn.

Equity
Shareholder's equity ended at NOK 13,167m at 31 December 2017. This includes net profit for the year of NOK 881m.

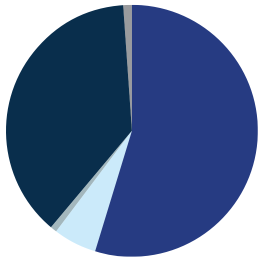
Allocation of net profit for the year

Nordea Eiendomskreditt AS reported an operating profit for the year of NOK 1,175m, and a net profit after tax for the year of NOK 881m. The Board of Directors will propose to the Annual General Meeting on 15 March 2018 that the company distribute 50% of net profit (NOK 440.5m) as group contribution to the parent company Nordea Bank AB (publ) and the other 50% (NOK 440.5m) of net profit to the company's equity reserves. According to IFRS, distribution of group contributions and dividends will not be booked before formal decision is made in the Annual General Meeting. All net profit as of 31 December 2017 will therefore be distributed to retained earnings in the balance sheet as of 31 December 2017. 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.

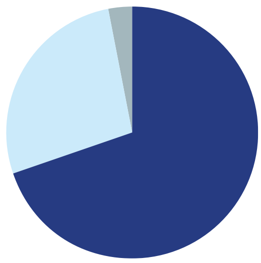
Off-balance sheet commitments

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 2017, the company was party to interest rate swaps with a nominal value of NOK 64.3bn.

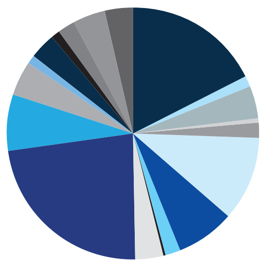
Funding structure as of 31 December 2017



Breakdown of lending by collateral



Geographic distribution of the cover pool



Nordea Eiendomskreditt has covered bonds totalling GBP 0.6bn 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.

Responsibility 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 Financial Officer (CFO), 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. 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 2017

Additional information on risk and capital management is presented in the Capital and Risk Management Report 2017, 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

Credits granted within Nordea conform to established common principles. The fundamental principles are outlined in the Credit Instructions for Nordea Group. The key principles for managing Nordea's risk exposures are:

- The three Lines of Defence (LoD), as further described in the Policy for Internal Control in the Nordea Group;
- Independency, i.e. the risk control function should be independent of the business it controls; and
- A risk based approach, i.e. the risk control functions should be aligned to the nature, size and complexity of Nordea's business, ensuring that efforts undertaken are proportional to the risks in question.

The basis of credit risk management in Nordea is limits to customers and customer groups that are aggregated and assigned to units responsible for their continuous monitoring and development. An additional dimension of sector concentration risk limits based on industries, segments, products or geographies shall likewise be aggregated, assigned to units responsible for their monitoring and development and serve as caps on those limits.

Credit decision making is delegated from the Group Board down to various sub-levels of credit decision making authorities. All internal credit risk limits ("limits") within the Group are based on credit decisions or authorizations made by an Ultimate Decision-Making Authority with the right to decide upon that limit as evidenced in Nordea's powers to act.

Nordea's credit customers are continuously assessed and periodically reviewed based on internal rules dependent by segment, limit amounts and level of risk.

If credit weakness is identified in relation to a customer exposure it receives special attention in terms of more frequent review. In addition to continuous monitoring, an action plan is established outlining as to how to minimise the potential credit loss. If necessary, a special work-out team is set up to support the customer responsible unit (CRU). A financial asset is credit impaired when one or more credit events have occurred with a detrimental impact on the estimated future cash flows. The follow-up of individual work-out cases forms part of the quarterly credit risk review process managed by Group Credit Risk Management (GCRM). In this process both the individual credit impairment and the collective credit impairment are also assessed.

Credit risk definition and identification
Credit risk is defined as the potential for loss due to failure of a borrower(s) to meet its obligations to clear a debt in accordance with agreed terms and conditions. The potential for loss is lowered by credit risk mitigation techniques. Credit risk stems mainly from various forms of lending, but also from 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 collateral is considered as well as the adequacy of covenants and other risk mitigation techniques.

The collateral value shall always be based on the market value. The market value is defined as the estimated amount for which the asset would exchange between a willing buyer and willing seller under current market conditions. From this market value a haircut is applied. The haircut is defined as a percentage by which the asset's market value is reduced ensuring a margin against loss. The margin reflects the adjustments needed to assess the cash proceeds when the collateral is liquidated in a forced sale situation. A maximum collateral ratio is set for each collateral type.

The same principles of calculation must be used for all exposures. For High Risk customers, the foreclosure value may differ from the maximum collateral values and should be based on a realistic assessment for the particular asset at that time. Risk transfer to other creditworthy parties, through guarantees and insurance, shall be based on legally enforceable documentation.

Nordea has permission to use the techniques for AIRB and RIRB approaches that fulfil the minimum requirements at both the time of application and on an ongoing basis.

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 recognised 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, pledged collateral included. Exposures with provisions are considered as impaired. The size of the provision is equal to the estimated loss being the difference of the book value of the outstanding exposure 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 by definition 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 the borrower experiencing or about to experience financial difficulties. 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 amortisation 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 purpose of collective loan loss reserves is to account for value reductions in the performing credit portfolio due to loss events that have occurred. Nordea's model for collective provisions uses a statistical model as a baseline for assessing the amount of provisions needed for the parts of Nordea Eiendomskreditt's portfolios that are not individually assessed. The Collective provisioning model is based on migration of rated and scored customers in the credit portfolio. The assessment of collective impairment is built on an incurred loss concept, where the credit quality of each exposure is related to its initial credit quality. If the credit quality has deteriorated, collective provisions corresponding to a true and fair assessment of the expected loss is calculated by the model. Moreover, defaulted customers without individual provisions are also collectively assessed. The output of the model is complemented with an expert based analysis process to ensure adequate provisioning. The model is executed quarterly and the output is a result of a bottom-up calculation from sub-exposure level, taking the latest portfolio development into account. 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.

From 1 Jan 2018 Nordea will adhere to IFRS 9 for impairment of financial instruments. The impairment requirements in IFRS 9 are based on an expected credit loss model and replace the IAS 39 incurred loss model. IFRS 9 introduces a three-stage model for impairment where Stage 1 is considered as the Good book, Stage 2 as the Deteriorated book, and Stage 3 as the Bad book. Collective and individual credit loss provisions will be based on three scenarios. These scenarios will be probability weighted and forward looking.

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 888m at year end (NOK 1,161m).
Nordea Eiendomskreditt's total lending to the public increased to NOK 135.5bn at the end of 2017 (NOK 106.0bn). 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 149.8bn (NOK 119.7bn).

Lending to credit institutions amounted to NOK 138.5m at the end of the year (NOK 155.9m), 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 5,603m at the end of 2017 (NOK 5,758m).

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 23 Scoring distribution of the lending portfolio.

Impaired loans
Impaired loans gross in Nordea Eiendomskreditt increased during the year from NOK 434m in 2016 to NOK 462m in 2017, corresponding to 34bp of total loans (41bp). From 2015 also non-servicing loans with collectively assessed provision are included. 4% (9%) of impaired loans gross are servicing loans and 96% (91%) are non-servicing loans. Impaired loans net, after individually assessed allowances, amounted to NOK 436m (NOK 406m), corresponding to 32 bp of total loans (38bp). Allowances for individually assessed loans decreased from NOK 28.0m to NOK 26.1m.

Allowances for collectively assessed loans increased from NOK 40.6m to NOK 63.3m.

The volume of past due loans to household customers (excluding impaired loans) decreased to NOK 1,799m (NOK 1,968m) in 2017. Nordea Eiendomskreditt has not taken over any properties for protection of claims due to default.

Loan losses amounted to NOK 27.3m in 2017 (NOK 0.5m). This corresponds to a loan loss ratio of 2.21 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 2017 for Nordea Eiendomskreditt was NOK 215m (NOK 1,546m), of which the current exposure net (after close-out and collateral reduction) represents NOK 888m (NOK 1,161m). 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 2017, Nordea Eiendomskreditt’s interest rate sensitivity was NOK -1,4m calculated in relation to a parallel shift in the yield curve of 1 percentage point. This implies that Nordea Eiendomskreditt AS would gain NOK 1,4m 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. This is not the figure that would be reported in the income statement. 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 2016 was NOK -36,0m.

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 in Nordea as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk. The risk of loss includes direct or indirect financial loss, and impacts from regulatory sanctions, legal exposure, reputational damage and critical business process disruption.

Operational Risks are inherent in all of Nordea’s business and operations. Consequently, managers throughout Nordea are accountable for the operational risks related to their area of responsibility and to manage them within limits and risk appetite in accordance with the operational risk management framework. Group Operational Risk (GOR), constituting 2nd LoD for Operational risk, develops and maintains the Operational risk management framework. Further GOR monitors and assesses the operational risks as well as the adequacy and effectiveness of the operational risk management framework and reports regularly to the CEO and BoD. The risk appetite framework in Nordea, including risk appetite statements, is approved annually by the BoD. The risk appetite statements for Operational risk are expressed in terms of; (a) management of important risks, (b) total loss amount for incidents as well as management of incidents and (c) management of KRIs.

Nordea's Group Board Directives on Risk as well as on Internal Governance sets out the general principles for management of risks in Nordea. Based on these principles, supporting Group CEO instructions and guidelines are established and form the operational risk management framework. Management of operational risks includes all activities aimed at identifying, assessing, mitigating, monitoring and reporting risks. Risk exposures are governed by limits set within the boundaries of the risk appetite

The framework includes processes that support the identification and assessment of operational risks. Operational risks are mainly identified during incidents reporting, during the risk management of proposed changes, as well as during regular risk assessments, both top-down and bottom-up. The risks are assessed by probability and impact, and based on severity of the risk, mitigating actions are established. When deciding on mitigating actions, the cost to reduce a risk exposure shall be in reasonable proportion to the expected effects of those mitigating action. Monitoring and control is an important part of risk management. Monitoring and control shall ensure for example that risks are appropriately identified and mitigated, that risk exposures are kept within the limits and that risk management procedures are efficient.

Management of operational and compliance risks is proactive, emphasizing training and risk awareness. To ensure a consistent approach to risk and compliance training and communication, a joint risk and compliance training and culture team has been set up. Furthermore, a governance body has been established to define training needed both during the on-boarding of staff as well as the continuous training of each employee to renew their licenses to work.

Nordea Eiendomskreditt operates an organisational structure with only 16 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.

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 to fail 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 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.

Group Internal Audit constitutes the third line of defence and performs audits and provides assurance to stakeholders on internal controls and risk management processes.

During 2017 Nordea introduced new purpose and core values, implemented across the Group through a culture transformation programme. The values are applicable to all of Nordea's employees in conjunction with the Code of Conduct principles to strengthen and secure the foundation for a sound corporate culture. To strengthen the personal accountability and to combat misconduct, a Consequence Management Committee was established in Q1 2017.
In addition, the bank is continuing to invest in enhanced compliance standards, processes, and to adequately resource compliance.

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 19 Maturity analysis for assets and liabilities.

Liquidity risk analysis

The Liquidity Coverage Ratio (LCR) according to the EBA Delegated Act was 731% 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 99.4% of its credit risk REA covered by internal rating based (IRB) approaches by the end of 2017. 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.

Own funds

Own funds is the sum of tier 1 and tier 2 capital. Tier 1 capital consists of both common equity tier 1 (CET1) and additional tier 1 capital. CET1 capital is considered to be capital of the highest quality with ultimate loss-absorbance characteristics and consists predominately of paid in capital and retained earnings. Profit may only be included after permission from the financial supervisory authority and after deduction of proposed dividend. Additional tier 1 and tier 2 capital consist mostly of undated and dated subordinated loans, respectively. Holdings of other financial sector entities' subordinated loans are deducted from the corresponding tier.

Summary of items included in own funds

NOKm	31 Dec[1] 2017	31 Dec[1] 2016
Calculation of own funds		
Equity in the consolidated situation	13 168	12 278
Proposed/actual dividend	-441	0
Common Equity Tier 1 capital before regulatory adjustments	12 727	12 278
Deferred tax assets	0	0
Intangible assets	0	0
IRB provisions shortfall (-)	-75	-63
Deduction for investments in credit institutions (50%)	0	0
Pension assets in excess of related liabilities	0	0
Other items, net	43	42
Total regulatory adjustments to Common Equity Tier 1 capital	-32	-21
Common Equity Tier 1 capital (net after deduction)	**12 695**	**12 257**
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)	**12 695**	**12 257**
Tier 2 capital before regulatory adjustments	1 200	1 200
IRB provisions excess (+)	28	29
Deduction for investments in credit institutions (50%)		
Deductions for investments in insurance companies	0	0
Pension assets in excess of related liabilities		
Other items, net	0	0
Total regulatory adjustments to Tier 2 capital	**28**	**29**
Tier 2 capital	1 228	1 229
Own funds (net after deduction)2	**13 923**	**13 486**

[1] Including profit for the period
[2] Own Funds adjusted for IRB provision, i.e. adjusted own funds equal 13,969m by 31 Dec 2017

Capital Adequacy

The net own funds of Nordea Eiendomskreditt amounted to NOK 13,923m at the end of 2017, of which NOK 1,200m is a subordinated loan.
The Tier 1 capital ratio at the close of 2017 including the Basel I floor was 21.2% (25.7%), and the total capital ratio including Basel I floor was 23.2% (28.3%). The total capital ratio requirement including Basel I floor is 15.5%, comprising of a minimum total capital ratio of 8.0% and capital buffers of 7.5%.

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 2017 at www.nordea.com.

New regulations

The Capital Requirement Directive IV (CRD IV) and Capital Requirement Regulation (CRR) entered into force on 1 January 2014 followed by the Bank Recovery and Resolution Directive (BRRD) on 15 May 2014. The CRR became applicable in all EU countries from 1 January 2014 while the CRD IV and BRRD were implemented through national law within all EU member states from 2014.

The Swedish FSA has implemented a LCR requirement in addition to the CRR requirement where large Swedish banks have been required to fulfil the requirement also for Euro and US-dollar. This requirement will be removed from 1 January 2018 when the CRR requirement to fulfil the LCR requirement on aggregate currencies will apply. The Swedish FSA is, however, also suggesting replacing the requirement to fulfil LCR for specific currencies by a pillar 2 requirement.

In December 2017, the Swedish National Debt Office (SNDO) formally decided on plans for how banks are to be managed in a crisis and on the minimum requirements for own funds and eligible liabilities (MREL) to be applied from 1 January 2018.

A change of domicile will also mean that it will be the Single Resolution Board (SRB) that will set the MREL requirement for Nordea. In December 2017, the SRB published an updated policy statement on the MREL requirement that will serve as a basis for setting the MREL targets for banks under the remit of SRB.

From the implementation of Basel II in 2007, banks using internal models have been required to calculate the Basel 1 floor on the capital requirements as regulated prior to 2007. From 2009 the floor has been 80% of the Basel 1 rules. According to the CRR the application of the Basel 1 floor is not valid from 1 January 2018.

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 proposal contains, among others, review to the Minimum Requirement for own funds and Eligible Liabilities (MREL), review to the market risk requirements (Fundamental Review of the Trading Book, FRTB), introduction of a leverage ratio requirement of 3% to be met by Tier 1 capital and amendments to the pillar 2 framework. Negotiations in the EU process are on-going where the Council and the Parliament are preparing their counterproposals. Implementation is expected to start during 2019 at the earliest, with phasing-in for some parts.

In November 2017, an agreement was reached on some of the proposals in the review in a so called fast tracking process. The first agreement was on the amendment of the BRRD on the ranking of unsecured debt instruments in insolvency proceedings (bank creditor hierarchy). The amendment makes it possible for banks to issue the new type of subordinated liabilities to meet the MREL requirement. The second agreement was on the CRR with transitional arrangements to phase in the regulatory capital impact of the IFRS 9 international accounting standard which will allow banks to add back to their common equity tier 1 capital a portion of the increased expected credit loss (ECL) provisions as extra capital during a five-year transitional period. The CRR agreement also provides for a three-year phase-out of an exemption from the large exposure limit for banks' exposures to public sector debt denominated in the currency of another member state. These Directives will enter into force on 1 January 2018.

Finalised Basel III framework ("Basel IV")
Basel III is a global, regulatory framework on bank capital adequacy, stress testing, and liquidity risk. In December 2017, the final parts of the Basel III framework, often called the Basel IV package, was published.
The Basel IV package will be implemented in 2022 and includes revisions to credit risk, operational risk, CVA risk, leverage ratio and introduces a new output floor. In addition, revisions to market risk (the so called Fundamental Review of the Trading Book) was agreed in 2016 and will be implemented together with the Basel IV package.
On credit risk, the package includes revisions to both the internal models (IRB) approach, where restrictions to the use of IRB for certain exposures are implemented, as well as to the standardised approach. For operational risk, the three approaches currently existing will be removed and replaced with one standardised approach to be used by all banks. On CVA risk, the internally modelled approach is removed and the standardised approach is revised. The package also includes the implementation of a minimum leverage ratio requirement of 3% Tier 1 capital with an additional leverage ratio buffer requirement for Global systemically important banks (G-SIB) of half the G-SIB capital buffer requirement. Changes to leverage ratio also includes a revised leverage ratio exposure definition relevant for derivatives and central bank reserves.

The output floor is to be set to 72.5% of the standardised approaches on an aggregate level, meaning that the capital requirement under the floor will be 72.5% of the total pillar 1 REA calculated with the standardised approaches for credit-, market- and operational risk. The floor will be phased-in with 50% from 2022 to be fully implemented from 1 January 2027.

Before being applicable to Nordea, the Basel IV package needs to be implemented into EU regulations and will therefore be subject to negotiations between the EU Commission, Council and Parliament which might change the implementation and potentially also the timetable.

New regulations in Norway
In Norway, the CRR and CRD IV and its connected regulatory standards and guidelines are not completely implemented. A Norwegian BRRD regulation and a deposit guarantee scheme was proposed 21 June 2017 and a tentative date is settled for first treatment in the Standing Committee on Finance and Economic Affairs on 6 March 2018.

The leverage ratio (LR) requirement entered into force on 30 June 2017. All Norwegian entities are subject to a LR of minimum 3%. Additional 2% applies to all banks. Systemically Important Institutions (SIIs) must hold additional 1%, in total 6% LR. The exposure measure is based on EC delegated regulation 2015/62 of 10 October 2014. The Counter Cyclical Capital Buffer increased from 1.5% to 2% on 31 December 2017.
On 18 December 2017, the Ministry of Finance decided to implement transitional arrangements to phase in the regulatory capital impact of the IFRS 9 international accounting standard, similar to the EU regulation with effect from 2018.

During November and December 2017 the Ministry of Finance has given Finanstilsynet the mandate to prepare a draft proposal for implementing the remaining part of CRR and CRD IV as well as proposing new Norwegian floor requirements based on the new Basel III standards. With effect from 30 September 2017 Norwegian banks had to fulfil 100 percent LCR for significant currencies (50 percent for euro and USD) that amounts to more than 5 percent of total liabilities.

When Nordea changes domicile to Finland, this is not assumed to have any direct impact on capital and liquidity requirements in the Norwegian subsidiaries.

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 CFO in maintaining a Group wide set of controls, in Nordea defined as Accounting Key Control (AKC), in line with the risk frameworks, which covers the controlling of risks and the risk identification process, that to a large extent is based on the actual business and financial closing processes in place. An independent risk control function that is responsible for identifying, controlling and reporting on financial reporting risk has been established in Group Risk Management and Control (GRMC). In addition, the internal audit function is providing assurance to the Board of Directors with an assessment of the overall effectiveness of the governance, risk management and control processes.

Risk assessment

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

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

Control activities

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

Information and communication
Group Finance 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.

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

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

According to Nordea Eiendomskreditt's articles of association, last amended at 10 March 2017, 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 (finansforetaksloven), at least one fourth of the board of directors must be external members not holding any positions of trust or being an employee in the Nordea Group. According to internal guidelines both genders shall be represented.

Further information on the composition of the Board of Directors is disclosed at page 63.

People
Working in Nordea means working at a relationship bank in which everyone is responsible for supporting great customer experiences. This is why attracting, developing and maintaining highly motivated people are among our main priorities.

Nordea Eiendomskreditt is part of the Nordea Group's processes for leadership and employee development, including training programmes, performance dialogues and employee satisfaction surveys. Gender diversity and equal opportunities are an integrated part of the development of the organisation and employees. More than half (52%) of the full-time employees in Nordea Eiendomskreditt are women. One of three in the management group is female. The Board of Directors consists of three women and four men.

At the end of 2017 Nordea Eiendomskreditt AS had 16 (2) employees. Staffing was equivalent to 15.5 (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. In line with the Nordea Group organisation, the company was again reorganized from 1 January 2017, as the company was assigned the product responsibility for Norwegian mortgage loans. The staff was at the same time increased by 15 employees.

Absence due to sickness during 2017 was 4.75% (6.28%). A total of 216 (27) working days were lost to sickness in 2017. There are no reports of work related personnel injuries caused by accidents or other incidents in Nordea Eiendomskreditt in 2017. The working environment is considered to be good.

Information on remuneration 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

For information about Nordea's sustainability work, see the Annual Report of Nordea Bank AB (publ) and Nordea's Sustainability report available on https://www.nordea.com/en/sustainability/

Outlook 2018

We expect that interest rates also in 2018 will remain at a low level, with a possible increase in the signal rate from the Norwegian Central Bank during the second half year. Housing prices decreased by 2.1% during 2017. We expect housing prices to level out during the first half year of 2018 and stable prices in the second half year, but there is substantial uncertainty attached to the development in housing prices in the coming years.

Nordea Eiendomskreditt AS

Oslo, 13 February 2018

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

Anne Sofie Knoph
Employee representative

Børre Sten Gundersen
Chief Executive Officer

Financial statements - Contents

Notes to the financial statements

Income statement

NOKt	Note	2017	2016
Operating income			
Interest income on loans and deposits with financial institutions	20	3 685	3 677
Interest and related income on loans to customers		3 087 253	2 849 870
Interest and related income on debt securities		47 716	14 191
Other interest and related income		383	1
Total interest and related income		**3 139 037**	**2 867 738**
Interest expense on liabilities to financial institutions	20	347 030	134 487
Interest and related expense on securities issued		1 418 004	1 767 267
Interest expense on subordinated loan capital	20	34 602	43 051
Other interest and related expense[1]		-236 558	-323 758
Total interest and related expense		**1 563 078**	**1 621 048**
Net interest income		**1 575 959**	**1 246 690**
Fee and commission income		60 162	52 404
Fee and commission expense		18 225	3 510
Net fee and commission income		**41 937**	**48 894**
Net result from items at fair value	3, 20	**-1 935**	**-16 116**
Total operating income		**1 615 961**	**1 279 468**
Staff costs	4, 12	17 376	-60
Other operating expenses	5, 20	396 214	462 123
Total operating expenses		**413 590**	**462 063**
Profit before loan losses		**1 202 371**	**817 405**
Loan losses	6	27 341	544
Operating profit		**1 175 030**	**816 860**
Income tax expense	7	293 760	204 226
Net profit for the year		**881 270**	**612 635**
Attributable to:			
Shareholder of Nordea Eiendomskreditt AS		881 270	612 635
Total		**881 270**	**612 635**
Basic/diluted earnings per share, NOK		57,5	39,9

[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	2017	2016
Net profit for the period	**881 270**	**612 635**
Items that may be reclassified subsequently to the income statement		
Cash flow hedges:		
Valuation gains/losses during the year	8 169	-139 132
Tax on valuation gains/losses during the year	-2 042	34 783
Items that may not be reclassified subsequently to the income statement		
Defined benefit plans:		
Remeasurement of defined benefit plans	2 351	-4 721
Tax on remeasurement of defined benefit plans	-588	1 180
Other comprehensive income, net of tax	**7 890**	**-107 889**
Total comprehensive income	**889 160**	**504 745**
Attributable to:		
Shareholders of Nordea Eiendomskreditt AS	889 160	504 745
Total	**889 160**	**504 745**

Nordea Eiendomskreditt AS
Oslo, 13 February 2018

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Chairman

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Vice Chairman

Ola Littorin
Board member

Marte Kopperstad
Board member

Eva I. E. Jarbekk
Board member

Alex Madsen
Board member

Anne Sofie Knoph
Employee representative

Børre Sten Gundersen
Chief Executive Officer

Balance sheet

NOKt	Note	31 Dec 2017	31 Dec 2016
Assets			
Loans to credit institutions	20	138 509	155 900
Loans to the public	6, 8, 10, 13	135 421 520	105 939 338
Interest-bearing securities	21	5 603 387	5 757 776
Derivatives	9, 18, 20	1 194 840	1 613 137
Fair value changes of the hedged items in portfolio hedge of interest rate risk		26 142	29 036
Other assets		4	154
Accrued income and prepaid expenses		148 564	117 385
Total assets		**142 532 966**	**113 612 726**
Liabilities			
Deposits by credit institutions	11, 20	47 832 472	12 752 409
Debt securities in issue	11, 13, 20	77 730 925	84 251 822
Derivatives	9, 18, 20	1 349 553	1 794 382
Fair value changes of the hedged items in portfolio hedge of interest rate risk	10	835 069	1 047 646
Current tax liabilities	7	279 728	193 892
Other liabilities		5 871	2 637
Accured expenses and prepaid income	20	21 168	1 050
Deferred tax liabilities	7	99 968	83 301
Retirement benefit obligations	12	11 036	7 540
Subordinated loan capital	20	1 200 279	1 200 310
Total liabilities		**129 366 069**	**101 334 989**
Equity			
Share capital	20	1 702 326	1 702 326
Share premium	20	3 731 301	3 731 301
Other reserves		-54 880	-62 770
Retained earnings		7 788 150	6 906 880
Total equity		**13 166 897**	**12 277 737**
Total liabilities and equity		**142 532 966**	**113 612 726**
Assets pledged as security for own liabilities	13	127 465 821	98 375 343
Contingent liabilities	14	535	704
Commitments	14	14 221 101	13 660 782

Statement of changes in equity

			Other reserves			
NOKt	Share capital[1]	Share premium	Cash flow hedges	Defined benefit plans	Retained earnings	Total equity
Balance at 1 January 2017	**1 702 326**	**3 731 301**	**-58 140**	**-4 629**	**6 906 880**	**12 277 737**
Net profit for the year					881 270	881 270
Items that may be reclassified subsequently to the income statement						
Cash flow hedges:			8 169			8 169
Valuation gains/losses during the year			-2 042			-2 042
Tax on valuation gains/losses during the year						
Items that may not be reclassified subsequently to the income statement						
Defined benefit plans:						
Remeasurement of defined benefit plans				2 351		2 351
Tax on remeasurement of defined benefit plans				-588		-588
Other comprehensive income, net of Tax	0	0	6 127	1 763	0	7 890
Total comprehensive income	0	0	6 127	1 763	881 270	889 160
Balance at 31 December 2017	**1 702 326**	**3 731 301**	**-52 013**	**-2 867**	**7 788 150**	**13 166 897**

			Other reserves			
NOKt	Share capital[1]	Share premium	Cash flow hedges	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
Contribution and distribution						
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**

[1] The company's share capital at 31 December 2017 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 AB (publ).

Cash flow statement

NOKt	2017	2016
Operating activities		
Operating profit before tax	1 175 030	816 860
Adjustments for items not included in cash flow	20 657	-6 924
Income taxes paid	-193 887	-0
Cash flow from operating activities before changes in operating assets and liabilities	**1 001 800**	**809 936**
Changes in operating assets		
Change in loans to the public	-29 502 839	499 802
Change in interest-bearing securities	181 188	-4 229 237
Change in derivatives, net	-26 533	6 742 488
Change in other assets	-54 934	251 057
Changes in operating liabilities		
Change in deposits by credit institutions	35 038 265	-7 282 227
Change in debt securities in issue	-6 483 701	2 701 292
Change in other liabilities	-170 637	-770 930
Cash flow from operating activities	**-17 391**	**-1 277 819**
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 subordinated loan capital	0	420 000
Group contribution paid	0	-1 430 000
Group contribution received	0	0
Increase in share capital and share premium	0	2 300 000
Cash flow from financing activities	**0**	**1 290 000**
Cash flow for the year	**-17 391**	**12 180**
Cash and cash equivalents at 1 January	155 900	143 720
Cash and cash equivalents at 31 December	138 509	155 900
Change	**-17 391**	**12 180**

Comments on the cash flow statement

The cash flow statement shows inflows and outflows of cash and cash equivalents during the year. Nordea Eiendomskreditt's cash flow has been prepared in accordance with the indirect method, whereby operating profit is adjusted for effects of non-cash transactions such as loan losses. The cash flows are classified by operating, investing and financing activities.

Operating activities aare 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 13 February 2018 the Board of Directors approved the financial statements, subject to final approval of the Annual General Meeting on 15 March 2018.

2. Changed accounting policies and presentation

The accounting policies, basis for calculations and presentation are, in all material aspects, unchanged in comparison with the 2016 Annual Report. The new accounting requirements implemented during 2017 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 2017 but have not had any significant impact on the financial statements of Nordea Eiendomskreditt:

- Amendment to IAS 12: "Recognition of Deferred Tax Assets for Unrealised Losses"
- Amendments to IAS 7: "Disclosure Initiative"

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 has not early adopted the standard. Nordea does not either intend to restate the comparative figures for 2017 in the annual report 2018 due to IFRS 9.

See Note 24 "IFRS 9" for more information on the impact from 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 2017 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. The new requirements will not have any significant impact on the capital adequacy, large exposures, risk management or alternative performance measures in the period of initial application.

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. For assets held at transition, Nordea Eiendomskreditt has 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's current model for calculating collective provisions defines a loss event as one notch deterioration in rating/scoring, while the triggering event for moving items from stage 1 to stage 2 under IFRS 9 will require several notches deterioration.

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 the losses estimated to occur during the period between the date when the loss event occurred and the date when the loss event is identified on an individual basis, the so called "Emergence period" while IFRS 9 will require provisions equal to the lifetime expected loss.

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

The quantitative impact from the new impairment requirements on total allowances and provisions for on- and off-balance exposures, including debt instruments accounted for at fair value through other comprehensive income (FVOCI), is a decrease of NOK 33m. This corresponds to decrease of 37% of total allowances and provisions for on- and off-balance exposures. Equity is increased by NOK 25m. The impact on the Common Equity Tier 1 capital ratio, after adjustment of the shortfall deduction and before transition rules is insignificant. Nordea Eiendomskreditt will not apply the transitional rules issued by the EU allowing a phase in of the impact on common equity Tier 1 capital. There is no material impact to large exposures.

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 will continue to use the IAS 39 hedge accounting requirements also after IFRS 9 has been implemented.

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 standard does not apply to financial instruments, insurance contracts or lease contracts.

The standard will be implemented using the modified retrospective approach, meaning that the cumulative effect of the change will be recognised as an adjustment to equity in the opening balance 2018. Comparable figures for 2017 are not restated.

The new standard will have an impact on Nordea Eiendomskreditt's accounting policies for loan origination fees, as such fees will be amortised as part of the effective interest of the underlying exposures to a larger extent than today. IFRS 15 will not have any significant impact on Nordea Eiendomskreditt's financial statements, capital adequacy or large exposures in the period of initial application.

IFRS 16 "Leases"
The IASB has published the new standard, IFRS 16 "Leases". The new standard changes the accounting and disclosure requirements for lessees. The new standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted. The standard was endorsed by the EU-commission in 2017. Nordea Eiendomskreditt does not intend to early adopt the standard. The impact on Nordea Eiendomskreditt's financial statements is expected to be insignificant.

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:
- Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"
- Amendments to IFRS 2: "Classification and Measurement of Share based Payment Transactions
- Amendments to IAS 40: "Transfers of Investment Property"
- Amendments to IFRS 9: "Prepayment Features with Negative Compensation"
- Amendments to IAS 28: "Long-term Interest in Associates and Joint Ventures"
- Annual Improvements to IFRS Standards 2014-2016 Cycle
- Annual Improvements to IFRS Standards 2015-2017 Cycle

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.
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 estimated future cash flows to the net carrying amount of the financial asset or financial liability.
Interest income and expenses from financial instruments are classified as "Net interest income".

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

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

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

This item also includes realised gains and losses from financial instruments measured at amortised cost, such as interest compensation received and realised gains/losses on buy-backs of issued own debt.

Impairment losses from instruments within other categories than "Financial assets at fair value through profit or loss" are recognised in the item "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 (and an asset or a liability is recognised as "Other assets" or "Other liabilities" on the balance sheet between trade date and settlement date) from the balance sheet on the trade date. Other financial instruments are recognised in the balance sheet on settlement date.

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

Loans where cash flows are modified or part of a restructuring are derecognised, and a new loan recognised, if the terms and conditions of the new loan is substantially different from the old loan. This is normally the case if the present value of the cash flows of the new loan discounted by the original interest rate is more than 10% different from the present value of the remaining expected cash flows of the old loan. The same principles apply to financial liabilities.

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

7. Translation of assets and liabilities denominated in foreign currencies

The functional currency for Nordea Eiendomskreditt is NOK. Foreign currency is defined as any currency other than the functional currency of the entity. Foreign currency transactions are recorded at the exchange rate on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate on the balance sheet date. Nordea Eiendomskreditt has items only in GBP and EUR in addition to Norwegian kroner. For exchange rates at 31 December 2017, 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 on-going basis. The absolute level for liquidity and volume required for a market to be considered active vary with the instrument classes. For some classes low price volatility is seen, also for those instruments within the class where the trade frequency is high. For instruments in such a class, the liquidity requirements are lower and correspondingly, the age limit for the prices used for establishing fair value is higher.

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

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

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

Note 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 2017 Nordea Bank AB (publ) owned 100% of the share capital of Nordea Eiendomskreditt AS and has significant influence.

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

Key management personnel
Key management personnel include the following positions:

- The Board of Directors
- The Chief Executive Officer (CEO)

For information about compensation, pensions and other transactions with key management personnel, see Note 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	2017	2016
Income statement (average)	8,2698	8,4011
Balance sheet (at end of period)	8,2050	8,6200

GBP 1 = NOK	2017	2016
Income statement (average)	10,6496	11,3922
Balance sheet (at end of period)	11,0910	10,6126

EUR 1 = NOK	2017	2016
Income statement (average)	9,3317	9,2943
Balance sheet (at end of period)	9,8403	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	2017	2016
Financial instruments held for trading [1]	17 766	-3 457
Financial instruments under hedge accounting	-19 701	-12 660
- of which net gains/losses on hedged items	198 516	607 901
- of which net gains/losses on hedging instruments	-218 217	-620 561
Total	**-1 935**	**-16 116**

[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	2017	2016
Salaries and remunerations	12 750	1 619
Pension costs (note 12)	1 432	-1 972
Social security contributions	2 793	227
Allocation to profit-sharing [1]	185	9
Other staff costs	214	57
Total	**17 376**	**-60**

[1] Allocation to profit-sharing foundation in 2017 consisted of a new allocation of NOKt 167 and NOKt 18 related to prior years.
In 2016 new allocation amounted to NOKt 20 and release of NOKt 11 for prior years.

Number of employees/full time positions		
Number of employees at 31 December	16	2
Number of full time equivalents at 31 December	15,5	1,7
- of which men	7,5	-
- of which women	8,0	1,7
Gender distribution of Board members (percentage at year end)		
- Men	57 %	67 %
- Women	43 %	33 %
Loans to the members of the Board of Directors or to companys where such persons are officers/board members	0	0

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 company car, insurance and electronic communication allowance.
Pensions - includes paid premiums to the defined contribution pension plan (DCP) during the financial year, exclusive of social security tax.

Executive management of Nordea Eiendomskreditt AS	Fixed salary and fees	Variable salary	Other benefits	Pensions	Total remunerations
Børre Sten Gundersen, CEO	1 540	201	192	135	2 067
Total for the executive management	**1 540**	**201**	**192**	**135**	**2 067**
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	21				21
Thorleif Haug	15				15
Tom Knoff	15				15
Janicke L. Rasmussen	15				15
Total for the Control Committee of Nordea Eiendomskreditt AS	**64**	**-**	**-**	**-**	**64**
Total remuneration of executive management and elected officers of Nordea Eiendomskreditt AS	**1 752**	**201**	**192**	**135**	**2 279**

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 2017 for services provided in 2016.

Loans to employees are made from the balance sheet of Nordea Bank AB (publ), filial i Norge.
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	2017	2016
Information technology	8 090	12
Services bought from Group companies	383 298	457 831
Auditors' fee	744	506
Other operating expenses	4 082	3 774
Total	**396 214**	**462 123**

Auditor's fee for 2017 comprise NOKt 744 incl. VAT, of which NOKt 563 relates to audit work and NOKt 181 relates to other services.

Note 6

Net loan losses

NOKt	2017	2016
Loan losses divided by class		
Realised loan losses	6 684	7 571
Allowances used to cover realised loan losses	-4 633	-5 920
Provisions	30 129	6 824
Reversals of previous provisions	-4 839	-7 931
Net loan losses[1]	**27 341**	**544**

[1] See also note 8 Loans and impairment.

Note 7
Taxes

Income tax expense

NOKt	2017	2016
Current tax [1]	279 723	193 967
Deferred tax	14 037	10 259
Total	**293 760**	**204 226**
[1] of which relating to prior years	0	6

Current and deferred tax recognised in Other comprehensive income

Deferred tax on remeasurements of pension obligations DBP	-588	1 180
Deferred tax relating to cash flow hedges	-2 042	34 783
Total	**-2 630**	**35 963**

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

NOKt	2017	2016
Profit before tax	1 175 030	816 860
Tax calculated at a tax rate of 25%	-293 757	-204 220
Non-deductable expenses	-3	0
Tax exempt income	0	0
Change of tax rate 1	0	0
Adjustments related to prior years	0	-6
Total tax charge	**-293 760**	**-204 226**
Average effective tax rate	25,0 %	25,0 %

Deferred tax

NOKt	2017	2016
Deferred tax expense (-) / income (+)		
Deferred tax due to temporary differences	-14 037	-10 259
Income tax expense, net	**-14 037**	**-10 259**

	Deferred tax assets		Deferred tax liabilities	
NOKt	**2017**	**2016**	**2017**	**2016**
Deferred tax assets/liabilities related to:				
Financial instruments and derivatives			-102 419	-84 801
Retirement benefit obligations	2 759	1 885		
Other			-308	-385
Netting between deferred tax assets and liabilities	-2 759	-1 885	2 759	1 885
Total deferred tax assets/liabilities	0	0	-99 968	-83 301

Movements in deferred tax assets/liabilities net, are as follows:	2017	2016
Balance at 1 January	-83 301	-109 005
Deferred tax relating to items recognised in Other comprehensive income	-2 630	35 963
Adjustments relating to prior years	0	0
Deferred tax in the income statement	-14 037	-10 259
Balance at 31 December	-99 968	-83 301

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 99,968 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 2017.

Note 8
Loans and impairment

NOKt	31 Dec 2017	31 Dec 2016
Loans, not impaired	135 048 499	105 573 899
Impaired loans;	462 333	434 095
- Servicing	17 939	39 693
- Non-servicing	444 394	394 402
Loans before allowances	**135 510 832**	**106 007 994**
Allowances for individually assessed impaired loans;	-26 056	-28 017
- Servicing	-1 356	-2 813
- Non-servicing	-24 700	-25 204
Allowances for collectively assessed impaired loans	-63 257	-40 639
Allowances	**-89 313**	**-68 656**
Loans, carrying amount	**135 421 520**	**105 939 338**

Accrued interest on loans to the public was NOKt 148.048 at 31 December 2017

Reconciliation of allowance accounts for impaired loans [1]

NOKt	Individually assessed	Collectively assessed	Total
Opening balance at 1 January 2017	**28 017**	**40 639**	**68 656**
Provisions	6 492	23 637	30 129
Reversals of previous provisions	-3 820	-1 019	-4 839
Changes through the income statement	**2 672**	**22 618**	**25 290**
Allowances used to cover realised loan losses	-4 633	0	-4 633
Closing balance at 31 December 2017	**26 056**	**63 257**	**89 313**

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	-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**

[1] See also Note 6 Loan losses

Key ratios

	31 Dec 2017	31 Dec 2016
Impairment rate, gross[1], (bps)	34,1	40,9
Impairment rate, net[2], (bps)	27,5	34,5
Total allowance rate[3], (bps)	6,6	6,5
Allowance rate, individually assessed impaired loans[4], in %	5,6	6,5
Total allowances in relation to impaired loans[5], in %	19,3	15,8
Non-servicing loans, not impaired[6], in NOKt	44 284	77 298

[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.
[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 2017, NOKt	Fair value Positive	Fair value Negative	Total nominal amount
Derivatives held for trading: [1]			
Interest rate swaps	46	38 971	45 500 000
Total derivatives held for trading	**46**	**38 971**	**45 500 000**
Derivatives used for hedge accounting:			
Interest rate swaps	1 194 794	130 337	18 784 000
Currency and interest rate swaps	0	1 180 245	9 114 756
Total derivatives used for hedge accounting	**1 194 794**	**1 310 582**	**27 898 756**
- of which fair value hedges [2]	1 194 794	130 337	19 722 000
- of which cash flow hedges [2]	0	1 180 245	9 114 756
Total derivatives	**1 194 840**	**1 349 553**	**73 398 756**

[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 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	**1 613 137**	**1 794 382**	**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.

Note 10
Cover Pool

NOKt	31 Dec 2017	31 Dec 2016
Loans to the public (carrying amount)	135 421 520	105 939 338
- hereof pool of eligible loans	127 465 821	98 375 343
Supplementary assets and derivatives	0	0
Total collateralised assets	**127 465 821**	**98 375 343**
Debt securities in issue (carrying amount incl. accrued interests)	77 730 925	84 251 822
Currency valuation changes	1 074 436	1 295 092
Debt securities in issue, valued according to regulation	**78 805 360**	**85 546 914**
Over-collateralization	61,7 %	15,0 %

Note 11

Debt securities in issue and loans from financial institutions

	31 Dec 2017			31 Dec 2016		
NOKt	Nominal value	Other [1]	Carrying amount	Nominal value	Other [1]	Carrying amount
Covered bonds issued in Norwegian kroner	79 300 000			87 900 000		
Holdings of own covered bonds in Norwegian kroner	-9 963 000			-16 941 000		
Outstanding covered bonds issued in Norwegian kroner	**69 337 000**			**70 959 000**		
Covered bonds issued in USD (in NOK)	0			0		
Covered bonds issued in GBP (in NOK)	7 064 992			12 066 526		
Covered bonds issued in EUR (in NOK)	984 030			908 630		
Total outstanding covered bonds	**77 386 022**	**344 902**	**77 730 925**	**83 934 156**	**317 666**	**84 251 821**
Loans and deposits from financial institutions for a fixed term	47 783 000	49 472	47 832 472	12 738 000	14 409	12 752 409
Subordinated loan	1 200 000	279	1 200 279	1 200 000	310	1 200 310
Total	**126 369 022**	**394 653**	**126 763 675**	**97 872 156**	**332 384**	**98 204 540**

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

Maturity information	31 Dec 2017	31 Dec 2016
Maximum 1 year	57 037 000	24 523 300
More than 1 year	69 332 022	73 348 856
Total	**126 369 022**	**97 872 156**

Norwegian covered bonds (NOKt)

ISIN code	Issue date	Final payment date	Interest	Interest rate in %	Currency	Outstanding nominal amount
NO0010584345	02.09.2010	16.06.2021	Fixed	4,25	NOK	9 383 000
NO0010593064	22.12.2010	18.06.2025	Fixed	4,80	NOK	550 000
NO0010647241	29.05.2012	19.06.2019	Float	3M Nibor + 0.68%	NOK	12 195 000
NO0010674971	19.04.2013	20.06.2018	Float	3M Nibor + 0.40%	NOK	9 254 000
NO0010692767	05.11.2013	19.06.2019	Fixed	3,05	NOK	2 380 000
NO0010703531	14.02.2014	17.06.2020	Float	3M Nibor + 0.38%	NOK	12 115 000
NO0010729817	26.01.2015	16.06.2021	Float	3M Nibor + 0.20%	NOK	10 955 000
NO0010741903	15.07.2015	17.06.2020	Fixed	1,75	NOK	1 000 000
NO0010758931	08.03.2016	15.06.2022	Fixed	1,80	NOK	3 115 000
NO0010759632	17.03.2016	15.06.2022	Float	3M Nibor + 0.78%	NOK	7 590 000
NO0010766827	21.06.2016	18.06.2031	Fixed	2,20	NOK	500 000
NO0010812084	11.12.2017	17.09.2043	Fixed	2,20	NOK	300 000
Total						**69 337 000**

Covered bonds issued in foreign currency (NOKt)

ISIN code	Issue date	Final payment date	Interest	Interest rate in %	Currency	Outstanding nominal amount
XS1210746134	30.03.2015	30.03.2020	Float	3M GBP Libor + 0.25%	GBP	125 000
XS1342698047	14.01.2016	14.01.2019	Float	3M GBP Libor + 0.42%	GBP	500 000
XS1487838291	09.09.2016	09.09.2021	Float	3M GBP Libor + 0.42%	GBP	12 000
XS1451306036	19.07.2016	15.07.2031	Fixed	0,738	EUR	100 000
Total (in NOKt equivalent)						**8 049 022**

Note 12

Retirement benefit obligations

NOKt	31 Dec 2017	31 Dec 2016
Defined benefit plans, net	-11 036	-7 537
Total	**-11 036**	**-7 537**

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. From 01 January 2017 employees born later than 1957 were 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.

In 2016 the Board of Directors of Nordea Eiendomskreditt approved of changing the pension plan for employees born after 1957, and they were converted from DBP to DCP from 1 January 2017.

During 2017 employees in the DCP have had the following contribution rates:

* Salary representing 0-7.1 times G: 7%

* Salary representing 7.1-12 times G: 18%

The pension cost recognised in Nordea Eiendomskreditt's income statement (as staff costs) for the DCP is NOKt 1,067 in 2017.

IAS 19 Pension calculations and assumptions

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

Assumptions[1]	2017	2016
Discount rate[2]	2,48 %	2,65 %
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	2,75 %	2,65 %
Expected adjustments of current pensions	1,00 %	2,00 %

[1] The assumptions disclosed for 2017 have an impact on the liability calculation by year-end 2017, while the assumptions disclosed for 2016 are used for calculating the pension expense in 2017.

[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.

Sensitivities - Impact on Pension Benefit Obligation (PBO)	2017	2016
Discount rate - Increase 50bps	-10,0%	-6,9%
Discount rate - Decrease 50bps	11,5%	7,7%
Salary increase - Increase 50bps	1,0%	2,0%
Salary increase - Decrease 50bps	-1,0%	-1,9%
Inflation - Increase 50bps	11,1%	6,1%
Inflation - Decrease 50bps	-9,7%	-5,6%

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 2016 Annual Report there have been no changes in the methods used when preparing the sensitivity analyses.

Net retirement benefit liabilities/assets

NOKt	2017	2016
Obligations	38 987	12 879
Plan assets	27 951	5 342
Net liability (-)/asset (+)	**-11 036**	**-7 537**

Movements in the obligation

NOKt	2017	2016
Opening balance	12 879	10 054
Current service cost	40	290
Interest cost	322	272
Pensions paid	-40	0
Past service cost	0	0
Settlements	0	0
Transfers	23 634	0
Remeasurement from changes in financial assumptions	0	-227
Remeasurement from experience adjustments	1 550	3 397
Plan change effect due to conversion from DBP to DCP	0	-2 161
Closing balance before social security contribution	**38 385**	**11 626**
Change in provision for social security contribution 1	602	1 253
Closing balance	**38 987**	**12 879**

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

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

Movements in the fair value of plan assets

NOKt	2017	2016
Opening balance	5 342	4 863
Interest income (calculated using the discount rate)	150	143
Pensions paid	0	0
Settlements	0	0
Contributions by employer	450	340
Transfers	18 487	0
Remeasurement (actual return less interest income)	3 522	-4
Closing balance	**27 951**	**5 342**

Asset composition

The combined return on assets in 2017 was 15,4% (4.3%). All asset classes generated positive return with equities as the main driver. At the end of the year, the equity exposure in the foundation represented 31% (28%) of total assets.

Asset composition in funded schemes

	2017	2016
Equity	31 %	28 %
Bonds	52 %	55 %
Real estate	15 %	15 %
Other assets	2 %	2 %

Defined benefit pension costs

The total net pension cost for DBP recognised in Nordea Eiendomskreditt's income statement (as staff costs) for 2017 is NOKt 1 432. The amount covers both funded and unfunded pension plans, as well as DCP and AFP-premium.

Recognised in the income statement, NOKt	2017	2016
Current service cost	40	290
Net interest	173	129
Past service cost and settlements	0	0
Plan change effect due to conversion from DBP to DCP	0	-2 161
Social Security Contribution	41	-246
Pension cost on defined benefit plans	**253**	**-1 987**

Recognised in other comprehensive income, NOKt	2017	2016
Remeasurement from changes in financial assumptions	-3 308	28
Remeasurement from experience adjustments	4 858	3 844
Remeasurement of plan assets (actual return less interest income)	-3523	-12
Social security contribution	-378	861
Pension cost on defined benefit plans	**-2 351**	**4 721**

The defined benefit pension plan cost for 2018 is expected to be NOKt 497.

Note 13

Assets pledged as security for own liabilities

NOKt	31 Dec 2017	31 Dec 2016
Assets pledged as security for own liabilities:		
Loans to the public	127 465 821	98 375 343
Total	**127 465 821**	**98 375 343**
The above pledges pertain to the following liability and committment items:		
Debt securities in issue (carrying amount)[1]	77 730 925	84 251 822
Total	**77 730 925**	**84 251 822**

[1] The figure for 2016 has been changed to include accrued interests.

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, mostly 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 2017	31 Dec 2016
Accepted, not disbursed loans (unutilised portion of approved overdraft facilities)	14 221 101	13 660 782
Other commitments, excluding derivatives [1,2]	535	704
Total	**14 221 636**	**13 661 486**

[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 2018, 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[1] 2017	31 Dec[1] 2016
Calculation of own funds		
Equity in the consolidated situation	13 168	12 278
Proposed/actual dividend	-441	0
Common Equity Tier 1 capital before regulatory adjustments	12 727	12 278
Deferred tax assets	0	0
Intangible assets	0	0
IRB provisions shortfall (-)	-75	-63
Deduction for investments in credit institutions (50%)	0	0
Pension assets in excess of related liabilities	0	0
Other items, net	43	42
Total regulatory adjustments to Common Equity Tier 1 capital	-32	-21
Common Equity Tier 1 capital (net after deduction)	**12 695**	**12 257**
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)	**12 695**	**12 257**
Tier 2 capital before regulatory adjustments	1 200	1 200
IRB provisions excess (+)	28	29
Total regulatory adjustments to Tier 2 capital	28	29
Tier 2 capital	**1 228**	**1 229**
Own funds (net after deduction)[2]	**13 923**	**13 486**

[1] Including profit for the period
[2] Own Funds adjusted for IRB provision, i.e. adjusted own funds equal 13,969m by 31 Dec 2017

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 2017 Minimum Capital requirement	31 Dec 2017 REA	31 Dec 2016 Minimum Capital requirement	31 Dec 2016 REA
Credit risk	**1 012**	**12 652**	**900**	**11 247**
- of which counterparty credit risk	3	43	25	309
IRB	1 006	12 581	873	10 907
- sovereign	6	77	0	0
- corporate	0	0	0	0
- advanced	0	0	0	0
- foundation	0	0	0	0
- institutions	13	161	14	166
- retail	987	12 343	859	10 741
- secured by immovable property collateral	790	9 879	815	10 187
- other retail	197	2 464	44	554
- other	0	0	0	0
Standardised	6	71	27	340
- central governments or central banks	0	0	0	0
- regional governments or local authorities	0	0	0	0
- public sector entities	0	0	0	0

Note 15

Capital adequacy cont.

	31 Dec 2017 Minimum Capital requirement	31 Dec 2017 REA	31 Dec 2016 Minimum Capital requirement	31 Dec 2016 REA
- multilateral development banks	0	0	0	0
- international organisations	0	0	0	0
- institutions	6	71	27	340
- corporate	0	0	0	0
- retail	0	0	0	0
- secured by mortgages on immovable properties	0	0	0	0
- in default	0	0	0	0
- associated with particularly high risk	0	0	0	0
- covered bonds	0	0	0	0
- institutions and corporates with a short-term credit assessment	0	0	0	0
- collective investments undertakings (CIU)	0	0	0	0
- equity	0	0	0	0
- other items	0	0	0	0
Credit Value Adjustment Risk				
Market risk				
- trading book, Internal Approach	0	0	0	0
- trading book, Standardised Approach	0	0	0	0
- banking book, Standardised Approach	0	0	0	0
Operational risk	**204**	**2 550**	**238**	**2 977**
Standardised	204	2 550	238	2 977
Additional risk exposure amount due to Article 3 CRR	**0**	**0**	**5**	**63**
Sub total	**1 216**	**15 202**	**1 143**	**14 287**
Adjustment for Basel I floor				
Additional capital requirement according to Basel I floor	3 578	44 725	2 674	33 420
Total	**4 794**	**59 927**	**3 817**	**47 707**

Minimum Capital Requirement & Capital Buffers

		Capital Buffers					
Percentage	**Minimum Capital requirement**	**CCoB**	**CCyB**	**SII**	**SRB**	**Capital Buffers total**	**Total**
Common Equity Tier 1 capital	4,5	2,5	2,0		3,0	7,5	**12,0**
Tier 1 capital	6,0	2,5	2,0		3,0	7,5	**13,5**
Own funds	8,0	2,5	2,0		3,0	7,5	**15,5**
NOKm							
Common Equity Tier 1 capital	2 697	1 498	1 196		1 798	4 492	7 188
Tier 1 capital	3 596	1 498	1 196		1 798	4 492	8 087
Own funds	4 794	1 498	1 196		1 798	4 492	9 286

Common Equity Tier 1 available to meet Capital Buffers

Percentage points of REA	**31 Dec[1,2] 2017**	**31 Dec[1,2] 2016**
Common Equity Tier 1 capital	15,2	19,7

[1] Including profit
[2] Including Basel I floor

Note 15
Capital adequacy cont.

Capital adequacy ratios

	31 Dec 2017 [1]	31 Dec 2016 [1]
Excl. Basel I floor		
CET1 capital ratio (%)	83,5	85,8
Tier 1 capital ratio (%)	83,5	85,8
Total capital ratio (%)	91,6	94,4
Capital adequacy quotient (own funds divided by capital requirement)	11,4	11,8
Incl. Basel I floor		
CET1 capital ratio (%)	21,2	25,7
Tier 1 capital ratio (%)	21,2	25,7
Total capital ratio (%)	23,2	28,3
Capital adequacy quotient (own funds divided by capital requirement)	2,9	3,5

1 Including profit for the period

Analysis of Capital Requirements

Exposure class	Average risk weight (%)	Capital requirement [1]
Corporate IRB	-	-
Institutions IRB	5	13
Retail IRB	9	987
Sovereign	4	6
Other	20	6
Total credit risk	**9**	**1 012**

[1] 8% minimum capital requirement, NOKm

Leverage ratio	31 Dec[1,2] 2017	31 Dec[1,2] 2016
Tier 1 capital, transitional definition, NOKm	12 695	12 257
Leverage ratio exposure, NOKm	148 632	120 378
Leverage ratio, percentage	8,5	10,2

[1] Including profit of the period
[2] Leverate ratio is calculated according to the Delegated Act

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

	On-balance exposure, NOKm	Off-balance exposure, NOKm	Exposure value (EAD), NOKm[1]	of which EAD for off-balance, NOKm	Exposure-weighted average risk weight:
Sovereign, foundation IRB:	2 059		2 059		4
of which					
- rating grades 7	2 059		2 059		4
- rating grades 6					
- rating grades 5					
- rating grades 4					
- rating grades 3					
- rating grades 2					
- rating grades 1					
- unrated					
- defaulted					
Corporate, foundation IRB:					
of which					
- rating grades 6					

Note 15
Capital adequacy cont.

	On-balance exposure, NOKm	Off-balance exposure, NOKm	Exposure value (EAD), NOKm[1]	of which EAD for off-balance, NOKm	Exposure-weighted average risk weight:
- rating grades 5					
- rating grades 4					
- rating grades 3					
- rating grades 2					
- rating grades 1					
- unrated					
- defaulted					
Corporate, advanced IRB:					
of which					
- rating grades [6]					
- rating grades 5					
- rating grades 4					
- rating grades 3					
- rating grades 2					
- rating grades 1					
- unrated					
- defaulted					
Institutions, foundation IRB:	3 545		3 545		5
of which					
- rating grades 6	3 545		3 545		5
- rating grades 5					
- rating grades 4					
- rating grades 3					
- rating grades 2					
- rating grades 1					
- unrated					
- defaulted					
Retail, of which secured by real estate:	126 353	13 086	130 855	4 502	8
of which					
- scoring grades A	103 997	12 050	108 142	4 145	5
- scoring grades B	14 875	698	15 115	241	11
- scoring grades C	5 773	282	5 870	97	23
- scoring grades D	1 182	50	1 200	17	36
- scoring grades E					
- scoring grades F					
- not scored					
- defaulted	526	6	528	2	243
Retail, of which other retail:	9 303	1 136	9 694	391	25
of which					
- scoring grades A	3 347	811	3 626	279	6
- scoring grades B	676	71	700	25	14
- scoring grades C	276	30	287	10	25
- scoring grades D	2 574	117	2 614	40	36
- scoring grades E	1 862	91	1 893	31	40
- scoring grades F	520	16	526	6	56
- not scored	5	0	5	0	34
- defaulted	43	0	43	0	169
Other non credit-obligation assets:					

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

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

Note 16

Classification of assets and liabilities

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 2017

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	138 509				138 509
Loans to the public	135 421 520				135 421 520
Interest-bearing securities		5 603 387			5 603 387
Derivatives		46	1 194 794		1 194 840
Fair value changes of the hedged items in portfolio hedge of interest rate risk	26 142				26 142
Other assets				4	4
Prepaid expenses and accrued income	148 048			516	148 564
Total assets	**135 734 219**	**5 603 433**	**1 194 794**	**520**	**142 532 966**

NOKt	Liabilities at fair value through profit and loss - Held for trading [1]	Derivatives used for hedging	Other financial liabilities	Non-financial liabilities	Total
Liabilities					
Deposits by credit institutions			47 832 472		47 832 472
Debt securities in issue			77 730 925		77 730 925
Derivatives	38 971	1 310 582			1 349 553
Fair value changes of the hedged items in portfolio hedge of interest rate risk			835 069		835 069
Current tax liabilities				279 728	279 728
Other liabilities				5 871	5 871
Accrued expenses and prepaid income			418	20 750	21 168
Deferred tax				99 968	99 968
Retirement benefit obligations				11 036	11 036
Subordinated loan capital			1 200 279		1 200 279
Total liabilities	**38 971**	**1 310 582**	**127 599 162**	**417 354**	**129 366 069**

[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.

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					
Loans to credit institutions	155 900				155 900
Loans to the public	105 939 338				105 939 338
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**

Note 16
Classification of assets and liabilities, cont.

31 December 2016

NOKt	Liabilities at fair value through profit and loss - Held for trading [1]	Derivatives used for hedging	Other financial liabilities	Non-financial liabilities	Total
Liabilities					
Deposits by credit institutions			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
Other liabilities				193 892	193 892
Accrued expenses and prepaid income				2 637	2 637
Deferred tax			253	797	1 050
Retirement benefit obligations				83 301	83 301
Subordinated loan capital				7 540	7 540
Total liabilities			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 17

Assets and liabilities at fair value

Fair value of financial assets and liabilities

NOKt	31 Dec 2017 Carrying amount	31 Dec 2017 Fair value	31 Dec 2016 Carrying amount	31 Dec 2016 Fair value
Financial assets				
Loans	135 586 171	133 848 501	106 124 274	105 039 386
Interest-bearing securities	5 603 387	5 603 387	5 757 776	5 757 776
Derivatives	1 194 840	1 194 840	1 613 137	1 613 137
Other financial assets	0	0	0	0
Prepaid expenses and accrued income	148 303	148 303	117 385	117 385
Total financial assets	**142 532 701**	**140 795 031**	**113 612 572**	**112 527 684**
Financial liabilities				
Deposits and debt instruments	127 598 745	128 822 011	99 252 186	99 822 748
Derivatives	1 349 553	1 349 553	1 794 382	1 794 382
Other financial liabilities	0	0	253	253
Accrued expenses and prepaid income	418	418	0	0
Total financial liabilities	**128 948 717**	**130 171 982**	**101 046 822**	**101 617 383**

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

Assets and liabilities held at fair value on the balance sheet

Categorisation into the fair value hierarchy

31 Dec 2017, 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		5 603 387		5 603 387
Derivatives		1 194 840		1 194 840
Total assets	**0**	**6 798 227**	**0**	**6 798 227**
Liabilities at fair value on the balance sheet [1]				
Derivatives		1 349 553		1 349 553
Total liabilities	**0**	**1 349 553**	**0**	**1 349 553**

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

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.

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

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

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

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

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

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

For interest-bearing securities the categorisation into the three levels are based on the internal pricing methodology. These instruments can either be directly quoted in active markets (Level 1) or measured using a methodology giving a quote based on observable inputs (Level 2). 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 2017. When transfers between levels occurs, these are considered to have occurred at the end of the reporting period.

The valuation processes for fair value measurements

Financial instruments

"Nordea has an independent valuation control unit, Group Valuation and Accounting Risk Control (GVAR) established as part of the CRO organisation. GVAR 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. GVAR issues the Nordea Group Valuation Policy, which is approved by the Group CRO.

The Group Valuation Committee serves as decision body for valuations and is chaired by representative for the CFO organisation. 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 2017, NOKt	Carrying amount	Fair value	Level in fair value hierarchy
Assets not held at fair value on the balance sheet			
Loans	135 586 171	133 848 501	3
Other financial assets	0	0	3
Prepaid expenses and accrued income	148 303	148 303	3
Total assets	**135 734 474**	**133 996 804**	
Liabilities not held at fair value on the balance sheet			
Deposits and debt instruments	127 598 745	128 822 011	3
Other financial liabilities	0	0	3
Accrued expenses and prepaid income	418	418	3
Total liabilities	**127 599 163**	**128 822 429**	

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 catergorised 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

31 Dec 2017, 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: Financial instruments	Net amount Financial collateral received	Cash collateral received	Net amount
Assets							
Derivatives	1 194 840		1 194 840	-319 317			875 523
Total	**1 194 840**	**0**	**1 194 840**	**-319 317**	**0**	**0**	**875 523**

31 Dec 2017, 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: Financial instruments	Financial collateral pledged	Cash collateral pledged	Net amount
Liabilities							
Derivatives	1 349 553		1 349 553	-319 317			1 030 236
Total	**1 349 553**	**0**	**1 349 553**	**-319 317**	**0**	**0**	**1 030 236**

[1] All amounts are measured at fair value.

31 Dec 2016, 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: Financial instruments	Net amount Financial collateral received	Cash collateral received	Net amount
Assets							
Derivatives	1 613 137		1 613 137	-451 835			1 161 302
Total	**1 613 137**	**0**	**1 613 137**	**-451 835**	**0**	**0**	**1 161 302**

31 Dec 2016, 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: Financial instruments	Financial collateral pledged	Cash collateral pledged	Net amount
Liabilities							
Derivatives	1 794 382		1 794 382	-451 835			1 342 547
Total	**1 794 382**	**0**	**1 794 382**	**-451 835**	**0**	**0**	**1 342 547**

[1] All amounts are measured at fair value.

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

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

Note 19

Maturity analysis for assets and liabilities

Contractual undiscounted cash flows

31 Dec 2017, NOKt

	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Total
Interest-bearing financial assets	138 512	2 251 657	6 999 916	47 940 837	135 941 858	193 272 781
Non interest-bearing financial assets					174 722	174 722
Non-financial assets					0	0
Total assets	**138 512**	**2 251 657**	**6 999 916**	**47 940 837**	**136 116 581**	**193 447 504**
Interest-bearing financial liabilities	0	980 837	10 862 042	118 793 522	2 726 791	133 363 192
Non interest-bearing financial liabilities					835 069	835 069
Non-financial liabilities and equity					13 584 680	13 584 680
Total liabilities and equity	**0**	**980 837**	**10 862 042**	**118 793 522**	**17 146 540**	**147 782 940**
Derivatives, cash inflow	0	117 141	911 004	9 495 694	1 374 458	11 898 297
Derivatives, cash outflow	0	199 693	563 926	9 927 196	1 500 653	12 191 470
Net exposure derivatives		**-82 552**	**347 078**	**-431 503**	**-126 196**	**-293 173**
Exposure	**138 512**	**1 188 269**	**-3 515 047**	**-71 284 187**	**118 843 845**	**45 371 391**
Cululative exposure	**138 512**	**1 326 781**	**-2 188 267**	**-73 472 454**	**45 371 391**	

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 14 221 101, which could be drawn on at any time.

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 derivatives		**-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**
Cululative 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.

Note 20
Related-party transactions

NOKt	2017			2016		
	Nordea Bank AB, Norwegian Branch	Nordea Bank AB	Nordea Bank AB, Finnish Branch	Nordea Bank Norge ASA	Nordea Bank AB	Nordea Bank Finland Plc.
Profit and loss account						
Interest income on loans with financial institutions	3 694			3 677		
Total income	**3 694**	**-**	**-**	**3 677**	**-**	**-**
I Interest expenses on liabilities to financial institutions	347 030			134 487		
Interest and related expense on securities issued incl. hedging	-294 437	57 877		-373 468	45 397	
Net gains/losses on items at fair value	206 896	2 837		525 186	98 458	
Interest and related expense on subordinated loan capital	34 602			43 051		
Commission and fee expense for banking services	14 797			23		
Other operating expenses	379 424	1 403	458	455 910	1 159	381
Total expenses	**688 312**	**62 118**	**458**	**785 189**	**145 013**	**381**
Balance sheet						
Loans and receivables to credit institutions	138 509			156 057		
Derivatives	1 194 840			1 613 137		
Total assets	**1 333 349**	**-**	**-**	**1 769 193**	**-**	**-**
Deposits by credit institutions[1]	47 832 066			12 745 268		
Issued bonds			885 105			553 628
Derivatives	311 467	1 038 086		431 381	1 363 001	
Accrued expenses and prepaid income[1]	14 795	2 163				
Subordinated loan capital[1]	1 200 279			1 200 310		
Share capital and share premium	5 433 627			5 433 627		
Total libilities and equity	**54 792 234**	**1 040 249**	**885 105**	**19 810 586**	**1 363 001**	**553 628**
Off balance sheet items						
Interest rate swaps (nominal value)	65 809 526	7 589 230		85 215 875	6 342 281	

[1] Figures for 2016 have been changed, and accrued interests are now reported at the same line as the underlying interest-bearing liabilities.

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 AB (publ), filial i Norge. Instalments, early redemptions and refinancings will over time reduce the company's loan portfolio. Loans that cease to be a part of the portfolio, are replaced by new purchases of loans from the parent bank, if deemed necessary to maintain the level of overcollateralization. This year to date, loans amounting to NOK 69 billion have been transferred from Nordea Bank AB (publ), filial i Norge to Nordea Eiendomskreditt AS.

Since the cross-border mergers between Nordea Bank AB (publ) and its subsidiary banks with effect from 2 January 2017, Nordea Eiendomskreditt AS has been a wholly owned subsidiary of Nordea Bank AB (publ). From the same time the subsidiary banks have become branches of Nordea Bank AB (publ). Transactions between Nordea Eiendomskreditt AS and other legal entities or branches in the Nordea Group are performed according to market based principles in conformity with OECD requirements on transfer pricing.

Note 21
Interest-bearing securities

	31 Dec 2017		31 Dec 2016	
NOKt	Aquired amount	Carrying amount	Aquired amount	Carrying amount
Financial assets				
State and sovereigns	2 034 390	2 058 586	2 418 255	2 434 882
Mortgage institutions	3 548 577	3 544 801	3 317 220	3 322 894
Total	**5 582 967**	**5 603 387**	**5 735 475**	**5 757 776**

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) 2017, which is available on www.nordea.com. Much of the information in this note is collected from the Pillar III report in order to fulfil the disclosure requirement regarding credit risk in the Annual Report.

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

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

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

Credit risk exposures for loans and derivatives

NOKm	31 Dec 2017	31 Dec 2016
Loans to credit institutions	139	156
Interest-bearing securities	5 603	5 758
Loans to the public incl accrued interest	135 570	106 057
- of which household	135 570	106 057
Total loans and receivables (on-balance exposure)	**141 312**	**111 970**
Off balance credit exposure		
- of which lending to the public	14 221	13 661
- of which derivatives	888	1 161
Off balance credit exposure	**15 109**	**14 822**
Exposure At Default (EAD)	**156 421**	**126 792**

Loan-to-value distribution

NOKm	31 Dec 2017	31 Dec 2016
<50%	85,7 %	87,2 %
50-70%	11,1 %	9,5 %
70-80%	1,7 %	1,6 %
80-90%	0,7 %	0,8 %
>90%	0,8 %	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 2017	31 Dec 2016
6-30 days	1 370	1 532
31-60 days	228	168
61-90 days	46	58
>90 days	156	209
Total	**1 799**	**1 968**
Past due not impaired loans divided by loans to the public after allowances	1,3 %	1,9 %

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

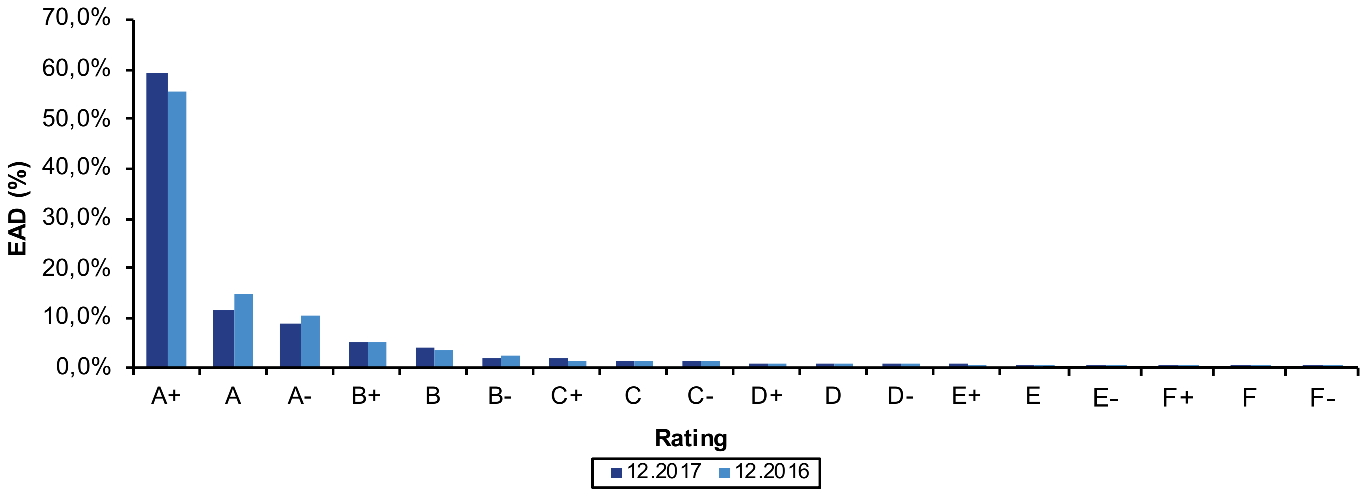
Scoring distribution of the lending portfolio

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, Norwegian branch . 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.

Risk grade distribution, Exposure at Default



Note 24
IFRS 9

Classification of assets and liabilities

Assets

		Fair value through profit or loss (FVPL)						
1 Jan 2018, NOKt	Amortised cost (AC)	Mandatorily	Designated at fair value through profit or loss (Fair value option)	Derivatives used for hedging	Fair value through other comprehensive income (FVOCI)	Non-financial assets	Assets held for sale	Total
Loans to credit institutions	138 509							138 509
Loans to the public	135 454 538							135 454 538
Interest-bearing securities		5 603 387						5 603 387
Derivatives		46		1 194 794				1 194 840
FV change of the hedged item in pf hedge of interest rate risk	26 142							26 142
Other assets						4		4
Prepaid expenses and accrued income	148 048					516		148 564
Total assets	**135 767 237**	**5 603 433**	**-**	**1 194 794**	**-**	**520**	**-**	**142 565 984**

Liabilities

		Fair value through profit or loss (FVPL)						
1 Jan 2018, NOKt	Amortised cost (AC)	Mandatorily	Designated at fair value through profit or loss (Fair value option)	Derivatives used for hedging		Non-financial liabilities	Liablities held for sale	Total
Deposit by credit institutions	47 832 472							47 832 472
Debt securities in issue	77 730 925							77 730 925
Derivatives		38 971		1 310 582				1 349 553
Fair value changes of the hedged items in portfolio hedge of interest rate risk	835 069							835 069
Current tax liabilities						279 728		279 728
Other liabilities						5 871		5 871
Accrued expenses and prepaid income	418					20 750		21 168
Deferred tax liabilities						99 968		99 968
Retirement benefit liabilities						11 036		11 036
Subordinated liabilities	1 200 279							1 200 279
Total liabilities	**127 599 162**	**38 971**	**-**	**1 310 582**	**-**	**417 354**	**-**	**129 366 069**

Reclassification of financial assets and liabilities at transition

		Fair value through profit or loss (FVPL)						
Assets, NOKt	Amortised cost (AC)	Mandatorily	Designated at fair value through profit or loss (Fair value option)	Derivatives used for hedging	Fair value through other comprehensive income (FVOCI)	Non-financial assets	Assets held for sale	Total
Balance at 31 Dec 2017 under IAS 39	**135 734 219**	**5 603 433**	**0**	**1 194 794**	**0**	**520**	**0**	**142 532 966**
Required reclassification from Fair value option to AC								
Required reclassificaion from Fair value option to FVPL mandatorily								
Required reclassification from AC to FVPL mandatorily								
Reclassification of provisions on loans held at fair value								
Remeasurement under IFRS 9[1]	33 216	0	0	0	0	0	0	33 216
Balance at 1 Jan 2018 under IFRS 9	**135 767 435**	**5 603 433**	**0**	**1 194 794**	**0**	**520**	**0**	**142 566 182**

Note 24
IFRS 9, cont.

Liabilities, NOKt	Amortised cost (AC)	Fair value through profit or loss (FVPL) Mandatorily	Designated at fair value through profit or loss (Fair value option)	Derivatives used for hedging	Non-financial liabilities	Liablities held for sale	Total
Balance at 31 Dec 2017 under IAS 39	**127 599 162**	**38 971**		**1 310 582**	**417 354**		**129 366 069**
Remeasurement under IFRS 9	198	0		0	0		198
Balance at 1 Jan 2018 under IFRS 9	**127 599 360**	**38 971**		**1 310 582**	**417 354**		**129 366 267**

[1] The remeasurement is related to loans to the public and bonds in the liquidity portfolio.

Impact on equity (retained earnings) at transition

The total positive impact on equity from IFRS 9 at transition amounts to NOK 25m after tax.

Reclassification of provisions at transition

NOKt	Held to maturity	Loans & receivables	Amortised cost (AC)	Available for sale	Fair value through other comprehensive income (FVOCI)	Off balance	Total
Balance at 31 Dec 2017 under IAS 39		89 313					89 313
Reclassification to AC		-89 313	89 313				0
Reclassification to FVTPL							0
Remasurement under IFRS 9, collective provisions			-33 216			198	-33 018
Remasurement under IFRS 9, individual provisions							0
Opening provisions 2018 under IFRS 9	**0**	**0**	**56 097**	**0**	**0**	**198**	**56 295**

Exposures measured at amortised cost and fair value through OCI, before allowances

	%
Stage 1	85,44
Stage 2	14,06
Stage 3	0,50
Total	100,00

Allowances for credit losses

NOKt	Stage 1	Stage 2	Stage 3	Total
Loans	2 206	13 937	39 954	56 097
Interest-bearing securities	0	0	0	0
Off balance	31	166	0	198
Total	**2 237**	**14 104**	**39 954**	**56 295**

Accounting principles under IFRS 9

Classification of financial instruments under IFRS 9
Each financial instrument has been classified into one of the following categories:

Financial assets:
- Amortised cost
- Financial assets at fair value through profit or loss:
  – Mandatorily measured at fair value through profit and loss
  – Designated at fair value through profit or loss (fair value option)
- Financial asset at fair value through other comprehensive income

Financial liabilities:
- Amortised cost
- Financial liabilities at fair value through profit or loss:
  – Mandatorily measured at fair value through profit and loss
  – Designated at fair value through profit or loss (fair value option)

The classification of a financial assets is dependent on the business model for the portfolio where the instrument is included and on whether the cash flows are solely payments of principal and interest (SPPI).

Financial assets with cash flows that are not solely payments of principle and interest (SPPI) are measured at fair value through profit and loss. All other assets are classified based on the business model. Instruments included in a portfolio with a business model where the intention is to keep the instruments and collect contractual cash flows are measured at amortised cost. Instruments included in a business model where the intention is to both keep the instruments to collect the contractual cash flows and sell the instruments are measured at fair value through other comprehensive income. Financial assets included in any other business model are measured at fair value through profit and loss.

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

All financial assets and liabilities are initially measured at fair value. The classification of financial instruments into different categories forms the basis for how each instrument is subsequently measured on the balance sheet and how changes in its value are recognised. In the table "Classification of financial instruments under IFRS 9" above, the classification of the financial instruments on Nordea Eiendomskreditt's balance sheet into the different categories under IFRS 9 is presented.

Amortised cost
Financial assets and liabilities measured at amortised cost are initially recognised on the balance sheet at fair value, including transaction costs. Subsequent to initial recognition, the instruments within this category are measured at amortised cost. In an amortised cost measurement, the difference between acquisition cost and redemption value is amortised in the income statement over the remaining term using the effective interest rate method. Amortised cost is defined as the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and for financial assets, adjusted for any loss allowance. For more information about the effective interest rate method see Note 1 section 5, "Net interest income". For information about impairment under IFRS 9, see Impairment section below.

Interest on assets and liabilities classified at amortised cost is recognised in the item "Interest income" and "Interest expense" in the income statement. This category consists of mainly all loans and deposits, subordinated liabilities and debt securities in issue.

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

The category consists of two sub-categories; Mandatorily measured at fair value through profit and loss and Designated at fair value through profit or loss (fair value option).

The sub-category Mandatorily measured at fair value through profit and loss contains mainly interest-bearing securities included in the liquidity buffer and derivative instruments.

Financial asset at fair value through other comprehensive income
Financial assets at fair value through other comprehensive income are measured at fair value plus transaction costs. This category mainly consists of the interest-bearing securities included in the liquidity buffer. Changes in fair values, except for interest, foreign exchange effects and impairment losses, are recognised in the fair value reserve in equity through other comprehensive income. Interest is recognised in the item "Interest income" and foreign exchange effects and impairment losses in the item "Net result from items at fair value" in the income statement. When an instrument is disposed of, the fair value changes that previously have been accumulated in the fair value reserve in other comprehensive income are removed from equity and recognised in the income statement in the item "Net result from items at fair value". For information about impairment under IFRS 9, see Impairment section below.

Impairment of financial instruments under IFRS 9

Scope
Financial instruments classified as "Amortised cost" or "Fair value through other comprehensive income" are in scope for recognising impairment due to credit risk. This includes assets recognised on the balance sheet as "Loans to credit institutions", "Loans to the public" and "Interest bearing securities". These balance sheet lines also include assets classified as "Fair value through profit or loss", which are not in scope for impairment calculations. See Classification section above for further information on the classification of financial instruments.

Off-balance sheet commitments, contingent liabilities and loan commitments are also in scope for impairment calculations.

Recognition and presentation
Amortised cost assets are recognised gross with an offsetting allowance for the expected credit losses if the loss is not regarded as final.
The allowance account is disclosed net on the face of the balance sheet, but the allowance account is disclosed separately in the notes. Changes in the

allowance account are recognised in the income statement and classified as "Net loan losses".

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

Provisions for off-balance sheet exposures are classified as "Provisions" on the balance sheet, with changes in provisions classified as "Net loan losses".

Assets classified as "Fair value through other comprehensive income" are recognised at fair value on the balance sheet. Impairment losses calculated in accordance with IFRS 9 are recognised in the income statement and classified as "Net result from items at fair value". Any fair value adjustments are recognised in "Other comprehensive income".

Impairment testing of individually assessed loans
Nordea Eiendomskreditt tests all exposures for impairment on an individual basis. The purpose of the impairment tests is to find out if the exposures have become credit impaired (stage 3). Nordea monitors whether there are indicators of exposures being credit impaired by identifying events that have a detrimental impact on the estimated future cash flows (loss event). Nordea Eiendomskreditt applies the same definition of default as the Capital Requirements Regulation. More information on the identification of loss events can be found in the Risk, Liquidity and Capital management section. Exposures that are not individually assessed as credit impaired will be part of the collective impairment calculation.

For significant exposures that have been individually identified as credit impaired, the measurement of the impairment loss is made on an individual basis. The carrying amount of the exposures is compared with the sum of the net present value of expected future cash flows. If the carrying amount is higher, the difference is recognised as an impairment loss. The expected cash flows are discounted with the original effective interest rate and include the fair value of the collaterals and other credit enhancements. The estimate is based on three different forwardlooking scenarios that are probability weighted to derive the net present value.

For insignificant exposures that have been individually identified as credit impaired, the measurement of the impairment loss is measured using the collective model described below, but based on the fact the exposures are already in default.

Impairment testing of collectively assessed loans
For exposures not impaired on an individual basis, a collective model is used for calculating impairment losses. The provisions are calculated as the exposure at default times the probability of default times the loss given default. For assets in stage 1 this calculation is only based on the coming 12 months, while it for assets in stage 2 is based on the expected lifetime of the asset.

The provisions for exposures where there has been no significant increase in credit risk since initial recognition are based on the 12 months expected loss (stage 1). Provisions for exposures where there has been a significant increase in credit risk since initial recognition, but that are not credit impaired, are based on the lifetime expected losses (stage 2).

Nordea Eiendomskreditt uses two different models to identify whether there has been a significant increase in credit risk or not. For assets held at transition 1 January 2018, the change in internal rating and scoring data is used to determine whether there has been a significant increase in credit risk or not. Internal rating/scoring information is used to assess the risk of the customers and a deterioration in rating/scoring indicates an increase in the credit risk of the customer. Nordea Eiendomskreditt has concluded it is not possible to calculate the lifetime PDs at origination without undue cost or effort and without the use of hindsight for assets already recognised on the balance sheet at transition. Changes to the lifetime Probability of Default (PD) is used as the trigger for assets recognised after transition.

For assets evaluated based on lifetime PDs, Nordea Eiendomskreditt uses a mix of absolute and relative changes in PD as the transfer criterion. Assets where the relative increase in lifetime PD is more than 250 percent is considered as having a significant increase in credit risk, or if the absolute increase in lifetime PD is more than 150 basis points. For assets where rating and scoring models are used, the change in rating/scoring notches is calibrated to match the significant increase in credit risk based on lifetime PD. In addition, customers with forbearance measures and customers with payments more than thirty days past due are also transferred to stage 2, unless already identified as credit impaired (stage 3). Exposures more than 90 days past due will normally be classified as stage 3, but these classifications will occasionally be rebutted if there is evidence the customer is not in default. Such exposures will be classified as stage 2.

When calculating provisions, including the staging assessment, the calculation is based on probability weighted forward looking information. Nordea Eiendomskreditt applies three macro-economic scenarios to address the non-linearity in expected credit losses. The different scenarios are used to adjust the relevant parameters for calculating expected losses and a probability weighted average of the expected losses under each scenario is recognised as provisions.

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

Restructured loans and modifications
In this context a restructured loan is defined as a loan where Nordea 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. In the event of a recovery the payment is reported as a recovery of loan losses.

Modifications of the contractual cash flows for loans to customers in financial distress (forbearance) reduce the gross carrying amount of the loan. Normally this reduction is less than the existing provision and no loss is recognised in the income statement due to modifications. If significant, the gross amounts (loan and allowance) are reduced.

Assets taken over for protection of claims
IIn a financial reconstruction the creditor may concede loans to the obligor and in exchange for this concession acquire an asset pledged for the conceded loans, shares issued by the obligor or other assets. Assets taken

over for protection of claims are reported on the same balance sheet line as similar assets already held by Nordea Eiendomskreditt.

At initial recognition, all assets 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 assets taken over is recognised as "Net loan losses". The fair value of the asset on the date of recognition becomes its cost or amortised cost value, as applicable. In subsequent periods, assets taken over for protection of claims are valued in accordance with the valuation principles for the appropriate type of asset Financial assets that are foreclosed are generally classified into the categories "Fair value through profit or loss" and measured at fair value. Changes in fair values are recognised in the income statement under the line "Net result from items at fair value".

Any change in value, after the initial recognition of the asset taken over, is presented in the income statement in line with the Nordea Group's presentation policies for the appropriate asset. "Net loan losses" in the income statement is, after the initial recognition of the asset taken over, consequently not affected by any subsequent remeasurement of the asset.

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 2017, 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 are prepared in accordance with law and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Basis for Opinion

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

Key Audit Matters

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

The credit companies activities are largely unchanged compared to last year. We have not identified regulatory changes, transactions or other events that qualified as new Key audit matters for our audit of the 2017 financial statements. In this light, our areas of focus have been the same in 2017 as the previous year.

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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 135 421 520 secured by real estate and has issued covered bonds. Processes and controls have been established to ensure that the company complies with the various requirements the mortgage company is subject to, including that the value of the collateral consistently backs the covered bonds. The value of the collateral at any time shall be above 75 % of the loan value and for vacation property, above 60 % of the loan value. The company has realized only limited losses on loans in 2017. As the requirements and the processes and controls are of fundamental importance for the mortgage company's operations and compliance with the regulations, we have focused our attention on this subject.	In order to comply with the requirements in the regulations applicable to covered bonds, the mortgage company has established controls in the process of granting and transferring loans. These controls ensure the mortgage company has reviewed the applications for loans and associated documentation. The process includes formal controls and division of responsibilities, which are directed at ensuring that the process has been carried out prior to granting or transfer of loans from the parent bank to the mortgage company. Further, in accordance with applicable regulations the company has engaged an independent inspector. The inspector controls, on a quarterly basis, that the mortgage company complies with the various requirements, including the required coverage over the loan portfolio of the value of the collateral. Our audit includes review and verification of the investigator's work and that we examine and assess the mortgage company's documentation and whether the process has been conducted appropriately and timely. Further, we assess if the underlying documentation that the mortgage company has collected, supports the conclusions drawn by the company that the requirements in legislation and regulations have been met. 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	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

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to change management controls and logical access controls.	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 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 in accordance with law and regulations, including fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including 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 the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption, and the 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, 13 February 2018
PricewaterhouseCoopers AS

Marius Kaland Olsen
State Authorised Public Accountant

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Statement by the Chief Executive Officer and 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 2017, including comparative figures for 2016 (the "2017 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 2017 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 2017 and as of 31 December 2016.

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

Nordea Eiendomskreditt AS
Oslo, 13 February 2018

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

Anne Sofie Knoph
Employee representative

Børre Sten Gundersen
Chief Executive Officer

Board of Directors of Nordea Eiendomskreditt at 31 December 2017

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 Schjødt AS	2010
Alex Madsen	Partner, Sjølyst Regnskap ANS	2014
Anne Sofie Knoph, Employee representative	Senior Business Developer, Nordea Eiendomskreditt AS	2017

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