Nordea

Annual Report 2018

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 capitalisation with around 11 million customers. The Nordea share is listed on the Nasdaq Helsinki, Nasdaq Copenhagen and Nasdaq Stockholm exchanges.

Read more about us on Nordea.com.

Key financial figures - Five year overview

Summary of income statements (NOKm)

	2018	2017	2016	2015	2014
Net interest income	1 328	1 576	1 247	1 587	2 059
Net fee and commission income	33	42	49	44	47
Net result from items at fair value	-25	-2	-16	-9	-23
Total operating income	**1 337**	**1 616**	**1 279**	**1 622**	**2 083**
Staff costs	19	17	-0	-3	-3
Other expenses	356	396	462	-155	-155
Total operating expenses	**375**	**414**	**462**	**-158**	**-158**
Loan losses (negative figures are reversals)	6	27	1	33	14
Operating profit	**955**	**1 175**	**817**	**1 431**	**1 911**
Income tax expense	239	294	204	343	553
Net profit for the period	**717**	**881**	**613**	**1 088**	**1 359**

Summary of balance sheet (NOKm)

	2018	2017	2016	2015	2014
Loans to the public, gross	111 920	135 511	106 008	106 508	114 930
Allowances for loan losses	-56	-89	-69	-76	-46
Other assets	8 583	7 111	7 673	8 905	5 181
Debt securities in issue	82 564	77 731	84 252	81 160	89 982
Other liabilities	24 445	51 635	17 083	23 626	20 569
Equity	13 437	13 167	12 278	10 551	9 514
Total assets	**120 447**	**142 533**	**113 613**	**115 337**	**120 065**
Average total assets	127 959	131 021	119 682	111 789	117 087

Ratios and key figures

	2 018	2017	2016	2015	2014
Basic/diluted Earnings per share (EPS), annualised basis, NOK	46,7	57,5	39,9	71,0	88,6
Equity per share, NOK [1]	876,2	858,5	800,6	688,0	620,4
Shares outstanding [1], million	15,3	15,3	15,3	15,3	15,3
Return on average equity	5,4 %	6,9 %	6,0 %	10,8 %	15,4 %
Cost/income ratio	28,1 %	25,6 %	36,1 %	9,7 %	7,6 %
Loan loss ratio, annualised, basis points	0,5	2,2	0,1	3,1	1,2
Common Equity Tier 1 capital ratio, excl. Basel I floor [1, 2]	46,7 %	83,5 %	85,8 %	64,1 %	60,5 %
Tier 1 capital ratio, excl. Basel I floor [1, 2]	46,7 %	83,5 %	85,8 %	64,1 %	60,5 %
Total capital ratio, excl. Basel I floor [1, 2]	50,9 %	91,6 %	94,4 %	68,9 %	65,5 %
Common Equity Tier 1 capital ratio, incl. Basel I floor [1, 2]	26,9 %	21,2 %	25,7 %	21,5 %	17,9 %
Tier 1 capital ratio incl. Basel I floor [1, 2]	26,9 %	21,2 %	25,7 %	21,5 %	17,9 %
Total capital ratio incl. Basel I floor [1, 2]	29,4 %	23,2 %	28,3 %	23,2 %	19,4 %
Own funds, NOKm [1, 2]	14,615	13 923	13 486	11 224	10 126
Risk Exposure Amount incl. Basel I floor, NOKm [1]	49,748	59 927	47 707	48 469	52 281
Number of employees (full-time equivalents) [1]	15,5	15,5	1,7	1,7	1,7

[1] At the end of the period.

[2] Excluding the year to date result for interim figures

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, licenced by the Norwegian Financial Supervisory Authority (FSA) to issue covered bonds. The business objective is to grant and acquire residential mortgage loans and to fund its lending activities primarily via issuance of covered bonds. The lending portfolio comprise only residential loans and loans to holiday homes bought from the parent company.

Nordea Eiendomskreditt AS is domiciled in Oslo, and its business registration number is 971 227 222.

The company's share capital is 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 Abp.

Change of domicile

With effect from 1 October 2018 our parent bank was re-domiciled from Sweden to Finland and the name changed from Nordea Bank AB (publ) to Nordea Bank Abp. The change of domicile did not have any direct effect on Nordea Eiendomskreditt AS except for the change of parent bank.

Comments on the Income statement

(previous year's figures are shown in brackets)

Income

Total operating income was NOK 1,337m (NOK 1,616m) which was a decrease of 14%, mainly driven by lower Net interest income.

Net interest income was NOK 1,328m in 2018 (NOK 1,576m). The decrease is due to lower loan portfolio and tighter loan margins in 2018 compared to 2017, with average lending volume 1.9% lower in 2018.

Net fee and commission income was lower in 2018 than 2017 since fee income will vary with to the size of the loan portfolio. Commission expense increased from the 2017 level due to increased provision expenses related to a Liquidity Transfer and Support agreement with the parent bank. Net fee and commission income ended at NOK 33.3m in 2018 (NOK 41.9m).

Net result from items at fair value ended at a cost of NOK 24.6m in 2018 (cost of NOK 1.9m). 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 13.4m in 2018 (gain of NOK 17.8m in 2017) is related to derivatives held for economic hedging.

Expenses

Total operating expenses was NOK 375m in 2018 (NOK 414m). The cost is mainly related to staff costs and services bought from the parent bank Nordea Bank Abp. 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 2018. Total operating expenses were equivalent to 0.29% of average total assets (0.32%). Nordea Eiendomskreditt AS does not incur any costs for research and development activities.

Loan losses

Net loan losses for 2018 ended at NOK 6.5m (NOK 27.3m), corresponding to 0.5 basis points (2.2 bp). The implementation effect of IFRS 9 at 1 January 2018 was a reduction in allowances for collectively assessed loans by NOK 33.2m. During 2018 these allowances increased again by NOK 1.4m. Loan losses for individually assessed loans were NOK 5.1m. Comparable figures for 2017 were an increase in collective allowances of NOK 22.6m and loan losses for individually assessed loans of NOK 4.7m, in total a net cost of NOK 27.3m.

Taxes

Taxes for the year amounted to NOK 238.9m, of which NOK 228.1m relates to tax payable and NOK 10.8m due to changes in deferred tax.

Net profit

Net profit for the year amounted to NOK 716.5m (NOK 881.3m). This gives a return on average equity of 5.4% (6.9%).

Comments on the Balance sheet

Assets and lending activities

Gross lending to customers at 31 December 2018 amounted to NOK 111.9bn (NOK 135.5bn) and consists only of residential mortgage loans and loans to holiday homes, used as collateral in securing the covered bonds issued by the company. NOK 100.6bn of the loan portfolio is included in the collateral pool (cover pool) for the purposes of the calculation of the asset coverage requirement under the covered bond legislation. This represents surplus collateral of 2.8% in relation to the covered bonds issued and 20.5% in relation to net outstanding covered bonds. See note 11 Cover pool for more information.

The cover pool has a weighted indexed loan-to-value ratio of 48.2% at the end of 2018 (50.8%). The average loan size was NOK 1,403m. The cover pool is split between 72% amortizing loans and 28% flex loans.

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 2018 Nordea Eiendomskreditt has issued covered bonds amounting to NOK 17.3bn in the Norwegian domestic market under its NOK 100bn domestic covered bond program and GBP 0.3bn under its EUR 10bn EMTN covered bond programme. Issuance is done via taps of outstanding and new bonds via designated dealers. During 2018 bonds amounting to NOK 15.9bn have matured or been bought back. As of 31 December 2018, Nordea Eiendomskreditt had outstanding covered bonds totalling NOK 70.7bn in the Norwegian market, GBP 0.9bn 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 2018 such borrowings amounted to NOK 21.0bn.

The figure to the right shows the company's funding composition as of 31 December 2018

Equity

Shareholder's equity ended at NOK 13,437m at 31 December 2018 (NOK 13,167m). This includes net profit for the year of NOK 717m (NOK 881m).

Allocation of net profit for the year

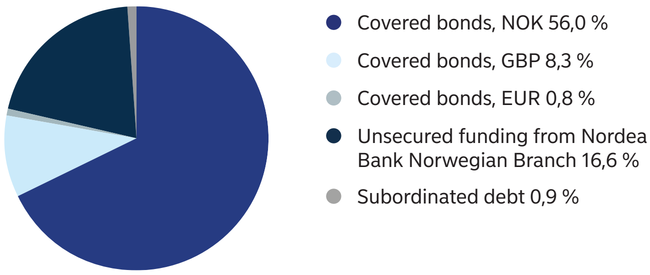
Nordea Eiendomskreditt AS reported an operating profit for the year of NOK 955m, and a net profit after tax for the year of NOK 717m. The Board of Directors will propose to the Annual General Meeting on 12 March 2019 that the company should transfer the entire net profit for the year to the company's equity reserves.

The Board of Nordea Eiendomskreditt is of the view that total equity and capital adequacy following the allocation will be sound, and well in excess of the minimum requirements laid down by the Basel capital adequacy regulations and the Norwegian Capital Adequacy Regulation of 14 December 2006.

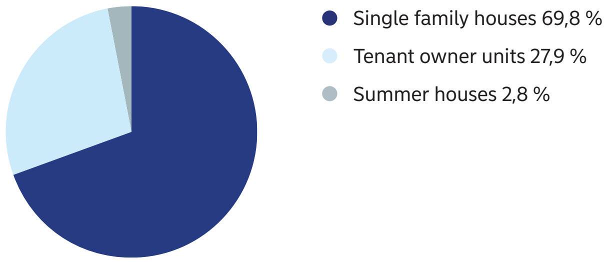
Off-balance sheet commitments

The company's business operations include different

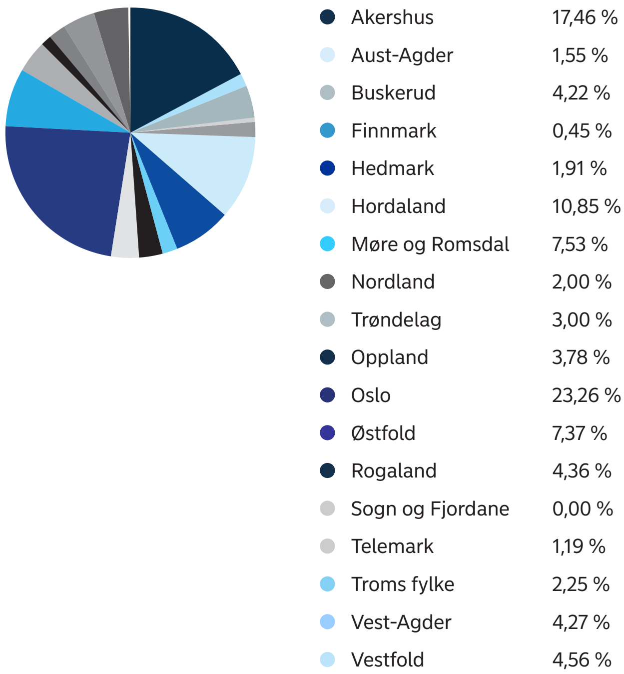
Funding structure as of 31 December 2018



Breakdown of lending by collateral at 31 Dec 2018



Geographic distribution of the cover pool at 31 Dec 2018



off-balance sheet items. Interest rate and currency swaps are used to hedge interest rate and currency risk. At the close of 2018, the company was party to interest rate swaps with a nominal value of NOK 79.1bn.

Nordea Eiendomskreditt has covered bonds totalling GBP 0.9bn 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 10 Derivatives and hedge accounting and note 15 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 factors of fundamental importance 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 and control frameworks, including policies and instructions for different risk types, liquidity, 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, market 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 requirements in CCR/CRD IV chapter 8, adopted by the Norwegian FSA.

Disclosure requirements of the CRR - Capital and risk management report 2018

Additional information on risk and capital management is presented in the Capital and Risk Management Report 2018, 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

In case of credit risk exposures, credits granted within the Group shall conform to the common principles established for the Group. Nordea aims to have a well-diversified credit portfolio that is adapted to the structure of its home markets and economies.
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
- 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 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.

Within the powers to act granted by the Board of Directors, Internal credit risk limits are approved by credit decision making authorities on different levels in the organisation constituting the maximum risk appetite on the customer in question. Individual credit decisions within the approved internal credit risk limit are taken within the customer responsible unit (CRU). The risk categorisation and the exposure of the customer decide at what level the decision will be made.

Responsibility for a credit risk lies with a customer responsible unit. Customers are risk categorized by a rating or score in accordance with Nordea's rating and scoring guidelines. The rating and scoring of customers aims to predict their probability of default and to consequently rank them according to their respective default risk. Rating and scoring are used as integrated parts of the credit risk management and decision-making process. Representatives from 1st LoD credit organization approve the rating independently.

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 issued guarantees and documentary credits and includes counterparty credit risk, transfer risk 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 in an arm's-length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion. 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.

Individual and collective assessment of impairment

The impairment requirements in IFRS 9 were implemented by Nordea as from 1 January 2018. The impairment requirements in IFRS 9 are based on an expected loss model as opposed to the incurred loss model in IAS 39.

The assets to test for impairment are 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. All assets are assessed individually for staging. Significant assets in stage 3 are tested for impairment individually. Assets in stage 1, stage 2 and insignificant assets in stage 3 are tested for impairment collectively. Impairment testing (individual and collective) is applying three forward looking and weighted scenarios.

Throughout the process of identifying and mitigating credit impairment, Nordea continuously reviews the quality of credit exposures. Weak and credit impaired exposures are closely 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.

Individual provisioning
A need for individual provisioning is recognised if based on credit events and observable data, a negative impact is likely on the customer's expected future cash flow to the extent that full repayment is unlikely (pledged collaterals taken into account). Exposures with individually assigned provisions are considered as credit impaired. The size of the provision is equal to the estimated loss, which is the difference between the book value of the outstanding exposure and the discounted value of the expected future cash flow, including the value of pledged collateral. Nordea recognises only specific credit risk adjustments (SCRA). SCRA comprise individually and collectively assessed provisions. SCRA during the year is referred to as loan losses, while SCRA in the balance sheet is referred to as allowances and provisions.

Default
Customers with exposures that are past due more than 90 days, being in bankruptcy or considered unlikely to pay are regarded as defaulted and can be either servicing debt or non-servicing. If a customer recovers from being in default, the customer is seen as cured. Typically, this situation occurs if the customer succeeds in creating a balance in financials. In order to be cured the recovery should include the customer's total liabilities in Nordea and elsewhere, an established satisfactory
repayment plan and an assessment that the recovery is underway.

Collective provisioning
The collective model is executed quarterly and assessed for each legal unit/branch. One important driver for provisions is the trigger for transferring of assets from stage 1 to stage 2. For assets recognised from 1 January 2018 changes to the lifetime Probability of Default (PD) are used as the trigger. In addition, customers with forbearance measures and customers with payments more than thirty days past due are also transferred to stage 2. In stage 1, the provisions equal the 12 months expected loss. In stage 2 and 3, the provisions equal the lifetime expected loss. The output is complemented with an expert-based analysis process to ensure adequate provisioning. Defaulted customers without individual provisions have collective provisions.

Forbearance
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 time period is to ensure full repayment of the outstanding debt. Examples of negotiated terms are changes in amortization profile, repayment schedule, customer margin as well as ease of financial covenants. Forbearance is undertaken on a selective and individual basis and followed by impairment testing. Loan loss provisions are recognised if necessary. Further information on credit risk is presented in Note 23 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 544m at year end (NOK 888m).

Nordea Eiendomskreditt's total lending to the public decreased to NOK 111.9bn at the end of 2018 (NOK 135.5bn). The portfolio includes residential mortgage loans as well as loans to holiday homes, secured by properties in Norway. Including off-balance sheet exposures the total credit risk exposure at year end was NOK 124.3bn (NOK 149.8bn).
Lending to credit institutions amounted to NOK 916m at the end of the year (NOK 139m), 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 6,654m at the end of 2018 (NOK 5,603m).

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 9 Loans and impairment.

Impaired loans (Stage 3)
Impaired loans gross in Nordea Eiendomskreditt increased during the year from NOK 462m in 2017 to NOK 528m in 2018, corresponding to 47bp of total loans. 22% of impaired loans gross are servicing loans and 78% are non-servicing loans. Impaired loans net, after allowances for Stage 3 loans, amounted to NOK 490m, corresponding to 43bp of total loans. Allowances for Stage 3 loans amount to NOK 37.8m. Allowances for Stages 1 and 2 amounted to NOK 18.6m. The ratio of allowances in relation to impaired loans is 10.7% and the allowance ratio for loans in Stages 1 and 2 is 1.7bp of total loans in Stages 1 and 2.

The volume of past due loans to household customers (excluding impaired loans) decreased to NOK 926m (NOK 1,799m) in 2018. Nordea Eiendomskreditt has not taken over any properties for protection of claims due to default.

Loan losses amounted to NOK 6.5m in 2018 (NOK 27.3m). This corresponds to a loan loss ratio of 0.5 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 2018 for Nordea Eiendomskreditt was NOK 0m (NOK 215m), of which the current exposure net (after close-out and collateral reduction) represents NOK 544m (NOK 875m). 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 2018, Nordea Eiendomskreditt's interest rate sensitivity was NOK -7,4m calculated in relation to a parallel shift in the yield curve of 1 percentage point. This implies that Nordea Eiendomskreditt AS would gain NOK 7,4m 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 2017 was NOK -1,4m.

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

Nordea defines operational risk 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, which includes but is not limited to impacts from regulatory sanctions, legal exposure, reputational damage and critical business process disruption.

Operational risks are inherent in all of Nordea's businesses and operations. Consequently, managers throughout Nordea are accountable for the operational risks related to their area of responsibility, and responsible for managing these risks within limits and risk appetite, in accordance with the operational risk management framework. Group Operational Risk (GOR) in Group Risk constitutes the 2nd line of defense for operational risk and is responsible for developing and maintaining the overall operational risk management framework as well as for monitoring and controlling the operational risk management of the 1st line of defense. GOR monitors and controls that operational risks are appropriately identified, assessed and mitigated, follows-up risk exposures towards risk appetite, and assesses the adequacy and effectiveness of the operational risk management framework and framework implementation.

The focus areas of the monitoring and control work performed by GOR are decided during an annual and quarterly planning process that includes business areas, key risk areas and operational risk processes. GOR is responsible for preparing and submitting regular risk reports on all material risk exposures including Risk Appetite Limit utilization and operational risk incidents to the CRO, who thereafter reports to the Group CEO, the BoD and relevant committees.

Nordea's risk appetite framework (RAF) is described in the Nordea Annual Report at www.nordea.com. The RAF in Nordea, including risk appetite statements, is approved annually by the BoD. The risk appetite statements for operational risk are expressed in terms of:

1) residual risk level and management of risks
2) total loss amount of incidents and management of incidents, and
3) management of Key Risk Indicators (KRIs).

Management of operational risk

Nordea Board's directives on risk and internal governance set the principles for the management of risks in Nordea. Based on these principles, Nordea has established supporting CEO instructions and guidelines for operational risk that form the operational risk management framework. Management of operational risk includes all activities aimed at identifying, assessing, mitigating, monitoring, controlling, and reporting on risks.

Risks are identified through various processes. Examples are detailed in the following section and include the reporting of incidents, approval of changes, as well as risk assessment processes.

The assessment of risks is performed by assessing the probability of the risks occurring and the impact in case of materialisation.

Mitigating actions are established to mitigate the risks which are considered as having a too high risk exposure (i.e. outside the limits set within the boundaries of the risk appetite) during the assessment phase.

Monitoring and controlling is also part of risk management. It ensures for example that risks are appropriately identified and mitigated, that risk exposures are kept within limits, and that risk management procedures are efficient, and adhere to internal and external rules.

Nordea Eiendomskreditt operates an organizational 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 of failure to comply with statutes, laws, regulations, business principles, rules of conduct, good business practices, and related internal rules governing Nordea's activities subject to authorisation in any jurisdiction where Nordea operates.

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. 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, and advises, supports and trains first line on ways to efficiently ensure compliance with obligations. On a quarterly basis, Group Compliance reports on all significant compliance risks to Senior Management and the Board, informing of Nordea's current risk exposure in relation to the predefined risk appetite and tolerance level. Group Internal Audit constitutes the third line of defence and performs audits and provides assurance to stakeholders on internal controls and risk management processes.

In 2018, Nordea continued the development the approach to ensure the Nordea culture and behaviours consistent with the Nordea values, and that fair outcomes are delivered for customers across all stages of the customer lifecycle. This means a strong focus on putting the customer first in our business strategy, the design and development of products, sales, and the ongoing service provided. In line with this approach, new internal rules relating to product governance, customer handling in the provision of investment services, and advisor's knowledge and competence have been established and implemented. 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 20 Maturity analysis for assets and liabilities.

Liquidity risk analysis
The Liquidity Coverage Ratio (LCR) in combined currencies according to the EBA Delegated Act was 297% 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. Returns to shareholders are subject to the maintaining of a prudent capital level and 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 REA covered by internal rating based (IRB) approaches by the end of 2018. 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 CRDIV/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] 2018	31 Dec[1] 2017
Calculation of own funds		
Equity in the consolidated situation	13 437	13 168
Proposed/actual dividend		-441
Common Equity Tier 1 capital before regulatory adjustments	13 437	12 727
Deferred tax assets	0	0
Intangible assets	0	0
IRB provisions shortfall (-)	-96	-75
Deduction for investments in credit institutions (50%)	0	0
Pension assets in excess of related liabilities	0	0
Other items, net	62	43
Total regulatory adjustments to Common Equity Tier 1 capital	-34	-32
Common Equity Tier 1 capital(net after deduction)	**13 403**	**12 695**
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)	**13 403**	**12 695**
Tier 2 capital before regulatory adjustments	1 200	1 200
IRB provisions excess (+)	12	28
Deduction for investments in credit institutions (50%)	0	0
Deductions for investments in insurance companies	0	0
Pension assets in excess of related liabilities	0	0
Other items, net	0	0
Total regulatory adjustments to Tier 2 capital	12	28
Tier 2 capital	**1 212**	**1 228**
Own funds (net after deduction)[2]	**14 615**	**13 923**

[1] Including profit of the period
[2] Own Funds adjusted for IRB provision, i.e. adjusted own funds equal 14,699m by 31 Dec 2018

Capital Adequacy
The net own funds of Nordea Eiendomskreditt amounted to NOK 14,615m at the end of 2018, of which NOK 1,200m is a subordinated loan.

The Tier 1 capital ratio at the close of 2018 including the Basel I floor was 26.9% (21.2%), and the total capital ratio including Basel I floor was 29.4%% (23,2%). 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 16 Capital adequacy and the Capital and Risk Management (Pillar III) report
Further information on capital management and capital adequacy is presented in Note 16 Capital adequacy and in the Capital and Risk Management Report 2018 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. In Norway, the CRR is not implemented in the EEA-Agreement.

In November 2017, an agreement was reached on some of the proposals in the review in a so- called fast tracking process, i.e. creditor hierarchy and transitional arrangements for IFRS 9, which entered into force from 1 January 2018. However, Nordea, has decided not to use those transitional arrangements related to own funds. In December 2018 a political agreement was reached on the remaining parts of the review. The review will enter into force after it has been published in the Official Journal which can be made after it is formally adopted, which is expected during spring 2019. Application of the revised requirement will generally start 2 years after entry into force with some parts having a separate implementation dates and some parts being phased-in. On 14 March 2018 the European Commission submitted a proposal to the European Council to amend the CRR with regards to minimum loss coverage for new Non-Performing Exposures (NPEs). On 18 December 2018 co-legislators reached a provisional agreement which resulted in a final compromise text. The prioritisation of the remaining regulatory process indicates that an entry into force may take place early in 2019.

Main changes in Norwegian Regulations
On 13 December the Ministry of Finance decided to increase the Countercyclical capital buffer from 2% to 2,5% with effect from 31 December 2019. The decision is based on the advice from Norges Bank. The decision basis is high and increasing household debt as well as high property prices, thus the Norwegian financial system is described as vulnerable.

On 19 December the Ministry of Finance published changes in the existing Finansforetaksforskriften and a new law (Act on the Banks Guarantee Fund) regarding Norwegian Crisis and Resolution rules, which is implemented with effect from 1 January 2019. The Deposit and Guarantee Scheme is extended to include unlimited guarantee for certain deposits, and the Norwegian guarantee of NOK 2 million per depositor is continued, as well as harmonised BRRD rules are implemented.

Finalised Basel III framework ("Basel IV")
Basel III is the global, regulatory framework on bank capital adequacy, stress testing, and liquidity risk. In December 2017, the finalised 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, credit valuation adjustment (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 initially agreed in 2016, with a revision published on 14 January 2019, will be implemented together with the Basel IV package in 2022.

On credit risk, the package includes revisions to both the internal ratings based (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% to be met with Tier 1 capital with an additional leverage ratio buffer requirement for Global systemically important banks (G-SIB) of half the size of G-SIB capital buffer requirement.

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, starting with 50% from 2022 to be fully implemented at 72.5% 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 European Commission, Council and Parliament which might change the implementation and potentially also the timetable. In May 2018 the European Commission made a 'Call for Advice' to EBA on the impact of an implementation of the Basel IV package into EU regulations to which the EBA will answer by 30 June 2019.

Internal control and risk management regarding financial reporting

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

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

Clear roles and responsibilities are critical in the governance of Internal Control over Financial reporting where the risk owners in the business areas and the Group Finance & Business Control is responsible for the risk management activities. A risk management function supports the risk owners in maintaining a Group wide set of controls, in 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 14 December 2018, 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. After the first year, 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 66.

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 and half of the members of the management group is female. The Board of Directors consists of two women and four men.

At the end of 2018 Nordea Eiendomskreditt AS had 16 (16) employees. Staffing was equivalent to 15.5 (15.5) 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.

Absence due to sickness during 2018 amounted to 6.01% (9.20%). A total of 239 (419) working days were lost to sickness in 2018. There are no reports of work related personnel injuries as caused by accidents or other incidents in Nordea Eiendomskreditt in 2018. The working environment is considered to be good.

Information on remuneration to the company's employees and officers can be found in Note 5 Staff costs.

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

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

Corporate Social Responsibility and environmental concerns
In accordance with the Nordea Group's Corporate Social Responsibility (CSR), Nordea Eiendomskreditt is committed to sustainable development by combining financial activity with responsibility for the environment and society. Further information about how the Nordea Group works with CSR and sustainability is available at www.nordea.com.

Outlook for 2019
We expect that interest rates will be raised further in 2019 in line with the signals given from the Norwegian Central Bank. Housing prices has moved about sideways through 2018 and we expect a similar development this year. Strong growth in employment and household income argues for higher housing prices, but higher mortgage rate means that the development still will be very moderate.

Nordea Eiendomskreditt AS
Oslo, 12 February 2019

John Arne Sætre
Chair

Nicklas Ilebrand
Vice Chair

Ola Littorin
Board member

Marte Kopperstad
Board member

Alex Madsen
Board member

Anne Sofie Knoph
Employee representative

Børre Sten Gundersen
Chief Executive Officer

Financial statements - Contents

Income statement

NOKt	Note	2018	2017
Operating income			
Interest income calculated using the effective interest rate method	3, 21	2 968 201	3 139 037
Interest expense	3, 21	1 639 785	1 563 078
Net interest income		**1 328 416**	**1 575 959**
Fee and commission income		56 442	60 162
Fee and commission expense		23 169	18 225
Net fee and commission income		**33 273**	**41 937**
Net result from items at fair value	4, 21	**-24 620**	**-1 935**
Total operating income		**1 337 069**	**1 615 961**
Staff costs	5, 13	19 364	17 376
Other operating expenses	6, 21	355 779	396 214
Total operating expenses		**375 143**	**413 590**
Profit before loan losses		**961 925**	**1 202 371**
Loan losses	7	6 469	27 341
Operating profit		**955 456**	**1 175 030**
Income tax expense	8	238 935	293 760
Net profit for the period		**716 521**	**881 270**
Attributable to:			
Shareholders of Nordea Eiendomskreditt AS		716 521	881 270
Total allocation		**716 521**	**881 270**
Basic/diluted earnings per share, NOK		46,7	57,5

Statement of comprehensive income

NOKt	2018	2017
Net profit for the period	**716 521**	**881 270**
Items that may be reclassified subsequently to the income statement		
Cash Flow hedges:		
Valuation gains/losses during the year	-38 681	8 169
Tax on valuation gains/losses during the year	9 710	-2 042
Items that may not be reclassified subsequently to the income statement		
Defined benefit plans:		
Remeasurement of defined benefit plans during the year	-2 473	2 351
Tax on remeasurement of defined benefit plans during the year	618	-588
Other comprehensive income, net of tax	**-30 826**	**7 890**
Total comprehensive income	**685 695**	**889 160**
Attributable to:		
Shareholders of Nordea Eiendomskreditt AS	685 695	889 160
Total	**685 695**	**889 160**

Nordea Eiendomskreditt AS
Oslo, 12 February 2019

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Anne Sofie Knoph
Employee representative

Børre Sten Gundersen
Chief Executive Officer

Balance sheet

NOKt	Note	31 Dec 2018	31 Dec 2017
Assets			
Loans to credit institutions	21	915 581	138 509
Loans to the public	7, 9, 11, 14	111 863 513	135 421 520
Interest-bearing securities	22	6 654 031	5 603 387
Derivatives	10, 19, 21	868 244	1 194 840
Fair value changes of the hedged items in portfolio hedge of interest rate risk		18 618	26 142
Other assets		196	4
Accrued income and prepaid expenses		126 348	148 564
Total assets		**120 446 531**	**142 532 966**
Liabilities			
Deposits by credit institutions	12, 21	21 030 942	47 832 472
Debt securities in issue	12, 14, 21	82 564 221	77 730 925
Derivatives	10, 19, 21	1 293 892	1 349 553
Fair value changes of the hedged items in portfolio hedge of interest rate risk		521 981	835 069
Current tax liabilities	8	228 064	279 728
Other liabilities		39 220	5 871
Accrued expenses and prepaid income	21	7 548	21 168
Deferred tax liabilities	8	108 770	99 968
Provisions		168	0
Retirement benefit obligations	13	14 419	11 036
Subordinated loan capital	21	1 200 106	1 200 279
Total liabilities		**107 009 331**	**129 366 069**
Equity			
Share capital	21	1 702 326	1 702 326
Share premium reserve	21	3 731 301	3 731 301
Other reserves		-85 706	-54 880
Retained earnings		8 089 279	7 788 150
Total equity		**13 437 200**	**13 166 897**
Total liabilities and equity		**120 446 530**	**142 532 966**
Assets pledged as security for own liabilities	14	100 615 613	127 465 821
Contingent liabilities	15	362	535
Commitments	15	12 357 191	14 221 101

Statement of changes in equity

NOKt	Share capital[1]	Share premium reserve	Other reserves: Cash flow hedges	Other reserves: Defined benefit plans	Retained earnings	Total equity
Balance at 1 January 2018	**1 702 326**	**3 731 301**	**-52 013**	**-2 867**	**7 788 150**	**13 166 897**
Effects from changed accounting policy, net of tax [2]					25 108	25 108
Restated opening balance at 1 Jan 2018	**1 702 326**	**3 731 301**	**-52 013**	**-2 867**	**7 813 258**	**13 192 005**
Net profit for the year					716 521	716 521
Items that may be reclassified subsequently to the income statement						
Cash Flow hedges:						
Valuation gains/losses during the year			-38 681			-38 681
Tax on valuation gains/losses during the year			9 710			9 710
Items that may not be reclassified subsequently to the income statement						
Defined benefit plans:						
Remeasurement of defined benefit plans				-2 473		-2 473
Tax on remeasurement of defined benefit plans				618		618
Other comprehensive income, net of tax	0	0	-28 971	-1 855	0	-30 826
Total comprehensive income	0	0	-28 971	-1 855	716 521	685 695
Group contribution paid					-440 500	-440 500
Closing balance at 31 December 2018	**1 702 326**	**3 731 301**	**-80 984**	**-4 722**	**8 089 279**	**13 437 200**

NOKt	Share capital[1]	Share premium reserve	Other reserves: Cash flow hedges	Other reserves: 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:						
Valuation gains/losses during the year			8 169			8 169
Tax on valuation gains/losses during the year			-2 042			-2 042
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**

[1] The company's share capital at 31 December 2018 was NOK 1.702.325.859,-. The number of shares was 15.336.269, each with a quota value of NOK 111,-. All shares were owned by Nordea Bank AB (publ) until 30 September 2018, and by Nordea Bank Abp from 1 October 2018.
[2] Related to IFRS 9. See Note 1 in the Interim Report for first quarter 2018 for more information.

Cash flow statement

NOKt	2018	2017
Operating activities		
Operating profit before tax	955 456	1 175 030
Adjustments for items not included in cash flow	805	20 657
Income taxes paid	-279 723	-193 887
Cash flow from operating activities before changes in operating assets and liabilities	**676 538**	**1 001 800**
Changes in operating assets		
hange in loans to the public	23 590 878	-29 502 839
Change in interest-bearing securities	-1 040 524	181 188
Change in derivatives, net	270 936	-26 533
Change in other assets	19 440	-54 934
Changes in operating liabilities		
Change in deposits by credit institutions	-26 808 707	35 038 265
Change in debt securities in issue	4 814 454	-6 483 701
Change in other liabilities	-305 443	-170 637
Cash flow from operating activities	**1 217 572**	**-17 391**
Financing activities		
Group contribution paid	-440 500	0
Cash flow from financing activities	**-440 500**	**0**
Cash flow for the year	**777 071**	**-17 391**
Cash and cash equivalents at beginning of the year	138 509	155 900
Cash and cash equivalents at end of the year	915 580	138 509
Change	**777 071**	**-17 391**

Comments on the cash flow statement

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

Operating activities are the principal revenue-producing activities and cash flows are mainly derived from the operating profit for the year with adjustment for items not included in cash flow and income taxes paid. Items not included in cash flow relates to changes in impairment charges. Changes in operating assets and liabilities consist of assets and liabilities that are part of normal business activities, such as loans and receivables, 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 12 February 2019 the Board of Directors approved the financial statements, subject to final approval of the Annual General Meeting on 12 March 2019.
The accounting policies, basis for calculations and presentations are unchanged in comparison with the Annual Report 2017, except from changed accounting policies and presentation described below in the section "Changed accounting policies and presentation".

2. Changed accounting policies and presentation

IFRS 9 "Financial instruments"

The new standard IFRS 9 "Financial instruments" covers classification and measurement, impairment and general hedge accounting and replaces the earlier requirements covering these areas in IAS 39. The classification, measurement and impairment requirements in IFRS 9 were implemented by Nordea Eiendomskreditt as from 1 January 2018. Nordea Eiendomskreditt has elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with the carve out version of IAS 39 (see further description in section 8).

The total positive impact on equity from IFRS 9 amounts to NOK 25m after tax and was recognised as an opening balance adjustment 1 January 2018. For more information about the IFRS 9 transition impact on 1 January 2018, see below. Nordea Eiendomskreditt has not restated the comparative figures for 2017.

Classification and measurement

The classification and measurement requirements in IFRS 9 state 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 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.

Nordea Eiendomskreditt has analysed whether the cash flows from the financial assets held per 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. For contacts signed after 1 January 2018 only restructured contracts are allowed to have SPPI non-compliant features and for restructured contracts the SPPI analysis is performed for each contact separately.

The new classification and measurement requirements in IFRS 9 have resulted in the following classification of assets and liabilities at transition per 1 January 2018:

Assets		Fair value through profit or loss (FVPL)						
1 Jan 2018, NOKm	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	135 593 047							135 593 047
Interest-bearing securities		5 603 387						5 603 387
Derivatives		46		1 194 794				1 194 840
Fair value changes of the hedged item 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	**135 767 237**	**5 603 433**	**-**	**1 194 794**	**-**	**520**	**-**	**142 565 984**

Liabilities		Fair value through profit or loss (FVPL)					
1 Jan 2018, NOKm	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					20 750		20 750
Deferred tax liabilities1)	418				99 968		100 386
Retirement benefit liabilities					11 036		11 036
Subordinated liabilities	1 200 279						1 200 279
Total liabilities	**127 599 163**	**38 971**	**-**	**1 310 582**	**417 353**	**-**	**129 366 069**

The new classification and measurement requirements in IFRS 9 have resulted in the following reclassification and remeasurement of assets and liabilities at transition per 1 January 2018:

Reclassification of assets and liabilities at transition

		Fair value through profit or loss (FVPL)						
Assets, NOKm	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**
Remeasurement)	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**

		Fair value through profit or loss						
Liabilities, NOKm	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
Balance at 31 Dec 2017 under IAS 39	**127 599 162**	**38 971**	**0**	**1 310 582**	**0**	**417 354**	**0**	**129 366 069**
Remeasurement under IFRS 9)	198	0	0	0	0	0	0	198
Balance at 1 Jan 2018 under IFRS 9	**127 599 360**	**38 971**	**0**	**1 310 582**		**417 353**	**0**	**129 366 267**

The new requirements have not had 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 in 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. Under IAS 39 Nordea did not calculate collective provisions for off balance sheet exposures or the financial instruments classified into the measurement category Financial assets at fair value through other comprehensive income.

The assets to test for impairment are 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 will have individually calculated provisions, while for insignificant assets the assessment is based on a statistical model. In stage 1, the provisions equal the 12 months expected loss. In stage 2 and 3, the provisions 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 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 recognised after transition, changes to the lifetime Probability of Default (PD) are used as the trigger. Nordea has concluded it is not possible to calculate the lifetime PDs at origination without the use of hindsight for assets already recognised on the balance sheet at transition. For assets evaluated based on lifetime PDs, Nordea has 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 are also transferred to stage 2.

Nordea's model for calculating collective provisions under IAS 39 defined 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 requires several notches deterioration.

The provisions under IFRS 9 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.

For assets where there has been a significant increase in credit risk, Nordea Eiendomskreditt earlier, under IAS 39, held 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 requires provisions equal to the lifetime expected loss.

When calculating expected losses under IFRS 9, including the staging assessment, the calculation is based on probability weighted forward looking information. Nordea 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 is recognised as a provision.

The quantitative impact from the new impairment requirements on total allowances and provisions for on- and off-balance exposures was a decrease of NOK 33m. The corresponding after tax equity effect was an increase in equity of 25m. The impact on the Common Equity Tier 1 capital ratio, after adjustment of the shortfall deduction and before transition rules, was insignificant. Nordea Eiendomskreditt has not applied the transitional rules issued by the EU allowing a phase in of the impact on common equity tier-1 capital. There was no material impact to large exposures. The impact on provisions is disclosed in the table below.

Reclassification of provisions at transition

	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	-	-	-	-
Remasurement under IFRS 9, model based provisions	-	-	-33 216	-	-	198	-33 018
Balance at 1 Jan 2018 under IFRS 9	-	-	56 097	-	-	198	56 295

Impairment calculations under IFRS 9 requires more experienced credit judgement by the reporting entities than was required by IAS 39 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. Nordea Eiendomskreditt has elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with the carve out version of IAS 39 (see further description in section 8). If Nordea Eiendomskreditt instead had elected to apply the new hedge accounting requirement in IFRS 9 that would not have resulted in any significant impact on Nordea Eiendomskreditt's financial statements, capital adequacy, large exposures, risk management or alternative performance measures. The reason is that Nordea Eiendomskreditt generally uses macro (portfolio) hedge accounting.

IFRS 15 "Revenue from Contracts with Customers"
The new standard IFRS 15 "Revenue from Contracts with Customers" outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue recognition standards and interpretations within IFRS, such as IAS 18 "Revenue". The standard does not apply to financial instruments, insurance contracts or lease contracts.

The standard was implemented by Nordea as from 1 January 2018 using the modified retrospective approach, meaning that the cumulative effect of the change was recognised as an adjustment to equity in the opening balance 2018. Comparable figures for 2017 are not restated.

The new standard had an impact on Nordea's accounting policies for loan origination fees, as such fees are amortised as part of the effective interest of the loans to a larger extent than before. The total negative impact on equity from IFRS 15 amounts to EUR 61m after tax and was recognised as an opening balance adjustment 1 January 2018.

The new accounting requirements implemented during 2018 and their effects on Nordea Eiendomskreditt's financial statements are described below.

IAS 1 "Presentation of Financial Statements"
As a result of IFRS 9, IASB have amended IAS 1 "Presentation of Financial Statements". These amendments were implemented by Nordea Eiendomskreditt as from 1 January 2018.

As a result of the amendments in IAS 1, Nordea presents interest income on two rows in the income statement, Interest income calculated using the effective interest rate method and Other interest income. On the row Interest income calculated using the effective interest method, Nordea presents interest income from financial assets measured at amortised cost and at fair value through other comprehensive income. This line item also includes the net paid or received interest on hedging instruments relating to these assets. All other interest income is presented on the income statement row Other interest income. The comparative figures for 2017 have been restated.

Other amended requirements
The following new and amended standards and interpretations were implemented by Nordea 1 January 2018 but have not had any significant impact on the financial statements of Nordea Eiendomskreditt:
- Annual Improvements to IFRS Standards 2014-2016 Cycle

3. Changes in IFRSs not yet applied
IFRS 16 "Leases"
The IASB has published the new standard, IFRS 16 "Leases". The new standard changes the accounting and disclosure requirements for lessees. All leases (except for short term- and small ticket leases) should be accounted for on the balance sheet of the lessee as a right to use the asset and a corresponding liability, and the lease payments should be recognised as amortisation and interest expense. The accounting requirements for lessors are unchanged. Additional disclosures are also required. The new standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted. The standard was endorsed by the EU-commission in 2017. 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 IAS 28: "Long-term Interest in Associates and Joint Ventures"

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 impact 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
  - the effectiveness testing of cash flow hedges

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 18 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. For more information, see Note 9 Loans and impairment.
When calculating allowances for individually significant impaired loans, judgement is exercised to estimate the amount and timing of the expected cash flows to be received from the customers under different scenarios, including the valuation of any collateral received. Judgement is also applied when assigning the likelihood of the different scenarios occurring.

Judgement is exercised to assess when an exposure has experienced a significant increase in credit risk. If this is the case, the provision should reflect the lifetime expected losses, as opposed to a 12-month expected loss for exposures not having increased significantly in credit risk. Judgement is also exercised in the choice of modelling approaches covering other parameters used when calculating the expected losses, such as the expected lifetime used in stage 2, as well as in the assessment of whether the parameters based on historical experience are relevant for estimating future losses.

The statistical models used to calculate provisions are based on macro-economic scenarios, which requires management to exercise judgement when identifying such scenarios and when assigning the likelihood of the different scenarios occurring. Judgement is also exercised in the assessment of to what extent the parameters for the different scenarios, based on historical experience, are relevant for estimating future losses.

Effectiveness testing of cash flow hedges
Nordea Eiendomskreditt's accounting policies for cash flow hedges are described in section 8 *"Hedge accounting"*.
One important judgement in connection to cash flow hedge accounting is the choice of method used for effectiveness testing.

Where Nordea Eiendomskreditt applies cash flow hedge accounting the hedging instruments used are predominantly cross currency interest rate swaps, which are always held at fair value. 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. The hypothetical derivative method is used when measuring the effectiveness of these 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 on the hedged transaction (the currency component). Critical judgement has to be exercised when defining the characteristics of the perfect hypothetical swap.

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”.

Interest income is presented on two rows in the income statement, Interest income calculated using the effective interest rate method and Other interest income. On the row Interest income calculated using the effective interest method, Nordea present interest income from financial assets measured at amortised cost or at fair value through other comprehensive income. This line items also includes the effect from hedge accounting relating to these assets. All other interest income is presented as on the income statement row Other 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 “Amortised cost” (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 2018, 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

As a part of Nordea Eiendomskreditt's risk management policy, Nordea Eiendomskreditt has identified a series of risk categories with corresponding hedging strategies using derivative instruments, as set out in the Board of Directors' report.
When a hedging relationship meets the specified hedge accounting criteria set out in IAS 39, Nordea Eiendomskreditt applies one of two types of hedge accounting:

- Fair value hedge accounting
- Cash flow hedge accounting

Nordea Eiendomskreditt has elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with the carve out version of IAS 39.

The EU carve out version 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.

At inception, Nordea Eiendomskreditt formally documents how the hedging relationship meets the hedge accounting criteria, including the economic relationship between the hedged item and the hedging instrument, the nature of the risk, the risk management objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship on an ongoing basis.

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.

Transactions that are entered into in accordance with Nordea Eiendomskreditt's hedging objectives but do not qualify for hedge accounting, are economic hedge relationships.

Fair value hedge accounting
Fair value hedge accounting is applied 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 in accordance with Nordea Eiendomskreditt's risk management policies set out in the Board of Directors' report. The risk of changes in fair value of assets and liabilities in Nordea Eiendomskreditt's financial statements originates mainly from loans, securities and deposits 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 the hedge is effective, the changes in fair value of the hedged item and the hedging instrument will offset each other.

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.

Hedge effectiveness
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.

If the hedging relationship does not fulfil the hedge accounting requirements, the hedge accounting is terminated. For fair value hedges the hedging instrument is reclassified to a trading derivative and the change in the fair value of 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.
Hedge ineffectiveness can arise from:

- Differences in timing of cash flows of hedged items and hedging instruments
- Different interest rate curves applied to discount the hedged items and hedging instruments
- The effect of changes in Nordea's or a counterparty's credit risk on the fair value of the hedging instrument or hedged items

- Disparity between expected and actual prepayments of the loan portfolio

Cash flow hedge accounting
In accordance with Nordea's risk management policies cash flow hedge accounting is applied when hedging the exposure to variability 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 hypothetical derivative method is used when measuring the effectiveness retrospectively 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 hedging relationship does not fulfil the hedge accounting requirements, the hedge accounting is terminated. 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 through other comprehensive income from the period when the hedge was effective is reclassified from equity 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 other comprehensive income from the period when the hedge was effective remains in other comprehensive income until the transaction occurs or is no longer expected to occur.

The possible sources of ineffectiveness for cash flow hedges are generally the same as for those for fair value hedges described above. However, for cash flow hedges, prepayment risk is less relevant, and the causes of hedging ineffectiveness arise from the changes in the timing and the amount of forecast future cash flows.

9. Determination of fair value of financial instruments

Financial assets and liabilities classified into the categories "Financial assets/liabilities at fair value through profit or loss" (including derivative instruments) are recorded at fair value in the balance sheet with changes in fair value recognised in the income statement in the item "Net result from items at fair value".
Fair value is defined as the price that at the measurement date would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants under current market conditions in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability.
The existence of published price quotations in an active market is the best evidence of fair value and when they exist, they are used to measure the fair value of financial assets and financial liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. The absolute level for liquidity and volume required for a market to be considered active vary with the instrument classes. For some classes low price volatility is seen, also for those instruments within the class where the trade frequency is high. For instruments in such a class, the liquidity requirements are lower and correspondingly, the age limit for the prices used for establishing fair value is higher.

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

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

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

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

Note 18 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:

- Amortised cost
- Financial assets at fair value through profit or loss:
- – Mandatorily measured at fair value through profit and loss
- 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 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.

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 assets and liabilities 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 section 5, "Net interest income". For information about impairment under IFRS 9, see section 11 below.

Interest on assets and liabilities classified at amortised cost is recognised in the item "Interest income" and "Interest expense" in the income statement.

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 consist of interest-bearing securities included and derivative instruments.

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.

11. Loans to the public/credit institutions

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 central banks", 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 section 5 above and Note 17 "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, 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
Nordea Eiendomskreditt classifies all exposures into stages on an individual basis. 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. Nordea monitors whether there are indicators of exposures being credit impaired (stage 3) by identifying events that have a detrimental impact on the estimated future cash flows (loss event). Nordea 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 without individually calculated allowance will be covered by the model based 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 exposure 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 forward-looking 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 model described below, based on the fact that the exposures are already in default.

Model based allowance calculation
For exposures not impaired on an individual basis, a statistical 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 and 3 are 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-month 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). This is also the case for the insignificant credit impaired exposures in stage 3.

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 has concluded it is not possible to calculate the lifetime PDs at origination 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 this classification will be rebutted if there is evidence the customer is not in default. Such exposures will be classified as stage 2.

Nordea Eiendomskreditt does not use the "low credit risk exemption" in the banking operations, however uses it for a minor portfolio of interest-bearing securities in the insurance operations.

When calculating provisions, including the staging assessment, the calculation is based on probability weighted forward looking information. Nordea 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.

Write-offs
A write-off is a de-recognition of a loan or receivable from the balance sheet and a final realisation of a credit loss provision. When assets are considered as uncollectable they should be written off as soon as possible, regardless of whether the legal claim remains or not. A write-off can take place before legal actions against the borrower to recover the debt have been concluded in full. Although an uncollectable asset is removed or written-off from the balance sheet, the customer remains legally obligated to pay the outstanding debt. When assessing the recoverability of non-performing loans and determining if write-offs are required, exposures with the following characteristics are in particular focus (list not exhaustive):

- Exposures past due more than 90 days. If, following this assessment, an exposure or part of an exposure is deemed as unrecoverable, it is written-off.
- Exposures under insolvency procedure where the collateralisation of the exposure is low.
- Exposures where legal expenses are expected to absorb proceeds from the bankruptcy procedure and therefore estimated recoveries are expected to be low.
- A partial write-off may be warranted where there is reasonable financial evidence to demonstrate an inability of the borrower to repay the full amount, i.e. a significant level of debt which cannot be reasonably demonstrated to be recoverable following forbearance treatment and/or the execution of collateral.
- Restructuring cases.

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 has granted concessions to the obligor due to its financial difficulties and where this concession has resulted in an impairment loss for Nordea. 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 difficulties (forbearance) reduce the gross carrying amount of the loan. Normally this reduction is less than the existing provision and no loss is recognized in the income statement due to modifications. If significant, the gross amounts (loan and allowance) are reduced.

Assets taken over for protection of claims
In 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. For example, a property taken over, not held for Nordea's own use, is reported together with other investment properties.

At initial recognition, all assets taken over for protection of claims are recognized at fair value and the possible difference between the carrying amount of the loan and the fair value of the assets taken over is recognized 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 recognized 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 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.

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 5 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 13 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 recognized 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 reserves for cash flow hedges 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 2018 Nordea Bank Abp 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 Abp 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 5 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

GBP 1 = NOK	2018	2017
Income statement (average)	10,8554	10,6496
Balance sheet (at end of period)	11,1351	11,0910

EUR 1 = Nok	2018	2017
Income statement (average)	9,6033	9,3317
Balance sheet (at end of period)	9,9470	9,8403

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 interest income

NOKt	2018	2017
Interest income		
Loans to credit institutions	2 522	3 685
Loans to customers	2 919 031	3 087 253
Interst bearing securities	57 323	47 716
Other interest income[1]	-10 675	383
Interest income	**2 968 201**	**3 139 037**
Interest expense		
Deposits by credit institutions	355 826	347 030
Debt securities in issue	1 516 913	1 418 004
Subordinated loan capital	35 726	34 602
Other interest expense[1]	-268 680	-236 558
Interest expense	**1 639 785**	**1 563 078**
Net interest income	**1 328 416**	**1 575 959**

Interest from categories of financial instruments

NOKt	2018	2017 [2]
Financial assets at fair value through other comprensive income	0	0
Financial assets at amortised cost	2 921 553	3 090 938
Financial assets at fair value through profit and loss (related to hedging instruments) [1]	-10 675	383
Financial assets at fair value through profit and loss	57 323	47 716
Interest income calculated using the effective interest rate method	**2 968 201**	**3 139 037**
Other interest income	0	0
Interest income	**2 968 201**	**3 139 037**
Financial liabilities at amortised cost	1 908 465	1 799 636
Financial liabilities at fair value through profit and loss (related to hedging instruments) [1]	-268 680	-236 558
Interest expenses	**1 639 785**	**1 563 078**

[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 income or on other interest expense, for further information see Note 1 Accounting policies.

[2] The comparable figures for 2017 are based on the IAS 39 requirements but are comparable with the figures for 2018 which are based on the IFRS 9 requirments.

Note 4
Net result from items at fair value

Net gains/losses for categories of financial instruments

NOKt	2018	2017
Financial instruments held for trading[1]	13 495	17 766
Financial instruments under hedge accounting	-38 115	-19 701
- of which net gains/losses on hedged items	317 629	198 516
- of which net gains/losses on hedging instruments	-355 744	-218 217
Total	**-24 620**	**-1 935**

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

Note 5
Staff costs

NOKt	2018	2017
Salaries and remunerations	13 597	12 750
Pension costs (note 12)	2 294	1 432
Social security contributions	2 983	2 793
Allocation to profit-sharing [1]	322	185
Other staff costs	168	214
Total	**19 364**	**17 376**

[1] Allocation to profit-sharing foundation in 2018 consisted of a new allocation of NOK 294t and NOK 28t related to prior years. In 2017 new allocation amounted to NOK 167t and release of NOK 18t for prior years.

Number of employees/full time positions		
Number of employees at 31 December	16	16
Number of full time equivalents at 31 December	15,5	15,5
Gender distribution of Board members (percentage at year end)		
- Men	67 %	57 %
- Women	33 %	43 %
Loans to the members of the Board of Directors or to companies 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	854	195	322	2 910
Total for the executive management	**1 540**	**854**	**195**	**322**	**2 910**
Board of Directors of Nordea Eiendomskreditt AS					
Eva I. E. Jarbekk	90				90
Alex Madsen	90				90
Total for the directors of Nordea Eiendomskreditt AS	**180**	**-**	**-**	**-**	**180**
Total for the Control Committee of Nordea Eiendomskreditt AS	**64**	**-**	**-**	**-**	**64**
Total remuneration of executive management and elected officers of Nordea Eiendomskreditt AS	**1 720**	**854**	**195**	**322**	**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 2018 for services provided in 2017. Loans to employees are made from the balance sheet of Nordea Bank Norway. The company has not entered into any agreements that entitle the Managing Director or the Chairman of the Board to spesific compensation in the event of any change in their employment or office.

Note 6

Other expenses

NOKt	2018	2017
Information technology	7 559	8 090
Services bought from Group companies	342 952	383 298
Auditors' fee	723	744
Other operating expenses	4 546	4 082
Total	**355 779**	**396 214**

Auditor's fee for 2018 comprise NOKt 723 incl. VAT, of which NOKt 548 relates to audit work and NOKt 175 relates to other services.

Note 7

Net loan losses

NOKt	Jan-Dec 2018[1]
Net loan losses, Stage 1	2 419
Net loan losses, Stage 2	426
Total loan losses, non-defaulted	**2 845**
Stage 3, defaulted	
Net loan losses, individually assessed, collectively calculated	-1 459
Realised loan losses	5 734
Decrease of provisions to cover realised loan losses	-4 162
Recoveries on previous realised loan losses	0
New/increase in provisions	6 399
Reversals of provisions	-2 889
Net loan losses, defaulted	**3 624**
Net loan losses	**6 469**

Key ratios

	Jan-Dec 2018[1]
Loan loss ratio, basis points	0,53
- of which stage 1	0,20
- of which stage 2	0,03
- of which stage 3	0,30

[1] Based on IFRS 9

Net loan losses

NOKt	Jan-Dec 2017[2]
Realised loan losses	6 684
Allowances to cover realised loan losses	-4 633
Provisions	30 129
Reversals of previous provisions	-4 839
Total loan losses for the period	**27 341**

Key ratios

	Jan-Dec 2017[2]
Loan loss ratio, basis points	2,2

[2] Based on IAS 39

Note 8
Taxes

Income tax expense

NOKt	2018	2017
Current tax [1]	228 059	279 723
Deferred tax	10 876	14 037
Total	**238 935**	**293 760**
[1] of which relating to prior years	0	0

Current and deferred tax recognised in Other comprehensive income		
Deferred tax on remeasurements of pension obligations DBP	618	-588
Deferred tax relating to cash flow hedges	9 710	-2 042
Total	**10 328**	**-2 630**

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

NOKt	2018	2017
Profit before tax	955 456	1 175 030
Tax calculated at a tax rate of 25%	-238 864	-293 757
Non-deductable expenses	-71	-3
Tax exempt income	0	0
Change of tax rate 1	0	0
Adjustments related to prior years	0	0
Total tax charge	**-238 935**	**-293 760**
Average effective tax rate	25,0 %	25,0 %

Deferred tax

NOKt	2018	2017
Deferred tax expense (-) / income (+)		
Deferred tax due to temporary differences	-10 876	-14 037
Income tax expense, net	**-10 876**	**-14 037**

	Deferred tax assets		Deferred tax liabilities	
NOKt	**2018**	**2017**	**2018**	**2017**
Deferred tax assets/liabilities related to:				
Financial instruments and derivatives			-103 874	-102 419
Retirement benefit obligations	3 605	2 759		
Other			-8 501	-308
Netting between deferred tax assets and liabilities	-3 605	-2 759	3 605	2 759
Total deferred tax assets/liabilities	0	0	-108 770	-99 968

Movements in deferred tax assets/liabilities net, are as follows:	**2018**	**2017**
Balance at 1 January	-99 968	-83 301
Restatement due to changed accounting policy, net of tax[2]	-8 255	0
Restated open balance at 1 Jan 2018	-108 223	-83 301
Deferred tax relating to items recognised in Other comprehensive income	10 328	-2 630
Adjustments relating to prior years	0	0
Deferred tax in the income statement	-10 876	-14 037
Balance at 31 December	**-108 770**	**-99 968**

[2]Related to IFRS 9

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 108.770 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 2018.

Note 9
Loans and impairment

NOKt	31 Dec 2018 [1]	31 Dec 2017 [2]
Loans measured at amortised cost, not impaired (Stage 1 and 2)	111 391 842	135 048 499
Impaired loans (Stage 3)	528 112	462 333
- of which servicing	113 789	17 939
- of which non-servicing	414 323	444 394
Loans before allowances	**111 919 955**	**135 510 832**
Allowances for impaired loans (Stage 3)	-37 814	-26 056
- of which servicing	-1 849	-1 356
- of which non-servicing	-35 965	-24 700
Allowances for not impaired loans (Stage 1 and 2)	-18 627	-63 257
Allowances	**-56 441**	**-89 313**
Loans, carrying amount	**111 863 513**	**135 421 520**

[1] Based on IFRS 9

[2] Based on IAS 39

Accrued interest on loans to the public was NOKt 126.116 at 31 December 2018.

Reconciliation of allowance accounts for impaired loans [1]

NOKt	Individually assessed	Collectively assessed	Total
Opening balance at 1 January 2018	**26 056**	**63 257**	**89 313**
Effects from changed accounting policy[2]		-33 216	-33 216
Restated opening balance at 1 January 2018	26 056	30 041	56 097
Provisions	6 399	996	7 395
Reversals of previous provisions	-2 889	0	-2 889
Changes through the income statement	**3 510**	**1 506**	**4 506**
Allowances used to cover realised loan losses	-4 162	0	-4 162
Closing balance at 31 December 2018	**25 404**	**31 037**	**56 441**

[1]See also Note 7 Loan losses

[2]Related to IFRS 9

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	-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**

Carrying amount of loans measured at amortised cost, before allowances

	Central banks and credit institutions				The public			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance as at 1 January	138 509	0	0	138 509	115 504 013	19 305 465	701 355	135 510 832
Origination and acquisition	-	-	-	-	13 844 285	563 990	136 052	14 544 327
Transfers between Stage 1 and Stage 2, (net)	-	-	-	-	7 828 657	-7 828 657	-	-
Transfers between Stage 2 and Stage 3, (net)	-	-	-	-	-	1 356	8 079	9 435
Transfers between Stage 1 and Stage 3, (net)	-	-	-	-	-19 266	-	21 423	2 157
Repayments and disposals	-	-	-	-	-33 111 886	-5 816 062	-254 442	-39 182 391
Write-offs	-	-	-	-	-	-	-5 734	-5 734
Other changes	777 072	-	-	777 072	976 684	143 264	-78 621	1 041 328
Translation differences	-	-	-	-	-	-	-	-
Closing balance at 31 December 2018	**915 581**	**-**	**-**	**915 581**	**105 022 486**	**6 369 356**	**528 112**	**111 919 954**

Note 9

Loans and impairment cont.

Movements of allowance accounts for loans measured at amortised cost

	The public			
NOKt	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance at 1 January year 2018[1]	-2 529	-13 749	-39 818	-56 097
Origination and acquisition	-1 834	-1 143	-3 917	-6 894
Transfers from Stage 1 to Stage 2	185	-5 004	-	-4 819
Transfers from Stage 1 to Stage 3	14	-	-1 080	-1 066
Transfers from Stage 2 to Stage 1	-596	5 053	-	4 458
Transfers from Stage 2 to Stage 3	-	213	-3 266	-3 054
Transfers from Stage 3 to Stage 1	-10	-	1 316	1 306
Transfers from Stage 3 to Stage 2	-	-222	1 979	1 758
Changes in credit risk without stage transfer	-709	-3 294	1 722	-2 281
Repayments and disposals	558	4 022	5 250	9 830
Write-off through decrease in allowance account	-	-	-	-
Other changes	418	-	-	418
Translation differences	-	-	-	-
Closing balance at 31 December 2018	**-4 503**	**-14 124**	**-37 814**	**-56 441**

[1]Based on IFRS 9

Scoring information for loans measured at amortised cost

Gross carrying amounts

Scoring grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
A+	47 355 729	173 817	3 821	47 533 368
A	14 744 659	162 692	7 148	14 914 499
A-	12 096 128	258 251	673	12 355 051
B+	7 170 672	344 203	4 258	7 519 133
B	5 625 737	466 475	3 392	6 095 604
B-	3 813 204	551 438	2 432	4 367 075
C+	2 644 018	406 102	19 619	3 069 739
C	2 429 111	581 124	1 999	3 012 234
C-	1 831 181	446 486	8 723	2 286 389
D+	1 532 669	341 962	2 148	1 876 779
D	1 354 701	395 761	5 527	1 755 988
D-	947 740	412 579	2 852	1 363 171
E+	2 218 972	452 359	3 244	2 674 575
E	373 207	339 964	523	713 694
E-	284 172	284 970	4 076	573 218
F+	197 414	258 271	36 806	492 491
F	41 032	84 209	-	125 240
F-	212 330	283 664	4 324	500 318
0+ / 0 / 0-	153 308	139 154	454 361	746 824
Internal[1)]	791 474	-	-	791 474
Standardised/Unrated	68 670	-	-	68 670
Total	**105 886 128**	**6 383 480**	**565 926**	**112 835 535**

[1] Exposures towards Nordea entities.

Key ratios

	31 Dec 2018 [1]
Impairment rate (stage 3), gross, basis points	47,2
Impairment rate (stage 3), net, basis points	43,8
Total allowance rate (stage 1, 2 and 3), basis points	5,0
Allowances in relation to credit impaired loans (stage 3), in %	7,2
Allowances in relation to loans in stage 1 and 2, basis points	1,7

[1]Based on IFRS 9

Note 9
Loans and impairment cont.

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

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

[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 10

Derivatives and hedge accounting

31 Dec 2018, NOKt	Fair value Positive	Fair value Negative	Total nominal amount
Derivatives held for trading: [1]			
Interest rate swaps	0	64 701	60 250 000
Total derivatives held for trading	**0**	**64 701**	**60 250 000**
Derivatives used for hedge accounting:			
Interest rate swaps	824 619	115 220	18 878 000
Currency and interest rate swaps	43 625	1 113 971	12 384 756
Total derivatives used for hedge accounting	**868 244**	**1 229 191**	**31 262 756**
- of which fair value hedges [2]	824 619	115 220	19 816 000
- of which cash flow hedges [2]	43 625	1 113 971	12 384 756
Total derivatives	**868 244**	**1 293 892**	**91 512 756**

[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 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.

Note 11

Cover Pool

	31 Dec 2018		31 Dec 2017	
NOKt	**Nominal value**	**Market value**	**Nominal value**	**Market value**
Loans to the public	111 919 955	112 326 752	135 510 832	133 733 162
- whereof pool of eligible loans	100 615 613	100 745 233	127 465 821	125 728 151
Supplementary assets and derivatives:				
- whereof CIRS	-956 448	-1 070 343	-1 065 733	-1 180 243
- whereof IRS	0	644 696	0	1 025 529
Total cover pool	**99 659 165**	**100 319 585**	**126 400 088**	**125 573 438**
Debt securities in issue (net outstanding amount)	82 149 307	83 248 134	77 386 022	78 954 191
Over-collateralization calculated on net outstanding covered bonds	21,3 %	20,5 %	63,3 %	59,0 %
Debt securities in issue (issued amount)	96 528 307	97 627 134	87 349 022	88 917 191
Over-collateralization calculated on issued covered bonds [1]	3,2 %	2,8 %	44,7 %	41,2 %

[1] without deduction for holdings of own bonds

The guidelines for calculating the over-collateralization requirement in the Norwegian legislation is given in the Financial Undertakings Act (Act No. 17 of 10 April 2015) Chapter 11 Bonds secured on a loan portfolio (covered bonds), and appurtenant regulations. The understanding of the guidelines has been defined more precisely during 2018 and the OC-calculation at 31 December 2018 has been changed compared to previous years to reflect this. Also 2017-figures have been adjusted compared to note 10 in the Annual Report for 2017.

Following the changed method for calculating OC according to Norwegian legislation, where the cover pool is measured against total issued covered bonds without deduction for holdings of own bonds, the OC level at 31 December 2018 was down to 2.8%. In January 2019 Nordea Eiendomskreditt has written down holdings of own bonds and also purchased a portfolio of loans from the parent bank. The OC level is thereby restored at 36% at 31 January 2019

Note 12

Debt securities in issue and loans from financial institutions

NOKt	31 Dec 2018 Nominal value	Other [1]	Carrying amount	31 Dec 2017 Nominal value	Other [1]	Carrying amount
Covered bonds issued in NOK	85 100 000			79 300 000		
Holdings of own covered bonds NOK	-14 379 000			-9 963 000		
Outstanding covered bonds issued in Norwegian kroner	**70 721 000**			**69 337 000**		
Covered bonds issued in GBP	10 433 607			7 064 992		
Covered bonds issued in EUR	994 700			984 030		
Total outstanding covered bonds	**82 149 307**	**414 913**	**82 564 221**	**77 386 022**	**344 902**	**77 730 925**
Loans and deposits from financial institutions for a fixed term	20 972 512	58 430	21 030 942	47 783 000	49 472	47 832 472
Subordinated loan	1 200 000	106	1 200 106	1 200 000	279	1 200 279
Total	**104 321 819**	**473 450**	**104 795 269**	**126 369 022**	**394 653**	**126 763 675**

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

Maturity information	31 Dec 2018	31 Dec 2017
Maximum 1 year	35 484 072	57 037 000
More than 1 year	68 837 747	69 332 022
Total	**104 321 819**	**126 369 022**

Norwegian covered bonds (NOKt) at 31 December 2018

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	7 282 000
NO0010692767	05.11.2013	19.06.2019	Fixed	3,05	NOK	1 662 000
NO0010703531	14.02.2014	17.06.2020	Float	3M Nibor + 0.38%	NOK	13 115 000
NO0010729817	26.01.2015	16.06.2021	Float	3M Nibor + 0.20%	NOK	11 000 000
NO0010741903	15.07.2015	17.06.2020	Fixed	1,75	NOK	14 000
NO0010758931	08.03.2016	15.06.2022	Fixed	1,80	NOK	4 615 000
NO0010759632	17.03.2016	15.06.2022	Float	3M Nibor + 0.78%	NOK	12 000 000
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
NO0010819717	21.02.2018	21.06.2023	Float	3M Nibor + 0.30%	NOK	10 000 000
NO0010821986	04.05.2018	04.05.2048	Fixed	2,60	NOK	300 000
Total						**70 721 000**

Covered bonds issued in foreign currency (NOKt) at 31 December 2018

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
XS1837099339	18.06.2018	18.06.2023	Float	3M GBP Libor + 0.33%	GBP	300 000
XS1451306036	19.07.2016	15.07.2031	Fixed	0,738	EUR	100 000
Total (in NOKt equivalent)						**11 428 307**

Note 13
Retirement benefit obligations

NOKt	31 Dec 2018	31 Dec 2017
Defined benefit plans, net	-14 419	-11 036
Total	**-14 419**	**-11 036**

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 2018 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 1.159 in 2018.

IAS 19 Pension calculations and assumptions

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

Assumptions[1]	2018	2017
Discount rate[2]	2,82 %	2,48 %
Salary increase	2,75 %	2,75 %
Inflation	1,50 %	1,75 %
Social Security increase	3,00 %	3,00 %
Expected adjustments of current pensions	1,00%	1,00 %

[1] The assumptions disclosed for 2018 have an impact on the liability calculation by year-end 2018, while the assumptions disclosed for 2017 are used for calculating the pension expense in 2018.

[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)	2018	2017
Discount rate - Increase 50bps	-7,7%	-10,0%
Discount rate - Decrease 50bps	8,7%	11,5%
Salary increase - Increase 50bps	0,4%	1,0%
Salary increase - Decrease 50bps	-0,4%	-1,0%
Inflation - Increase 50bps	7,7%	11,1%
Inflation - Decrease 50bps	-6,5%	-9,7%

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 2017 Annual Report there have been changes in the methods used when preparing the sensitivity analyses. The 2018 sensitivity analysis now include the impact on the liabilities held for future SSC (social security contributions).

Net retirement benefit liabilities/assets

NOKt	2018	2017
Obligations	43 148	38 987
Plan assets	28 729	27 951
Net liability (-)/asset (+)	-14 419	-11 036

Movements in the obligation

NOKt	2018	2017
Opening balance	38 987	12 879
Current service cost	192	40
Interest cost	923	322
Pensions paid	-65	-40
Past service cost	0	0
Settlements	0	0
Transfers between entities	469	23 634
Remeasurement from changes in financial assumptions	-3 205	0
Remeasurement from experience adjustments	5 777	1 550
Closing balance before social security contribution	43 077	38 385
Change in provision for social security contribution 1	71	602
Closing balance	**43 148**	**38 987**

[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

OKt	2018	2017
Opening balance	27 951	5 342
Interest income (calculated using the discount rate)	698	150
Pensions paid	-65	0
Settlements	0	0
Contributions by employer	47	450
Transfers between entities	0	18 487
Remeasurement (actual return less interest income)	98	3 522
Closing balance	**28 729**	**27 951**

Asset composition

The combined return on assets in 2018 was 5,4% (15,4%). 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 24% (31%) of total assets.

Asset composition in funded schemes

	2018	2017
Equity	25 %	31 %
Bonds	58 %	52 %
Real estate	14 %	15 %
Other assets	3 %	2 %

Defined benefit pension costs and Defined contribution plan cost

The total net pension cost recognised in Nordea Eiendomskreditt's income statement (as staff costs) for 2018 is NOKt 2.294. The amount covers both funded and unfunded pension plans, DCP as well as AFP premium.

Recognised in the income statement, NOKt	2018	2017
Current service cost	192	40
Net interest	225	173
Past service cost and settlements	0	0
Social Security Contribution	80	41
Pension cost on defined benefit plans	**497**	**253**

Recognised in other comprehensive income, NOKt	2018	2017
Remeasurement from changes in financial assumptions	2 572	-3 308
Remeasurement from experience adjustments	0	4 858
Remeasurement of plan assets (actual return less interest income)	-98	-3523
Social security contribution	0	-378
Pension cost on defined benefit plans	**2 473**	**-2 351**

The defined benefit pension plan cost for 2019 is expected to be NOKt 757.

Note 14

Assets pledged as security for own liabilities

NOKt	31 Dec 2018	31 Dec 2017
Assets pledged as security for own liabilities:		
Loans to the public	100 615 613	127 465 821
Total	**100 615 613**	**127 465 821**
The above pledges pertain to the following liabilities:		
Debt securities in issue (carrying amount)	82 564 221	77 730 925
Total	**82 564 221**	**77 730 925**

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 3-6 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 15

Commitments

NOKt	31 Dec 2018	31 Dec 2017
Accepted, not disbursed loans (unutilised portion of approved overdraft facilities)	12 357 191	14 221 101
Other commitments, excluding derivatives [1, 2]	362	535
Total	**12 357 553**	**14 221 636**

[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 10 Derivatives and hedge accounting.

Note 16
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] 2018	31 Dec[1] 2017
Calculation of own funds		
Equity in the consolidated situation	13 437	13 168
Proposed/actual dividend	0	-441
Common Equity Tier 1 capital before regulatory adjustments	13 437	12 727
Deferred tax assets	0	0
Intangible assets	0	0
IRB provisions shortfall (-)	-96	-75
Deduction for investments in credit institutions (50%)	0	0
Pension assets in excess of related liabilities	0	0
Other items, net	62	43
Total regulatory adjustments to Common Equity Tier 1 capital	-34	-32
Common Equity Tier 1 capital (net after deduction)	**13 403**	**12 695**
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)	**13 403**	**12 695**
Tier 2 capital before regulatory adjustments	1 200	1 200
IRB provisions excess (+)	12	28
Total regulatory adjustments to Tier 2 capital	12	28
Tier 2 capital	**1 212**	**1 228**
Own funds (net after deduction)[2]	**14 615**	**13 923**

[1] Including profit for the period
[2] Own Funds adjusted for IRB provision, i.e. adjusted own funds equal 14,699m by 31 Dec 2018

Note 16
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 2018 Minimum Capital requirement	31 Dec 2018 REA	31 Dec 2017 Minimum Capital requirement	31 Dec 2017 REA
Credit risk	**2 109**	**26 360**	**1 012**	**12 652**
- of which counterparty credit risk	-	-	3	43
IRB	2 095	26 190	1 006	12 581
- of which sovereign	-	-	6	77
- of which corporate	-	-	-	-
- aof which dvanced	-	-	-	-
- of which foundation	-	-	-	-
-of which institutions	22	280	13	161
- of which retail	2 073	25 910	987	12 343
- of which secured by immovable property collateral	1 889	23 611	790	9 879
- of which other retail	184	2 299	197	2 464
- of which other	-	-	-	-
Standardised	14	170	6	71
- central governments or central banks	-	-	-	-
- regional governments or local authorities	-	-	-	-
- public sector entities	-	-	-	-

Note 16

Capital adequacy cont.

	31 Dec 2018 Minimum Capital requirement	31 Dec 2018 REA	31 Dec 2017 Minimum Capital requirement	31 Dec 2017 REA
- multilateral development banks	-	-	-	-
- international organisations	-	-	-	-
- institutions	14	170	6	71
- corporate	-	-	-	-
- retail	-	-	-	-
- secured by mortgages on immovable properties	-	-	-	-
- in default	-	-	-	-
- associated with particularly high risk	-	-	-	-
- covered bonds	-	-	-	-
- institutions and corporates with a short-term credit assessment	-	-	-	-
- collective investments undertakings (CIU)	-	-	-	-
- equity	-	-	-	-
- other items	-	-	-	-
Credit Value Adjustment Risk	**-**	**-**	**-**	**-**
Market risk	**-**	**-**	**-**	**-**
- trading book, Internal Approach	-	-	-	-
- trading book, Standardised Approach	-	-	-	-
- banking book, Standardised Approach			-	-
Operational risk	**185**	**2 317**	**204**	**2 550**
Standardised	185	2 317	204	2 550
Additional risk exposure amount related to Finnish RW floor due to Article 458 CRR	**-**	**-**		
Additional risk exposure amount related to Swedish RW floor due to Article 458 CRR	**1**	**13**		
Additional risk exposure amount due to Article 3 CRR	**-**	**-**	**-**	**-**
Sub total	**2 295**	**28 690**	**1 216**	**15 202**
Adjustment for Basel I floor				
Additional capital requirement according to Basel I floor	1 685	21 058	3 578	44 725
Total	**3 980**	**49 748**	**4 794**	**59 927**

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	2 239	1 244	993	-	1 492	3 729	5 968
Tier 1 capital	2 985	1 244	993	-	1 492	3 729	6 714
Own funds	3 980	1 244	993	-	1 492	3 729	7 709

Common Equity Tier 1 available to meet Capital Buffers

Percentage points of REA	**31 Dec[1,2] 2018**	**31 Dec[1,2] 2017**
Common Equity Tier 1 capital	20,9	15,2

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

Note 16
Capital adequacy cont.

Capital adequacy ratios

	31 Dec 2018 [1]	31 Dec 2017 [1]
Excl. Basel I floor		
ET1 capital ratio (%)	46,7	83,5
Tier 1 capital ratio (%)	46,7	83,5
Total capital ratio (%)	50,9	91,6
Capital adequacy quotient (own funds divided by capital requirement)	6,4	11,4
Incl. Basel I floor		
CET1 capital ratio (%)	26,9	21,2
Tier 1 capital ratio (%)	26,9	21,2
Total capital ratio (%)	29,4	23,2
Capital adequacy quotient (own funds divided by capital requirement)	3,7	2,9

1 Including profit for the period

Analysis of Capital Requirements

Exposure class	Average risk weight (%)	Capital requirement [1]
Corporate IRB	-	-
Institutions IRB	8	22
Retail IRB	22	2 073
Sovereign	-	-
Other	4	14
Total credit risk	21	2 109

[1] 8% minimum capital requirement, NOKm

Leverage ratio	31 Dec[1,2] 2018	31 Dec[1,2] 2017
Tier 1 capital, transitional definition, NOKm	13 403	12 695
Leverage ratio exposure, NOKm	125 723	148 632
Leverage ratio, percentage	10,7	8,5

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

Note 17

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 2018

		Fair value through profit or loss (FVPL)			
NOKt	Amoritsed cost (AC)	Mandatorily	Derivatives used for hedging	Non-financial assets	Total
Assets					
Loans to credit institutions	915 580				915 580
Loans to the public	111 863 514				111 863 514
Interest-bearing securities		6 654 031			6 654 031
Derivatives			868 244		868 244
Fair value changes of the hedged items in portfolio hedge of interest rate risk	18 618				18 618
Other assets				196	196
Prepaid expenses and accrued income	126 116			232	126 348
Total 31 December 2018	**112 923 828**	**6 654 031**	**868 244**	**428**	**120 446 531**

		Fair value through profit or loss (FVPL)			
NOKt	Amoritsed cost (AC)	Mandatorily	Derivatives used for hedging	Non-financial liabilities	Total
Liabilities					
Deposits by credit institutions	21 030 942				21 030 942
Debt securities in issue	82 564 221				82 564 221
Derivatives		64 701	1 229 191		1 293 892
Fair value changes of the hedged items in portfolio hedge of interest rate risk	521 981				521 981
Current tax liabilities				228 064	228 064
Other liabilities	5			39 215	39 220
Accrued expenses and prepaid income	340			7 208	7 548
Deferred tax liabilities				108 770	108 770
Provisions				168	168
Retirement benefit obligations				14 419	14 419
Subordinated loan capital	1 200 106				1 200 106
Total 31 December 2018	**105 317 595**	**64 701**	**1 229 191**	**397 844**	**107 009 331**

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**

Note 17
Classification of assets and liabilities, cont.

31 December 2017

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.

Note 18

Assets and liabilities at fair value

Fair value of financial assets and liabilities

	31 Dec 2018		31 Dec 2017	
NOKt	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans	112 797 712	113 204 509	135 586 171	133 848 501
Interest-bearing securities	6 654 031	6 654 031	5 603 387	5 603 387
Derivatives	868 244	868 244	1 194 840	1 194 840
Prepaid expenses and accrued income	126 116	126 116	148 303	148 303
Total financial assets	**120 446 103**	**120 852 900**	**142 532 701**	**140 795 031**
Financial liabilities				
Deposits and debt instruments	105 317 250	106 001 163	127 598 745	128 822 011
Derivatives	1 293 892	1 293 892	1 349 553	1 349 553
Accrued expenses and prepaid income	345	345	418	418
Total financial liabilities	**106 611 487**	**107 295 400**	**128 948 717**	**130 171 982**

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 2018, 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		6 654 031		6 654 031
Derivatives		868 244		868 244
Total assets	**0**	**7 522 275**	**0**	**7 522 275**
Liabilities at fair value on the balance sheet [1]				
Derivatives		1 293 892		1 293 892
Total liabilities	**0**	**1 293 892**	**0**	**1 293 892**

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

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**	**6 978 227**	**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.

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 2018. 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 2018, NOKt	Carrying amount	Fair value	Level in fair value hierarchy
Assets not held at fair value on the balance sheet			
Loans	112 797 712	113 204 509	3
Other financial assets	0	0	3
Prepaid expenses and accrued income	126 116	126 116	3
Total assets	**112 923 828**	**113 330 625**	
Liabilities not held at fair value on the balance sheet			
Deposits and debt instruments	105 317 250	106 001 163	3
Other financial liabilities	0	0	3
Accrued expenses and prepaid income	345	345	3
Total liabilities	**105 317 595**	**106 001 508**	

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 categorised 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 19

Financial instruments set off on balance or subject to netting agreements

31 Dec 2018, NOKt	Gross recognised financial assets[1]	Gross recognised financial liabilities set off on the balance sheet	Net carrying amount on the balance sheet	Amounts not set off but subject to master netting agreements and similar agreements			Net amount
				Financial instruments	Net amount Financial collateral received	Cash collateral received	
Assets							
Derivatives	868 244	0	868 244	-324 025	0	0	544 219
Total	**868 244**	**0**	**868 244**	**-324 025**	**0**	**0**	**544 219**

31 Dec 2018, NOKt	Gross recognised financial liabilities[1]	Gross recognised financial assets set off on the balance sheet	Net carrying amount on the balance sheet	Amounts not set off but subject to master netting agreements and similar agreements			Net amount
				Financial instruments	Financial collateral pledged	Cash collateral pledged	
Liabilities							
Derivatives	1 293 892	0	1 293 892	-324 025	0	0	969 867
Total	**1 293 892**	**0**	**1 293 892**	**-324 025**	**0**	**0**	**969 867**

[1] All amounts are measured at fair value.

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			Net amount
				Financial instruments	Net amount Financial collateral received	Cash collateral received	
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 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			Net amount
				Financial instruments	Financial collateral pledged	Cash collateral pledged	
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.

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 20
Maturity analysis for assets and liabilities

Contractual undiscounted cash flows

31 Dec 2018, NOKt

	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Total
Interest-bearing financial assets	915 582	2 520 004	6 215 998	35 284 728	108 522 065	153 458 376
Non interest-bearing financial assets					145 162	145 162
Non-financial assets					0	0
Total assets	**915 582**	**2 520 004**	**6 215 998**	**35 284 728**	**108 667 226**	**153 603 538**
Interest-bearing financial liabilities	0	900 384	6 976 769	100 453 601	3 184 957	111 515 711
Non interest-bearing financial liabilities					521 981	521 981
Non-financial liabilities and equity					13 835 221	13 835 221
Total liabilities and equity	**0**	**900 384**	**6 976 769**	**100 453 601**	**17 542 159**	**125 872 913**
Derivatives, cash inflow	0	5 762 572	980 141	6 915 024	1 527 270	15 185 007
Derivatives, cash outflow	0	6 810 736	681 127	6 643 425	1 630 008	15 765 297
Net exposure		**-1 048 165**	**299 014**	**271 599**	**-102 738**	**-580 290**
Exposure	**915 582**	**571 455**	**-461 757**	**-64 897 274**	**91 022 328**	**27 150 334**
Cumulative exposure	**915 582**	**1 487 036**	**1 025 280**	**-63 871 994**	**27 150 334**	

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 12.357.191, which could be drawn on at any time.

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	11 898 298
Derivatives, cash outflow	0	199 693	563 926	9 927 196	1 500 653	12 191 471
Net exposure		**-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**
Cumulative 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.

Note 21
Related-party transactions

NOKt	2018			2017		
	Nordea Bank Abp, filial i Norge	Nordea Bank Abp, filial i Sverige	Nordea Bank Abp	Nordea Bank AB, filial i Norge	Nordea Bank AB (publ)	Nordea Bank AB, Finnish Branch
Profit and loss account						
Interest income on loans with financial institutions	2 522			3 694		
Total income	**2 522**	**-**	**-**	**3 694**	**-**	**-**
Interest expenses on liabilities to financial institutions	355 826			347 030		
Interest and related expense on securities issued incl. hedging	-304 749	47 302		-294 437	57 877	
Net gains/losses on items at fair value	350 677	1 956		206 896	2 837	
Interest and related expense on subordinated loan capital	31 406		4 320	34 602		
Commission and fee expense for banking services	17 705			14 797		
Other operating expenses	342 530	1 501	493	379 424	1 403	458
Total expenses	**793 395**	**50 759**	**4 813**	**688 312**	**62 118**	**458**
Balance sheet						
oans and receivables to credit institutions	915 580			138 509		
Derivatives	824 619	43 625		1 194 840		
Total assets	**1 740 200**	**43 625**	**-**	**1 333 349**	**-**	**-**
Deposits by credit institutions	21 028 756			47 832 066		
Issued bonds	-		882 579	-		885 105
Derivatives	309 385	984 507		311 467	1 038 086	
Accrued expenses and prepaid income	895	35 659		14 795	2 163	
Subordinated loan capital			1 200 106	1 200 279		
Share capital and share premium [1]			5 433 627		5 433 627	
Total libilities and equity	**21 339 036**	**1 020 166**	**7 516 312**	**49 358 607**	**6 473 876**	**885 105**
Off balance sheet items						
Interest rate swaps (nominal value)	80 653 526	10 859 230		65 809 526	7 589 230	

[1] Share capital and share premium were wrongly reported under Nordea Bank AB, Norwegian Branch in the Annual Report for 2017, and has in the above table been moved to Nordea Bank AB (publ).

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 Abp, 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. During 2018, loans amounting to NOK 16.6 billion have been transferred from the parent bank 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 was a wholly owned subsidiary of Nordea Bank AB (publ). From the same time the subsidiary banks have become branches. From 1 October 2018 Nordea moved its domicilation from Sweden to Finland and Nordea Eiendomskreditt AS has from the same date been a wholly owned subsidiary of Nordea Bank Abp. 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 22
Interest-bearing securities

	31 Dec 2018		31 Dec 2017	
NOKt	Aquired amount	Carrying amount	Aquired amount	Carrying amount
Financial assets				
State and sovereigns	3 164 059	3 123 853	2 034 390	2 058 586
Mortgage institutions	3 541 994	3 530 178	3 548 577	3 544 801
Total	**6 706 053**	**6 654 031**	**5 582 967**	**5 603 387**

Provisions for credit risks amount to NOKt 159 (0m)

Note 23
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) 2018, 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.

Allowances for credit risk

NOKm	Note	**31 Dec 2018**	**31 Dec 2017**
Loans to the public	8	56	89
Interest bearing securities measured at fair value through profit and loss	21	0	0
Total		**57**	**89**

The figures in the table represents maximum exposure for credit risk in the company, presented as Exposure At Default (EAD). EAD is the exposure after applying credit conversion factors (CCF).

Maximum exposure to credit risk

		31 Dec 2018		**31 Dec 2017**	
NOKm	Note	Amortised cost and Fair value through other comprehensive income	Financial assets at fair value through profit or loss	Amortised cost and Fair value through other comprehensive income	Financial assets at fair value through profit or loss
Loans to credit institutions		916		139	
Interest-bearing securities	21		6 654		5 603
Loans to the public incl accrued interest	8	111 990		135 570	
Derivatives			544		888
Total loans and receivables (on-balance exposure)		**112 905**	**7 198**	**135 709**	**6 491**
Off balance credit exposure:					
- of which lending to the public	14	12 357		14 221	
Off balance credit exposure		12 357	0	14 221	0
Exposure At Default (EAD)		**125 263**	**7 198**	**149 930**	**6 491**

Loan-to-value distribution og loans to the public

	31 Dec 2018		**31 Dec 2017**	
	NOKm	in %	NOKm	in %
<50%	97 027	86,7 %	116 133	85,7 %
50-70%	11 279	10,1 %	15 042	11,1 %
70-80%	1 862	1,7 %	2 304	1,7 %
80-90%	797	0,7 %	949	0,7 %
>90%	956	0,9 %	1 084	0,8 %
Total	**111 920**	**100 %**	**135 511**	**100 %**

Past due loans excluding impaired loans

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

NOKm	**31 Dec 2018**	**31 Dec 2017**
6-30 days	663	1 370
31-60 days	161	228
61-90 days	40	46
>90 days	62	156
Total	**926**	**1 799**
Past due not impaired loans divided by loans to the public after allowances	0,8 %	1,3 %

Interest-bearing securities
For more information about credit risk related to interest-bearing securities, see Note 22 where the carrying amount of interest-bearing securities is split on different types of counterparties.

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 2018, income statement, statement of comprehensive income, statement of changes in equity and cash flow statement 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 give a true and fair view of the financial position of the Company as at 31 December 2018, 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 company's 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 2018 financial statements. In this light, our areas of focus have been the same in 2018 as the previous year.

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State authorised public accountants, members of The Norwegian Institute of Public Accountants, and authorised accounting firm

Key Audit Matter	How our audit addressed the Key Audit Matter
Loans to the public	
(We also refer to note 7, 9, 11 and 14.) The mortgage company has loans to private individuals amounting to NOKt 111 863 513 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 2018. 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 to change management controls and logical access controls.	We place reliance on IT general controls for the applications, systems and related platforms that support the mortgage company's accounting and financial reporting. For relevant IT systems and controls relating to financial reporting we assessed and tested the design and operating effectiveness. We examined the framework of governance over the bank's IT organisation and the controls over program development and changes, access to programs and data and IT operations. For logical access to programs and data, audit activities included testing that new access, removal of access rights and that access rights were periodically monitored for

appropriateness. Other areas tested included security configurations, controls over changes to IT-systems including appropriate segregation of duties.

Additional substantive testing procedures have been performed due to deviations in certain IT controls 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 information in the annual report, except 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 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 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 proposed allocation of the result 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, 12 February 2019
PricewaterhouseCoopers AS

Marius Kaland Olsen
State Authorised Public Accountant

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 2018, including comparative figures for 2017 (the "2018 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 2018 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 2018 and as of 31 December 2017.

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

Nordea Eiendomskreditt AS

Oslo, 12 February 2019

John Arne Sætre Chair	Nicklas Ilebrand Vice Chair	Ola Littorin Board member
Marte Kopperstad Board member	Alex Madsen Board member	Anne Sofie Knoph Employee representative

Børre Sten Gundersen
Chief Executive Officer

Board of Directors and Auditor

Board of Directors

Chair

John Arne Sætre
Nordea Bank Abp, filial i Norge
Head of Personal Banking Nordea Norway
Board member since 2016

Members

Nicklas Ilebrand (Vice chair)
Nordea Bank Abp
Strategic advisor
Board member since 2016

Ola Littorin
Nordea Bank Abp, filial i Sverige
Head of Long Term Funding in Group Treasury, Nordea
Board member since 2013

Marte Kopperstad
Nordea Bank Abp, filial i Norge
Head of Product and Business Development, Nordea
Board member since 2016

Alex Madsen
Sjølyst Regnskap ANS
Partner
Board member since 2014

Anne Sofie Knoph (Employee representative)
Nordea Eiendomskreditt AS
Senior Business Developer
Board member since 2017

Board member, vacant
External

Auditor

PricewaterhouseCoopers AB
Marius Kaland Olsen
Authorised Public Accountant

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