Nordea

Annual Report 2022

Nordea Eiendomskreditt AS

Key financial figures – Five year overview

Summary of the income statement (NOKm)

	2022	2021	2020	2019	2018
Net interest income	2 319	3 018	2 399	1 879	1 328
Net fee and commission income	77	77			
Net result from items at fair value	-11	-179	-34	-31	-25
Other operating income	3	2	74	66	33
Total operating income	**2 388**	**2 918**	**2 439**	**1 914**	**1 337**
Staff costs	31	27	23	19	19
Other expenses	1 387	1 713	894	604	356
Total operating expenses	**1 419**	**1 740**	**917**	**623**	**375**
Loan losses (negative figures are reversals)	106	53	98	-2	6
Operating profit	**863**	**1 125**	**1 424**	**1 293**	**955**
Income tax expense	215	281	356	323	239
Net profit for the period	**648**	**844**	**1 068**	**970**	**717**

Summary of the balance sheet (NOKm)

	2022	2021	2020	2019	2018
Loans to the public	323 563	305 898	266 240	245 978	111 920
Allowance for loan losses	-311	-218	-190	-103	-56
Other assets	6 555	6 813	7 143	6 689	8 583
Debt securities in issue	149 352	107 152	142 744	98 124	82 564
Other liabilities	158 401	183 216	110 690	135 276	24 445
Equity	22 054	22 125	19 759	19 164	13 437
Total assets	**329 807**	**312 493**	**273 192**	**252 564**	**120 447**
Average total assets	322 559	307 635	264 935	205 635	127 959

Ratios and key figures

	2022	2021	2020	2019	2018
Basic/diluted Earnings per share (EPS), annualised basis, NOK	38,6	50,3	69,6	63,2	46,7
Equity per share[1], NOK	1 314	1 318	1 288	1 250	876
Shares outstanding[1], million	16,8	16,8	15,3	15,3	15,3
Return on average equity	2,9 %	3,9 %	5,5 %	5,5 %	5,4 %
Cost/income ratio	59,4 %	59,6 %	37,6 %	32,6 %	28,1 %
Loan loss ratio, annualised, basis points	3,4	1,8	3,8	-0,1	0,5
Risk Exposure Amount[1], NOKm	80 044	74 676	62 546	58 023	49 748
Own funds, NOKm[1]	22 530	22 471	21 489	20 789	14 615
Common Equity Tier 1 capital ratio[1]	26,6 %	28,5 %	30,6 %	31,8 %	26,9 %
Tier 1 capital ratio[1]	26,6 %	28,5 %	30,6 %	31,8 %	26,9 %
Total capital ratio[1]	28,1 %	30,1 %	34,4 %	35,8 %	29,4 %
Number of employees (full-time equivalents)[1]	21,5	20,5	17,5	16,5	15,5

[1]At the end of the period.

Figures for the years 2018-2020 include only Nordea Eiendomskreditt (NE), while figures for 2021 have been updated to include Nordea Direct Boligkreditt (NDBK). Risk Exposure Amount has been calculated according to different methods in NE and NDBK. Figures for NDBK have not been recalculated according to NE's methodology.

Annual Report 2022

Annual Report 2022 3
Board of Directors' Report 4
Income statement 12
Statement of comprehensive income 12
Balance sheet 13
Statement of changes in equity 14
Cash flow statement 15
Note 1 Accounting policies 16
Note 2 Risk and liquidity management 26
Note 3 Net interest income 35
Note 4 Net result from items at fair value 35
Note 5 Staff costs 36
Note 6 Other expenses 37
Note 7 Loan losses 37
Note 8 Taxes 38
Note 9 Loans and impairment 39
Note 10 Derivatives and hedge accounting 43
Note 11 Cover pool 46
Note 12 Debt securities in issue and loans from financial institutions 47
Note 13 Retirement benefit obligations 48
Note 14 Assets pledged as security for own liabilities 51
Note 15 Commitments 51
Note 16 Capital adequacy 52
Note 17 Classification of assets and liabilities 56
Note 18 Assets and liabilities at fair value 58
Note 19 Financial instruments set off on balance or subject to netting agreements 62
Note 20 Maturity analysis for assets and liabilities 63
Note 21 Related-party transactions 64
Note 22 Interest-bearing securities 65
Note 23 Credit risk disclosures 65
Auditor's report 67
Statement by the Chief Executive Officer and the Board of Directors 72
Board of Directors and Auditor 73
Contact information 74

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. 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 loans to holiday homes, including secured construction loans, and to finance its lending activities mainly by issuing of covered bonds. The mortgage loan portfolio of NOK 323bn at the end of 2022 consists of loans originated directly from own balance sheet or bought from the parent bank, as well as NOK 26bn added as a result of the merger with Nordea Direct Boligkreditt AS. Nordea Eiendomskreditt is part of the Personal Banking Business Area in Nordea.

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

The company's share capital is NOK 1,880m, made up of 16,781,828 ordinary shares, each with nominal value of NOK 112. The entire issued share capital is owned by Nordea Bank Abp. The share capital was increased from NOK 1,718m at 1 November 2022 as a result of the merger with Nordea Direct Boligkreditt AS.

Nordea Direct Boligkreditt merger

The merger between Nordea Direct Boligkreditt AS (formerly Gjensidige Bank Boligkreditt AS) and Nordea Eiendomskreditt AS was completed on 1 November 2022. The merger with Nordea Direct Boligkreditt has been executed with effect from 1 January 2022 with continuity for accounting and tax purposes. Figures for 2021 are restated to include Nordea Direct Boligkreditt AS.

Comments on the Income statement

(previous year's figures are shown in brackets)

Income

Total operating income in 2022 was NOK 2,388m (NOK 2,918m) which was a decrease of 18%, driven by lower net interest income, partly offset by lower losses on items at fair value.

Net interest income was NOK 2,319m in 2022 (NOK 3,018m). The decrease is due to lower lending margins, partly offset by higher loan portfolio, with average lending volume 6% higher in 2022 than in 2021.

Net fee and commission income was NOK 77m in 2022 (NOK 77m). Commission expense includes provision related to a Liquidity Transfer and Support agreement with the parent bank.

Net result from items at fair value ended at a cost of NOK 11m in 2022 (cost of NOK 179m). In accordance with IFRS, net result from items at fair value includes both realized gain/loss from buy-backs of own bonds, 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. Of the net result from items at fair value, a gain of NOK 4.9m in 2022 (gain of NOK 6.4m) is related to interest-bearing securities and derivatives held for economic hedging.

Expenses

Total operating expenses were NOK 1,419m in 2022 (NOK 1,740m), whereof NOK 31m (NOK 27m) is staff related. The number of employees at the end of 2022 was 23 (21). Other operating expenses are mainly related to services bought from the parent bank, such as sales and distribution of mortgage loans, management of the loan portfolio and customer contact, as well as funding, risk control, accounting, reporting and IT related services. Nordea Eiendomskreditt AS does not incur any costs for research and development (R&D) activities.

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. The cost/income ratio for 2022 was 59.4% compared to 59.6% last year.

Loan losses

Net loan losses and provisions recognised in the accounts for 2022 were NOK 106m (NOK 53m), covering both realised loan losses and changes in loan loss allowances. This corresponds to a loan loss ratio of 3.4 basis points (1.8 bps). Realised loan losses were NOK 16m (NOK 29m). Loan loss allowances have increased from NOK 218m at the beginning of the year to NOK 311m at the end of the year, whereof management judgement allowances constitutes NOK 102m at the end of 2022 (NOK 38m). The assessment behind the increased management judgement allowances has been that as a consequence of higher inflation and increasing loan interest rates during 2022, an increase of PD (Probability of Default) and LGD (Loss Given Default) beyond what is captured in Nordea's model calculations, is expected. The management has therefore decided to increase the level of provisions by NOK 64m. See note 7 and note 9 for further information about loan losses and impairment.

Nordea Eiendomskreditt will continue to take appropriate actions to adjust management judgements as respective losses are realised or captured by Nordea's models, whilst maintaining in place an adequate total collective allowance for loan losses.

Taxes

Taxes for the year amounted to NOK 215m, of which NOK 209m relates to tax payable and NOK 6m due to changes in deferred tax.

Net profit

Net profit for the year amounted to NOK 648m (NOK 844m). This gives a return on average equity of 2.9% (3.9%).

Comments on the Balance sheet

Assets and lending activities

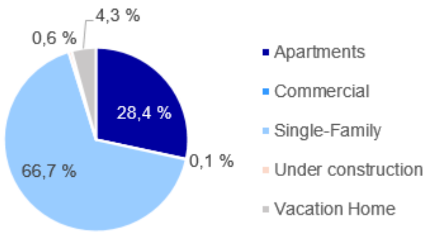
Gross lending to customers at 31 December 2022 amounted to NOK 323bn (NOK 306bn) and consists only of residential mortgage loans and loans to holiday homes including constructions loans, used as collateral in securing the covered bonds issued by the company. NOK 245bn of the loan portfolio is included in the collateral pool for the purposes of the calculation of the asset coverage requirement under the covered bond legislation. This represents surplus collateral of 65.4% in relation to the covered bonds issued. See note 11 “Cover pool” for further information.

The cover pool has a weighted indexed loan-to-value ratio of 48.6% at the end of 2022 (49.8%). The average loan size was NOK 2,060m (NOK 1,933m). The cover pool is split between 64% amortizing loans and 36% flex loans, compared to 62% and 38% at end of last year.

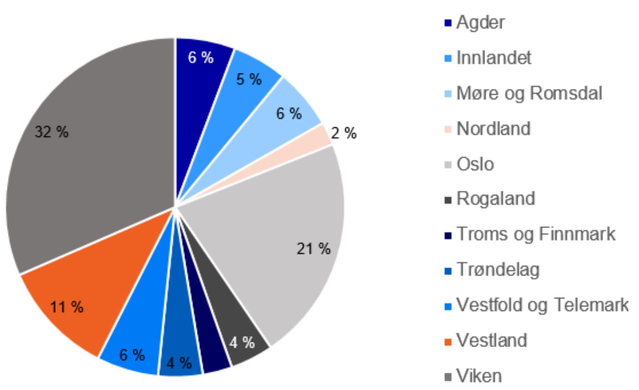
Concentration risk in the loan portfolio

Nordea Eiendomskreditt’s mortgage loans and collaterals have a good geographical spread with a major part concentrated around the 5 largest Norwegian cities. See the figures below for more detailed information on the loan portfolio split by collateral and geography.

Lending by Collateral per Q4 2022



Lending by geographical distribution of property per Q4 2022



Liabilities and funding activities

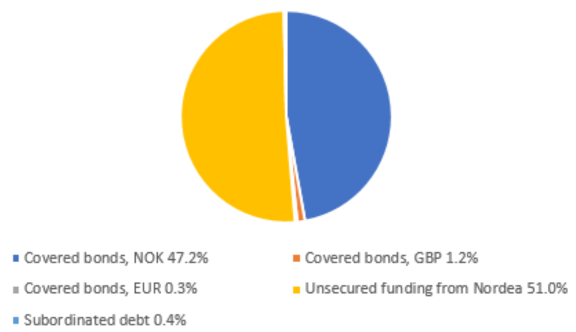
Nordea Eiendomskreditt’s main funding source is issuance of covered bonds. Covered bonds are debt instruments, regulated by the Financial Undertakings Act (Act No. 17 of 10 April 2015), that gives investors a preferential claim into a pool of high quality assets in case of the issuer’s insolvency. Norwegian covered bonds can only be issued by mortgage credit institutions that hold a license 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 2022 Nordea Eiendomskreditt has issued covered bonds amounting to NOK 68.5bn in the Norwegian domestic market under its NOK 250bn domestic covered bond program, in addition to NOK 5.1bn added as a result of the merger with Nordea Direct Boligkreditt AS. Issuance is done via taps of outstanding bonds and new bonds via designated dealers. During 2022 bonds amounting to NOK 22.2bn have matured or been bought back. As of 31 December 2022, Nordea Eiendomskreditt had outstanding covered bonds totalling NOK 143.7bn in the Norwegian market, GBP 0.3bn in the British market and EUR 0.1bn in the European market. Nordea Eiendomskreditt had also subordinated debt outstanding to the amount of NOK 1.1bn.

In addition to the covered bond funding Nordea Eiendomskreditt also raised unsecured funding from the parent bank. At the end of 2022 such borrowings amounted to NOK 155bn.

See the figure below for breakdown of the company’s funding.

Funding structure per 31 Dec 2022



Equity

Shareholder’s equity was NOK 22.1bn at 31 December 2022 (NOK 22.1bn). This includes net profit for the year of NOK 648m (NOK 844m).

Allocation of net profit for the year

Nordea Eiendomskreditt AS reported an operating profit for the year of NOK 863m, and a net profit after tax for the year of NOK 648m. The Board of Directors will propose to the Annual General Meeting on 9 March 2023 that the company distributes 100% of net profit as dividend to the parent company Nordea Bank Abp.

According to IFRS, distribution of group contributions and dividends will not be booked before formal decision is made in the Annual General Meeting. All net profit as of 31 December 2022 is therefore distributed to retained earnings in the balance sheet as of 31 December 2022. 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 subject to CRR and CRD IV, implemented in Norway on 31 December 2019.

Off-balance sheet commitments

The company's business operations include different off-balance sheet items. Interest rate and currency swaps are used to hedge interest rate and currency risk. At the close of 2022, the company was party to interest rate swaps with a nominal value of NOK 53.4bn.

Nordea Eiendomskreditt has covered bonds totalling GBP 0.3bn 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. Main counterparty to derivative contracts are Nordea Group internal.

Around 25% of the loan portfolio is home flex loans where the customer has been granted a credit line. The portion of the credit line that has been drawn, is reported as Loans to the public in the balance sheet while the unutilised portion is reported as an off-balance sheet commitment.

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.

Impacts from Russia's invasion of Ukraine

The uncertainty regarding the broader impact of the war – including higher energy, food and commodity prices – on the global and Nordic economies was further assessed in the fourth quarter. These developments have been reflected in the regular update of Nordea's macroeconomic scenarios, which have been used in the updated financial forecasts and IFRS 9 expected credit loss modelling. Nordea Eiendomskreditt has also reviewed its management judgement overlay to ensure that the overall provisioning levels are appropriate in the context of higher energy prices, interest rates and reduced disposable income. Nordea will continue to follow developments closely in the coming quarters.

Information on the financial and operational impacts of the war in Ukraine on Nordea Eiendomskreditt, as well as the measures taken to address these impacts, have been provided in various sections of this Annual Report. See the section "Risk and uncertainties", Note 1 "Accounting policies", Note 2 "Risk and Liquidity management" and Note 9 "Loans and impairment".

Rating

The covered bonds issued by Nordea Eiendomskreditt (NE), and the covered bonds issued by Gjensidige Bank Boligkreditt (renamed to Nordea Direct Boligkreditt) that were transferred to NE as a result of the merger at 1 November 2022, are rated Aaa by Moody's Investors' Service.

Risks and risk management

Maintaining risk awareness in the organization is engrained in Nordea Eiendomskreditt's business strategies. The Nordea Group has defined clear risk, liquidity and capital management frameworks, including policies and instructions for different risk types, capital adequacy and capital structure, which have been implemented by Nordea Eiendomskreditt.

The Board has the overarching risk management responsibility and decides on Nordea Eiendomskreditt's risk strategy and the Risk Appetite Framework. For further information see note 2 "Risk and liquidity management".

Risks and uncertainties

Within the framework of its normal business operations Nordea Eiendomskreditt (NE) faces various risks and uncertainties. These risks and uncertainties include but are not limited to;

- Credit risk - Loss due to failure of the borrower(s) to meet their obligations;
- Counterparty credit risk - Loss because NE's counterparty in an interest or currency derivative contract defaults prior to maturity of the contract;
- Market risk - Loss in NE's positions in the non-trading book as a result of changes in market rates and parameters that affect market values or net interest income flows;
- Operational risk - Loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk;
- Compliance risk – Failure to comply with regulations and related internal rules, potentially resulting in criticism, reputational loss or fines;
- Financial reporting risk - Risk of misstatements or deficiencies in financial reporting, tax reporting and regulatory reporting and disclosures;
- Liquidity risk - NE's ability to service its cash flow obligations related to lending, investment, funding, off-balance sheet exposures, or its ability to meet its cash flow obligations without incurring significant additional funding costs;
- Environmental, social and governance (ESG) risks.

Including on- and off -balance sheet exposures and exposures related to securities, the total credit risk exposure at year end was NOK 361.2bn (NOK 341.8bn last year). Credit risk exposure includes the risk related to derivative contracts, which was NOK 0.2bn at year end of 2022 (NOK 0.6bn). Counterparty credit risk exposure at the end of 2022 was NOK 124m (NOK 315m).

Market risk is measured through NII - Net Interest Income (renamed from SIIR - Structural Interest Income Risk) and

EV - Economic Value. At the end of the year, the loss for NII was NOK 590.4m for the 200 bps down scenario (NOK 457.8m). The most severe impact from the Basel scenarios on EV was NOK 168.4m loss at end of year 2022 (NOK 162.3m).

Short-term liquidity risk is limited via the Liquidity Coverage Ratio (LCR) as well as the internal parameters Liquidity Stress Coverage (LSC) and Liquidity Stress Horizon (LSH). Long-term structural liquidity risk is limited via the Net Stable Funding Ratio (NSFR). At the end of 2022 the liquidity metrics were (comparable 2021 figures have not been restated);

LCR: 1274% (462%)
LSC: 152% (169%)
LSH: 172 days (165 days)
NSFR: 113.1% (107.5%)

Being an issuer of covered bonds, the company is also exposed to changes in the residential property market and the market for holiday homes. A decline in housing prices will reduce the value of the company's cover pool for the purpose of calculating the regulatory asset coverage requirement. Quarterly stress tests are carried out to estimate the effects of declining prices for residential properties and holiday homes. At the end of 2022 the over-collateralization (OC) was 65.4%, meaning that the company can withstand a significant price drop without breaching the regulatory OC requirement of 5%.

A drop in house prices will also increase the credit risk and may lead to increased loan losses in case of default, due to decreased value of the collateral.

There are significant risks related to the macroeconomic environment due to geopolitical developments, including the war in Ukraine and impact of higher energy, food and commodity prices, and broader inflationary pressures. As a result, reduced consumer spending and cost increases have an impact on especially SMEs in certain industries. Depending on future developments, there may be increased credit risk in Nordea Eiendomskreditt's mortgage loan portfolio.

Potential future credit risk losses are addressed in Note 9 "Loans and impairment" and in Note 2 "Risk and liquidity management".

Macroeconomy

The strong performance of the Norwegian economy continued in 2022 after the full reopening of the economy early in the year. Mainland GDP was 4.6% higher in October 2022 compared with pre-pandemic levels. Registered unemployment came down to a record low during the year and was 1.6% at the end of December 2022. Consumer price inflation picked up significantly through 2022. In November headline CPI inflation was 6.5%. Excluding energy and taxes, underlying inflation stood at 5.8%. Norges Bank raised rates quite aggressively during 2022, bringing the key rate to 2.75% in December. According to the latest forecast by the central bank, the key rate looks set to climb to around 3% during the first quarter of 2023. Higher interest rates and lower purchasing power have started to take their toll on the housing market. Housing prices fell some 3% on a seasonally adjusted basis from August to November, and there are broad expectations of a further decline in 2023. The Norwegian krone moved in tandem with financial market sentiment and weakened during 2022.

Further information on the company's risk exposure and risk management can be found in Note 2 "Risk and liquidity management" and Note 23 "Credit risk disclosures".

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. Nordea Eiendomskreditt reports risk exposure amounts according to applicable external regulations (CRR/CRD IV), which stipulate the limits for the minimum capital (the capital requirement).

Minimum capital requirements

Risk exposure amount (REA) is calculated in accordance with CRR/CRD IV. Nordea Eiendomskreditt had 83.7% of its REA for credit risk covered by internal rating based (IRB) approach at the end of 2022. This is a reduction from 99.4% in 2021, due to the impact from the merger of Nordea Direct Boligkreditt, where the standardised approach is currently applied for the mortgage loan portfolio. Rating and scoring are key components in the credit risk management. For operational risk the standardised approach is applied.

Internal capital requirement

Nordea Eiendomskreditt bases its internal capital requirements under the Internal Capital Adequacy Assessment Process (ICAAP) on risks defined by CRR/CRD IV, and risks internally defined under Pillar 2.

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 Eiendomskreditt'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. As a complement to the ordinary credit risk quantification, comprehensive stress testing is performed at least annually in accordance with current requirements, after which capital requirements are measured. Regulatory buffers were introduced with the implementation of the CRR/CRD IV 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. Accumulated profit in accordance with the audited accounts can be included in the own funds when any foreseeable charge or dividend has been deducted from the amount of profit.

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 2022	31 Dec 2021
Equity[1]	22 269	22 125
Proposed/actual dividend	-863	-726
Common Equity Tier 1 capital before regulatory adjustments	21 406	21 399
IRB provisions shortfall (-)	-79	-130
Other items, net	-9	8
Total regulatory adjustments to Common Equity Tier 1 capital	-88	-122
Common Equity Tier 1 capital (net after deduction)	**21 317**	**21 277**
Additional Tier 1 capital before regulatory adjustments		
Total regulatory adjustments to Additional Tier 1 capital		
Additional Tier 1 capital		
Tier 1 capital (net after deduction)	**21 317**	**21 277**
Tier 2 capital before regulatory adjustments	1 100	1 100
IRB provisions excess (+)	113	94
Other items, net		
Total regulatory adjustments to Tier 2 capital	113	94
Tier 2 capital	1 213	1 194
Own funds (net after deduction)[2]	**22 530**	**22 471**

[1] Including profit for the period

[2] Own funds adjusted for IRB provision, i.e. adjusted own funds equal nok 22497m by 31 Dec 2022

[3] 31 Dec 2021 adjsuted to include Nordea Direct Boligkreditt

Capital position and risk exposure amount

Nordea Eiendomskreditt's Common Equity Tier 1 capital ratio was 26.6% at the end of 2022, a decrease of 1.9 percentage points from the end of last year. Total Capital ratio decreased 2.0 percentage points to 28.1%.
Risk Exposure Amount (REA) was NOK 80,044m, an increase of 7.2% compared to the end of last year (NOK 74,676m). The main driver for the increase in REA was the IRB retail portfolio, primarily stemming from the merger with Nordea Direct Boligkreditt in the fourth quarter, which increased loans to the public by 9.4%.

Own funds was NOK 22,530m at the end of 2022, of which NOK 1,100m is a subordinated loan.

The Tier 1 capital and the Common Equity Tier 1 capital were NOK 21,317m (no additional Tier 1 capital).

Further information

Further information on capital management and capital adequacy is presented in Note 16 "Capital adequacy" and in the Capital and Risk Management Report (Pillar 3 report) at www.nordea.com.

Regulatory development

The Capital Requirement Directive IV (CRD IV) and Capital Requirement Regulation (CRR) entered into force on 1 January 2014 followed by the Bank Recovery and Resolution Directive (BRRD) on 15 May 2014. The CRR became applicable in all EU countries from 1 January 2014 while the CRD IV and BRRD were implemented through national law within all EU member states from 2014. The three EEA EFTA countries Norway, Iceland and Lichtenstein, have different legal structures compared to the EU, thus a parallel implementation with the EU is seldom feasible. The CRR and CRD IV were implemented in Norway on 31 December 2019.

In June 2019, the 'banking package' containing revisions to the BRRD, the CRD and the CRR was adopted.

In the EU, the revised CRD (CRD V) and BRRD (BRRD II) applied from 28 December 2020, while the majority of the changes in the CRR (CRR II) applied from 28 June 2021. In Norway, the 'banking package' was implemented from 1 June 2022, and from the same date a Net Stable Funding Ratio (NSFR) of 100% became a regulatory requirement for measuring long-term structural liquidity risk.

Capital buffers

A Systemic Risk Buffer (SRB) of 4.5% was implemented from 31 December 2020. Extended implementation period until 31.12.2022 was adopted to banks not using the Advanced IRB Approach. On 16 December 2022, the Ministry of Finance prolonged the phasing-in period to increase the SRB from 3% to 4.5% by one year, until 31 December 2023 for the same banks. On 2 February 2021, the Norwegian Ministry of Finance requested the European Systematic Risk Board (ESRB) to issue a recommendation to other EEA states to reciprocate the measures. On 26 May 2021, the ESRB recommended reciprocation within 18 months, but also recognizes that any overlaps caused by regulatory differences between Norway and EU should be taken into account in making the reciprocation decision. On 19 August 2021, the Finnish FSA stated that the decision on the application of the Norwegian SRB will be taken at a later stage and enter into force 12 months after the decision is taken. On 28 October 2022, the Swedish FSA decided to reciprocate the Norwegian SRB to Swedish institutions' exposures in Norway, with effect from 30 October 2022. A resetting of the SRB at the same level is notified to the ESRB and the ESA on 16 December 2022.

In Norway, the risk weight floor for residential real estate is set at 20% and for commercial real estate at 35% in accordance with article 458 of the CRR. On 16 December 2022, the Norwegian Ministry of Finance decided to extend the floors at same level until 31 December 2024.

Norges Bank has earlier decided to increase the countercyclical buffer rate from 1% to 1.5% from 30 June 2022 and to 2.0% from 31 December 2022 and to 2.5% from 31 March 2023.

On 21 December 2022, the Ministry of Finance decided that three banks should continue to be identified as systemically important institutions (O-SII), of which Nordea Eiendomskreditt is identified with an unchanged O-SII buffer of 1%.

EU implementation of finalised Basel III framework ("Basel IV")

Basel III is a global regulatory framework for bank capital adequacy, stress testing and liquidity risk. In December 2017, the finalised Basel III framework, often called the Basel IV package, was published. It includes revisions to credit risk, market risk, operational risk, credit valuation adjustment (CVA) risk and the leverage ratio and introduces a new output floor.

Before being applicable to Nordea, the Basel IV package needs to be implemented into EU regulations. The EU Commission (27 October 2021) and EU Council (31 October 2022) have published their proposals for the implementation into EU regulations by amendments to the CRD and CRR. The proposal from the EU parliament is expected in the first half of 2023, with the trilogue negotiations between the Commission, Council and Parliament taking place in the second half of 2023. The new regulation is expected to be in force on 1 January 2025.

On credit risk, the proposal includes revisions to both the IRB approach, where restrictions on the use of IRB for certain exposures are implemented, as well as on the standardised approach. Also, for market risk, the internal model approach and the standardised approach have been revised. For operational risk, the three existing approaches will be removed and replaced by 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 output floor is to be set at 72.5% of the standardised approaches on an aggregate level, meaning that the capital requirement will be floored to 72.5% of the total Pillar 1 REA calculated with the standardised approaches for credit, market and operational risk. The floor is expected be phased in, starting with 50% from 1 January 2025 to be fully implemented at 72.5% from 1 January 2030 and with transitional rules for the calculation of the REA for the output floor extending to end of 2032.

Covered Bond legislation

The new European Covered Bond Directive (EU 2019/2162) and Regulation (EU 2019/2160) include a harmonised EU framework for covered bonds, including common definitions, supervision and rules for allowing the use of 'European Covered Bonds' label including conditions to be granted preferential capital treatment. The framework was implemented in Norwegian law from 8 July 2022 simultaneously as in the EU.

The Directive introduces two distinctive covered bond classes in Norway, namely OMF Standard and OMF Premium. The former must fulfil only the requirements in the Covered Bond Directive, whereas the latter must also fulfil the requirements in CRR Article 129. All new Nordea Eiendomskreditt's covered bond issuances aim to fulfil the OMF Premium cover bond class.

One element of the Covered Bond Directive and Regulation, is that covered bond issuers will be required to include a liquidity buffer in the cover pool, composed of liquid assets available to cover the net liquidity outflow of the covered bond programme and the cover pool assets. The cover pool liquidity buffer shall cover the maximum cumulative net liquidity outflow over the next 180 calendar days.

The implementation includes possibility of soft-bullets (maturity extension structures) and the allowance for issuers to recognise the final (extended) maturity date when calculating the 180-liquidity buffer requirement, given that certain requirements are met.

Furthermore, Loan-to-value (LTV) requirements will allow for inclusion of residential property mortgages with an LTV ratio up to 80%, which will increase the volumes of eligible assets in Nordea Eiendomskreditt's cover pool. The over-collateralisation requirements (OC) has been increased from 2% to 5%.

Corporate governance

Section 3-3b of the Norwegian Accounting Act (regnskapsloven) requires disclosures of the composition and nomination of the Board of Directors and a description of internal control and risk management regarding financial reporting.

Articles of association regulating the Board of Directors

According to Nordea Eiendomskreditt's articles of association, last amended at 1 November 2022 in connection with the merger with Nordea Direct Boligkreditt, 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.

According to section 8-5 of the Financial Undertakings Act (finansforetaksloven), at least one fourth of the board of directors must be external members. According to internal guidelines both genders shall be represented. Further information on the composition of the Board of Directors is disclosed at page 73.

Board and CEO insurance

Section 3-3a of the Norwegian Accounting Act (regnskapsloven) requires disclosures of insurance coverage for board members and the CEO of the company. Nordea Eiendomskreditt is covered by the Nordea Group insurance covering the personal liabilities of its management (e.g. board members, CEO). The terms and conditions including total limit of liability of the policy are in line with large European banks.

Financial reporting risk management

Financial reporting risk (FRR) is defined as the risk of misstatements or deficiencies in financial reporting, regulatory reporting, disclosures, tax reporting and reporting of Environment, Social and Governance ("ESG") information. Financial reporting risk includes also the risk of greenwashing in ESG-related financial reporting information.

An internal control framework for managing financial reporting risk is in place, providing the structure and standards for designing, operating and evaluating the internal controls over financial reporting across the Nordea Group. The framework is the mechanism through which management expresses its financial statement assertions. Group Risk is the risk control function for financial reporting risk and is responsible for the independent monitoring and oversight of the risks and the Group's implementation of the framework. A self-assessment of the effectiveness of key controls for Nordea Eiendomskreditt is conducted with the purpose of ensuring proper monitoring of the quality of the financial reporting. The CFO reports specifically on self-assessment outcomes, to the Board/Board Risk Committee on a quarterly basis.

Further disclosures regarding corporate governance and internal control can be found in Note 2 "Risk and liquidity management".

People and working environment

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 its employees.

At the end of 2022 the company had 23 (21) employees. Staffing was equivalent to 21.5 (20.5) full time positions. Services related to sales and distribution of mortgage loans, management of the loan 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 reorganized from 1 January 2017, as the company was assigned the product responsibility for Norwegian mortgage loans.

Absence due to sickness during 2022 was 6.3% (1.75%). A total of 330 (82) working days were lost to sickness in 2022. There are no reports of work-related personnel injuries as caused by accidents or other incidents in Nordea Eiendomskreditt in 2022. 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".

Gender equality and diversity

48% of the employees in Nordea Eiendomskreditt and 57% of the members of the management group were female at the end of 2022. Board composition at the end of 2022 is made up of 4 women and 3 men. The Board and management take a proactive approach to promoting equal opportunity in the company. The company follows the Nordea Group's guidelines and regulations concerning corporate social responsibility, including those relating to discrimination/diversity and ethics.

Changes in Management and Board of Directors

As of 6 February 2023, Elen M. Stiksrud has been appointed acting/interim CEO in Nordea Eiendomskreditt AS.
On 15 November 2022 the Board was extended from 6 to 7 members through the appointment of Lene Steinum. On 2 February 2023 Asbjørn Rødal was appointed new board member and replaced Alex Madsen who served as a board member since 2014.

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.

Sustainability

In accordance with the sustainability-related ambition of the Nordea Group, Nordea Eiendomskreditt is committed to sustainable business development by combining financial performance with environmental and social responsibility as well as sound governance practices. At the core of our operations is the development and provision of financial services and offerings that support the transition to a sustainable economy and with that, enable customers to make conscious and sustainable choices (https://www.nordea.com/en/sustainability/sustainable-choice).

In Nordea Eiendomskreditt this resulted in the first Nordea green covered bond with a volume of NOK 7bn, issued in 2021, and also product offering of green mortgage loans for energy efficient dwellings.

Nordea Eiendomskreditt's operations result in minimal pollution of the environment.

For more information on how the Nordea Group works with sustainability, please see Nordea's Annual Report, published at https://www.nordea.com/en/investors/group-annual-reports/. This report also cover the sustainability reporting requirements for Nordea Eiendomskreditt as required by section 3-3c of the Norwegian Accounting Act (regnskapsloven).

Due diligence assessment under the Transparency Act

Nordea Eiendomskreditt will conduct a due diligence assessment in accordance with the OECD guidelines for multinational enterprises. These assessments will investigate whether there are any actual, or risks of, adverse impacts on human rights or decent working conditions in our operations, supply chain and other business relationships.

Information about Nordea Eiendomskreditt's due diligence assessment and the corresponding report will be available on https://www.nordea.com/en/investors/norwegian-subsidiary-reports by the end of June 2023.

Outlook for 2023

In the context of the uncertain macroeconomic environment due to the Ukraine war, and how this will affect our customers, Nordea Eiendomskreditt AS will continuously monitor the economic outlook and the behaviour of own lending portfolios in order to react timely to adverse developments.

We expect a moderate decline in house prices in 2023. Depending on the development of consumer prices and the housing market, we are expecting an increase in the Norwegian Central Bank's key policy rate in 2023.

Nordea Eiendomskreditt AS
Oslo, 7 March 2023

Marte Kopperstad Chair	Gro Elisabeth Lundevik Vice Chair	Ola Littorin Board member
Asbjørn Rødal Board member	Pål Ekberg Board member	Lene Steinum Board member

Anne Sofie Knoph Employee representative	Elen M. Stiksrud Acting Chief Executive Officer

Income statement

NOKt	Note	Year 2022	Year 2021
Operating income			
Interest income calculated using the effective interest rate method	3, 21	8 458 243	5 245 785
Other interest income		98 957	26 064
Interest expense	3, 21	6 238 603	2 254 184
Net interest income		**2 318 597**	**3 017 665**
Fee and commission income		111 547	103 594
Fee and commission expense		-34 569	-26 534
Net fee and commission income		**76 978**	**77 060**
Net result from items at fair value	4, 21	**-11 077**	**-179 212**
Other income		**3 359**	**2 431**
Total operating income		**2 387 857**	**2 917 944**
Staff costs	5, 13	31 171	26 966
Other expenses	6, 21	1 387 333	1 712 651
Depr/amortisation and impairment charges		136	84
Total operating expenses before loan losses		**1 418 640**	**1 739 702**
Profit before loan losses		**969 216**	**1 178 242**
Loan losses	7	106 375	53 241
Operating profit before tax		**862 841**	**1 125 001**
Income tax expense	8	215 022	281 255
Net profit for the period		**647 819**	**843 746**
Attributable to:			
Shareholder of Nordea Eiendomskreditt AS		647 819	843 746
Total		**647 819**	**843 746**

Statement of comprehensive income

NOKt	Year 2022	Year 2021
Net profit for the period	**647 819**	**843 746**
Items that may be reclassified subsequently to the income statement		
Cash flow hedges:		
Valuation gains/losses	7 019	39 745
Tax on valuation gains/losses	-1 755	-9 936
Items that may not be reclassified subsequently to the income statement		
Defined benefit plans:		
Remeasurement of defined benefit plans	1 504	2 076
Tax on remeasurement of defined benefit plans	-376	-519
Other comprehensive income, net of tax	**6 393**	**31 365**
Total comprehensive income	**654 212**	**875 111**
Attributable to:		
Shareholders of Nordea Eiendomskreditt AS	654 212	875 111
Total	**654 212**	**875 111**

Balance sheet

NOKt	Note	31 Dec 2022	31 Dec 2021
Assets			
Loans to credit institutions	21	731 472	733 910
Loans to the public	7, 9, 11, 14	323 251 987	305 679 895
Interest-bearing securities	22	5 435 886	5 394 540
Derivatives	10, 19, 21	423 732	674 141
Fair value changes of the hedged items in portfolio hedges of interest rate risk		-55 554	-17 024
Property and Equipment owned and RoU		77	213
Other assets		-33	24 335
Accrued income and prepaid expenses		19 524	2 665
Total assets		**329 807 091**	**312 492 675**
Liabilities			
Deposits by credit institutions	12, 21	155 913 879	181 377 642
Debt securities in issue	12, 14, 21	149 352 274	107 151 476
Derivatives	10, 19, 21	761 036	62 059
Current tax liabilities	8	209 296	248 289
Other liabilities		20 845	9 309
Accured expenses and prepaid income	21	226 015	249 562
Deferred tax liabilities	8	133 515	138 714
Provisions		8 211	2 731
Retirement benefit liabilities	13	24 682	26 007
Subordinated loan capital	21	1 103 819	1 101 826
Total liabilities		**307 753 572**	**290 367 615**
Equity			
Share capital	21	1 879 565	1 938 662
Share premium	21	9 874 082	9 814 985
Other reserves		-21 693	-28 085
Retained earnings		10 321 566	10 399 499
Total equity		**22 053 520**	**22 125 061**
Total liabilities and equity		**329 807 091**	**312 492 675**
Assets pledged as security for own liabilities	14	245 131 742	232 191 758
Commitments	15	31 618 092	29 698 530

Nordea Eiendomskreditt AS
Oslo, 7 March 2023

Marte Kopperstad Chair	Gro Elisabeth Lundevik Vice Chair	Ola Littorin Board member
Asbjørn Rødal Board member	Pål Ekberg Board member	Lene Steinum Board member
Anne Sofie Knoph Employee representative	Elen M. Stiksrud Acting Chief Executive Officer	

Statement of changes in equity

The equity in Nordea Eiendomskreditt increased by NOKt 2.142.685, as a result of the merger with Nordea Direct Boligkreditt AS on 1 November 2022. The share capital was increased by NOKt 161,903, and replaced the share capital in Nordea Direct Boligkreditt AS of NOKt 221.000. The share premium increased by NOKt 1.058.117 including NOKt 59,097 reclassified from share capital. Retained earnings increased by NOKt 922.665 as a result of the merger.

			Other reserves			
NOKt	Share capital[1]	Share premium	Cash flow hedges	Defined benefit plans	Retained earnings	**Total equity**
Balance at 1 January 2022	**1 938 662**	**9 814 985**	**-14 945**	**-13 140**	**10 399 499**	**22 125 061**
Net profit for the year					647 819	647 819
Items that may be reclassified subsequently to the income statement						
Cash flow hedges:			7 019			7 019
Valuation gains/losses			-1 755			-1 755
Tax on valuation gains/losses						
Items that may not be reclassified subsequently to the income statement						
Defined benefit plans:						
Remeasurement of defined benefit plans				1 504		1 504
Tax on remeasurement of defined benefit plans				-376		-376
Other comprehensive income, net of tax	0	0	5 265	1 128	0	6 393
Total comprehensive income	0	0	5 265	1 128	647 819	654 212
Contribution and distribution						
Share Based Payments					247	247
Dividend paid					-726 000	-726 000
Change of share capital	-59 097	59 097				0
Balance at 31 December 2022	**1 879 565**	**9 874 082**	**-9 681**	**-12 012**	**10 321 567**	**22 053 520**

			Other reserves			
NOKt	Share capital[1]	Share premium	Cash flow hedges	Defined benefit plans	Retained earnings	**Total equity**
Balance at 1 January 2021	**1 938 662**	**9 814 985**	**-44 754**	**-14 696**	**10 089 253**	**21 783 450**
Net profit for the year					843 746	843 746
Items that may be reclassified subsequently to the income statement						
Cash flow hedges:			39 745			39 745
Valuation gains/losses			-9 936			-9 936
Tax on valuation gains/losses						
Items that may not be reclassified subsequently to the income statement						
Defined benefit plans:						
Remeasurement of defined benefit plans				2 076		2 076
Tax on remeasurement of defined benefit plans				-519		-519
Other comprehensive income, net of tax	0	0	29 809	1 557	0	31 365
Total comprehensive income	0	0	29 809	1 557	843 746	875 111
Contribution and distribution						
Share Based Payments					500	500
Dividend paid					-534 000	-534 000
Balance at 31 December 2021	**1 938 662**	**9 814 985**	**-14 945**	**-13 140**	**10 399 499**	**22 125 061**

[1] The company's share capital at 31 December 2022 was NOKt 1,879,565,-. The number of shares was 16 781 828, each with a quota value of NOK 112. All shares were owned by Nordea Bank AB (publ) until 30 September 2018, and by Nordea Bank Abp from 1 October 2018.

Cash flow statement

NOKt	Year 2022	Year 2021
Operating activities		
Operating profit before tax	862 841	1 125 000
Adjustments for items not included in cash flow	97 727	16 188
Income taxes paid	-261 312	-415 721
Cash flow from operating activities before changes in operating assets and liabilities	**699 256**	**725 467**
Changes in operating assets		
Change in loans to the public	-17 664 399	-17 834 542
Change in interest-bearing securities	-41 346	-24 102
Change in derivatives, net	949 386	794 693
Change in other assets	46 176	81 222
Changes in operating liabilities		
Change in deposits by credit institutions	-25 462 473	69 162 501
Change in debt securities in issue	42 227 149	-50 911 087
Change in other liabilities	-32 454	-448 212
Cash flow from operating activities	**721 295**	**1 545 940**
Financing activities		
Issue of subordinated loan capital	0	0
Repayment of subordinated loan capital	0	-1 200 000
Change of accrued interest on subordinated loan capital	1 993	94
Dividend paid	-726 000	-534 000
Share Based Payment Programme (EIP)	274	573
Cash flow from financing activities	**-723 733**	**-1 733 333**
Cash flow for the year	**-2 439**	**-187 393**
Cash and cash equivalents at beginning of the period (Loans to credit institutions)	733 910	921 305
Cash and cash equivalents at end of the period (Loans to credit institutions)	731 472	733 910
Change	**-2 438**	**-187 394**

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, deposits from credit institutions and debt securities in issue. Changes in derivatives are reported net.

Cash flow from operating activities include interest payments received and interest expenses paid in the following amounts:

NOKt	Year 2022	Year 2021
Interest payments received	8 157 307	5 098 393
Interest expenses paid	-5 341 358	-2 121 157

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

Table of contents

1. Basis for presentation
2. Changed accounting policies and presentation
3. Changes in IFRSs not yet applied
4. Critical judgements and estimation uncertainty
5. Recognition of operating income and impairment
6. Recognition and derecognition of financial instruments on the balance sheet
7. Translation of assets and liabilities denominated in foreign currencies
8. Hedge accounting
9. Determination of fair value of financial instruments
10. Financial instruments
11. Loans to the public/credit institutions
12. Taxes
13. Earnings per share
14. Employee benefits
15. Equity
16. Related party transactions
17. Exchange rates

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, or in other parts of the financial statements.

On 7 March 2023 the Board of Directors approved the financial statements, subject to final approval of the Annual General Meeting on 9 March 2023.

The accounting policies, method of computation and presentations are unchanged in comparison with the Annual Report 2021, except for the items presented in the section "Changed accounting policies and presentation" below.

Nordea Eiendomskreditt is part of the Nordea Group and the Group's Annual Report is available at www.nordea.com/en/investors/group-annual-reports.

Nordea Direct Boligkreditt merger

The merger between Nordea Direct Boligkreditt AS and Nordea Eiendomskreditt AS was completed on 1 November 2022. The merger has been executed with effect from 1 January 2022 with continuity for accounting and tax purposes. Figures for 2021 are restated to include Nordea Direct Boligkreditt AS.

2.Changed accounting policies and presentation

New accounting policies and presentation implemented during 2022 and their impact on the financial statements of Nordea Eiendomskreditt are described below.

Changed presentation of hedged items in fair value hedges at micro level

Nordea Eiendomskreditt applies fair value hedge accounting at both micro level (single assets/liabilities or closed portfolios of assets/ liabilities where one or more hedged items are hedged using one or more hedging instruments) and macro level (open portfolios where groups of items are hedged using multiple hedging instruments).

As of 2022 Nordea Eiendomskreditt presents the fair value changes of hedged items under fair value hedge accounting at micro level in the same balance sheet line item as hedged items instead of, as earlier, in the balance sheet line item "Fair value changes of hedged items in hedges of interest rate risk". Fair value changes of hedged items under fair value hedge accounting at macro level are, as earlier, presented on a separate balance sheet item, which from 2022 has been renamed from "Fair value changes of hedged items in hedges of interest rate risk" to "Fair value changes of hedged items in portfolio hedges of interest rate risk". Comparative figures have been restated accordingly and the impact in 2022 and 2021 can be found in the table below.

		31 Dec 2022	
NOKm	Old policy	Change	New policy
Debt securities in issue	149 908	-555	149 352
Fair value changes of hedged items in portfolio hedges of interest rate risk	-555	555	0
Total liabilities	307 754	0	307 754

		31 Dec 2021	
NOKm	Old policy	Change	New policy
Debt securities in issue	106 965	186	107 151
Fair value changes of hedged items in portfolio hedges of interest rate risk	186	-186	0
Total liabilities	290 368	0	290 368

3.Changes in IFRSs not yet applied

Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

In 2021 the IASB published amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction.

The amendments require companies to recognise deferred tax on particular transactions that, on initial recognition, give rise to taxable and deductible temporary differences of equal amounts. Such a requirement may apply on the initial recognition of a lease liability and the corresponding right of use asset at the commencement of a lease. The requirement also applies in the context of decommissioning, restoration and similar liabilities where the corresponding amounts are recognised as part of the cost of the related asset.

The amendments have been endorsed by the EU, and are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted. The gross deferred tax assets and liabilities will be disclosed, but will be set off on the balance sheet if such requirements are met. The current assessment of Nordea Eiendomskreditt is that the amendments will not have any significant impact on the financial statements or on the capital adequacy in the period of initial application.

Other amendments to IFRS

The IASB has published the following new or amended standards that are assessed not to have any significant impact on Nordea Eiendomskreditt's financial statements, capital adequacy or large exposures in the period of initial application:

- Amendments to IAS 1 Presentation of Financial Statements
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting estimates
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies

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:

o 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
o 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

Nordea Eiendomskreditt applied critical judgements in the preparation of this annual report due to the uncertainty concerning the potential long-term impact of the war in Ukraine on the company's financial statements. Area of particular importance during 2022 was the impairment testing of loans to the public, however in terms of direct credit risk Nordea Eiendomskreditt does not have any exposure towards Russia and Ukraine. For more information, see Note 9 Loans and impairment.

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 calculation 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. Nordea Eiendomskreditt's total lending before impairment allowances was NOK 323bn (NOK 306bn) at the end of the year. 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 is calculated by applying the effective interest rate to the gross carrying amount except for credit-impaired assets. For those assets interest income is calculated by applying the effective interest rate to the amortised cost of the asset. 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 Eiendomskreditt present interest income from financial assets measured at amortised cost. This line item 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 under "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 under "Loan losses" (see also the sub-section "Loan losses" below).

Loan losses

Impairment losses from financial assets classified into the category "Amortised cost" (see section 10 "Financial instruments"), under "Loans to the public" in the balance sheet, are reported as "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 (from the balance sheet on the trade date. Between trade date and settlement date these assets and liabilities are recognised as "Other assets" or "Other liabilities" on the balance sheet.

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 for the new loan discounted by the original interest rate is more than 10% different from the present value of the remaining expected cash flows for 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 2022, 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 under "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 Note 10 "Derivatives and hedge accounting" and in the Board of Directors' report.

When a hedging relationship meets the specified hedge accounting criteria set out in IAS 39, Nordea Eiendomskreditt applies 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.

Under the EU carve-out version of IAS 39, fair value macro hedge accounting may for instance, in comparison with IAS 39 as issued by the IASB, be applied to on-demand (core) deposits, and hedge ineffectiveness in a hedge of assets with prepayment options is only recognised when the revised estimate of the amount of cash flows falls below the designated bottom-layer.

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 the fair value of the hedged item, as regards the hedged risk can be essentially offset by changes in the 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 the fair value of a recognised asset or liability attributable to a specific risk in accordance with Nordea Eiendomskreditt's risk management policies set out in Note 10 "Derivatives and hedge accounting". The risk of changes in the 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 Note 2 risk and liquidity management. The risk of changes in the fair value of assets and liabilities in Nordea Eiendomskreditt's financial statements originates mainly from loans ans securities with a fixed interest rate, causing interest rate risk. Changes in the fair value from derivatives as well as changes in the fair value of the hedged item attributable to the risks being hedged, are recognised separately in the income statement under "Net result on items at fair value". Given the hedge is effective, the changes in the fair value of the hedged item and the hedging instrument will offset each other.

The changes in the 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 hedges of interest rate risks in macro hedges are reported separately in the balance sheet item "Fair value changes of the hedged items in portfolio hedge of interest rate risk".

Fair value hedge accounting in Nordea Eiendomskreditt is performed both on micro and on portfolio basis. Any ineffectiveness is recognised in the income statement under the item "Net result from 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 assets or liabilities and portfolios of assets and/or 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 the fair value of the hedging instrument to the change in the 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:

o differences in timing of cash flows of hedged items and hedging instruments
o different interest rate curves applied to discount the hedged items and hedging instruments
o the effect of changes in Nordea's or a counterparty's credit risk on the fair value of the hedging instruments
o disparity between expected and actual prepayments of the loan portfolio

Cash flow hedge accounting

In accordance with Nordea Eiendomskreditt's risk management policies set out in Note 10 "Derivatives and hedge accounting" 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 on future payments of interest and principal in foreign currency (both from issued debt in foreign currency and/or intragroup lending).

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 under "Net result from items at fair value".

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

The existence of published price quotations in an active market is the best evidence of fair value and when they exist, they are used to measure the fair value of financial assets and financial liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an on-going basis. The absolute level of liquidity and volume required for a market to be considered active varies depending on the class of instruments. 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 to establish fair value is higher.

The trade frequency and volume are monitored regularly in order to assess if markets are active or not 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 a 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 match market prices. This is done by comparing calculated prices with 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 items disclosed under the following balance sheet items:

- Interest bearing securities (when quoted prices in an active market are not available)
- Derivatives (OTC-derivatives)

For financial instruments, whose 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 from observable markets to be data that can be collected from generally available external sources and which is deemed to represent realistic market prices. If unobservable 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:
o quoted prices in active markets for the same instrument (level 1),
o valuation techniques using observable data (level 2), and
o 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.

For further information, see Note 18 “Assets and liabilities at fair value”.

10. Financial instruments

Classification of financial instruments

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

Financial assets:
o Amortised cost
o Financial assets at fair value through profit or loss:
– Mandatorily measured at fair value through profit and loss
– Derivatives used for hedging

Financial liabilities:
o Amortised cost
o Financial liabilities at fair value through profit or loss:
– Mandatorily measured at fair value through profit and loss
– Derivatives used for hedging

The classification of a financial assets is dependent on the business model for the portfolio in which 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 principal 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 determine 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.

When determining the right for the portfolios, Nordea Eiendomskreditt has taken the current business area structure into account. When determining the business model for each portfolio Nordea Eiendomskreditt has analysed the objective with the financial assets as well as for instance past sales behaviour and management compensation.

All financial assets and liabilities are initially measured at fair value. The classification of financial instruments into different categories forms the basis for how each instrument is subsequently measured on the balance sheet and how changes in its value are recognised. In the table in Note 17 “Classification of assets and liabilities” 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 rate 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, "Recognition of operating income and impairment". For information about impairment under IFRS 9, see section 11 below.

Interest on assets and liabilities classified at amortised cost is recognised under "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 value are recognised directly in the income statement under "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" consist of interest-bearing securities and derivative instruments.

Derivatives

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

Realised and unrealised gains and losses from derivatives are recognised in the income statement under "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" are subject to impairment testing due to credit risk. This includes assets recognized 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 subject to impairment testing. See section 5 above and Note 17 "Classification of financial instruments".

Off-balance sheet commitments, contingent liabilities and loan commitments are also subject to impairment testing.

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 "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 waives its claims either through a legal based or voluntary reconstruction, or when Nordea Eiendomskreditt, for other reasons, deem it unlikely that the claim will be recovered. See also section "Write-offs" below.

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

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 (impaired loans) includes defaulted assets. Nordea Eiendomskreditt 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 Eiendomskreditt applies the same definition of default as the Capital Requirements Regulation. More information on the identification of loss events can be found in Note 2 Risk and liquidity management. Exposures without individually calculated allowance will be covered by the model based impairment calculation.

For significant exposures where a credit event has been identified, the exposure is tested for impairment on an individual basis. If the exposure is found impaired, an individual provision is recognised. 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 (PD) times the loss given default (LGD). For assets in stage 1 this calculation is only based on the coming 12 months, while for assets in stage 2 and 3 it is based on the expected lifetime of the asset.

The provisions for exposures for which 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 for which 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 Eiendomskreditt 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) are 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.

Exposures with a relative increase in lifetime PD of more than 250 percent, or with absolute increase in lifetime PD of more than 150 basis points are considered as having a significant increase in credit risk.

For assets for which 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 with forbearance measures will stay in stage 2 for a probation period of 24 months from when the measures were introduced. Once transferred back to stage 1, after the probation period, the exposures are treated as any other stage 1 exposure when assessing significant increase in credit risk. 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. Rated exposures classified as "high risk", i.e. with a rating grade of 2 or below will also be transferred to stage 2.

Nordea Eiendomskreditt does not use the "low credit risk exemption" in its banking operations.

When calculating provisions, including the staging assessment, the calculation is based on probability weighted forward looking information. Nordea Eiendomskreditt applies three macro-economic scenarios to address the non-linearity in expected credit losses. The different scenarios are used to adjust the relevant parameters for calculating expected losses and a probability weighted average of the expected losses under each scenario is recognised as provisions. The model is based on data collected before the reporting date, requiring Nordea Eiendomskreditt to identify events that should affect the provisions after the data is (collected) sourced to the model calculation. Management evaluates these events and adjusts the provisions if deemed necessary.

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):

- o 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.
- o Exposures under insolvency procedure where the collateralisation of the exposure is low.
- o Exposures where legal expenses are expected to absorb the proceeds from the bankruptcy procedure and estimated recoveries are therefore expected to be low.
- o 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 Eiendomskreditt has granted concessions to the obligor due to its financial difficulties and where this concession has resulted in an impairment loss for Nordea Eiendomskreditt. After a reconstruction the loan is normally regarded as not impaired if it performs according to the new conditions. In the event of a recovery the payment is reported as a recovery of loan losses.

Modifications of the contractual cash flows for loans to customers in financial 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 Eiendomskreditt.. For example, a property taken over, not held for Nordea Eiendomskreditt'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 "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 category "Fair value through profit or loss" and measured at fair value. Changes in fair value are recognized in the income statement in the line item "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. "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, unless 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 losses carried 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 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 are 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

The share premium 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 the same criteria and terms as those of comparable transactions with external parties of similar standing .

Shareholders with significant influence

At 31 December 2022 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	2022	2021
Income statement (average)	11,8469	11,8224
Balance sheet (at end of period)	11,8848	11,9374

EUR 1 = NOK		
Income statement (average)	10,1021	10,1655
Balance sheet (at end of period)	10,5180	10,0185

Note 2 Risk and liquidity management

Risk governance

Maintaining risk awareness in the organization is engrained in Nordea Eiendomskreditt's business strategies. The Nordea Group has defined clear risk, liquidity and capital management frameworks, including policies and instructions for different risk types, capital adequacy and capital structure, which have been implemented by Nordea Eiendomskreditt.

The uncertain and rapidly changing geopolitical situation with the war in Ukraine and the Chinese authorities' zero-Covid approach combined with the downturn in the Chinese real estate market, as well as high inflation and resulting monetary tightening are risks to the economic outlook. Repeated negative supply shocks could lead to continued high inflation simultaneously with a sharp contraction in output, resulting in recession. A sharp upward shift in business and consumer inflationary expectations would result in a steepening yield curve.

The war in Ukraine may affect Nordea Eiendomskreditt capital and liquidity situation negatively. Even though Nordea Eiendomskreditt does not have direct exposures towards Ukraine nor Russia, there is a risk of escalation of the conflict and sanctions may lead to further instability in the financial markets, increased prices on consumer goods and services, and challenge the customers' value chains and income. In total, the conflict may lead to changes in the customers' financial situation. In order to continuously monitor potential adverse outcomes, Nordea Group has executed a number of internal stress tests also with focus on the invasion of Ukraine.. In these stress tests, Nordea Eiendomskreditt's capital and liquidity situation has shown good resilience even in the most severe scenarios.

Internal Control Framework

Nordea Eiendomskreditt's Board has adopted Nordea's Group Board Directive on Internal Governance which describes the Internal Control Framework. The framework is designed to ensure effective and efficient operations, adequate identification, measurement and mitigation of risks, prudent conduct of business, sound administrative and accounting procedures, reliability of financial and non-financial information (both internally and externally) and compliance with laws, regulations, supervisory requirements and Nordea Eiendomskreditt's internal rules.

The internal control process is carried out by Nordea Eiendomskreditt's governing bodies that consist of Board, CEO, senior management, the risk management function and other staff in Nordea Eiendomskreditt and, as regulated by intra-group agreements, by units within the Nordea Group. The internal control process is based on five main components: control environment, risk assessment, control activities, information and communication as well as monitoring. The internal control process is created to ensure the necessary fundamentals for the entire organization to contribute to the effectiveness and high quality of internal control through, for instance, clear definitions, assignments of roles and responsibilities and common tools and procedures.

Governing bodies for risk, liquidity and capital management

The Board of Directors of Nordea Eiendomskreditt (NE Board), the Chief Executive Officer of Nordea Eiendomskreditt's (NE CEO) executive management are the key decision-making bodies for risk and capital management in Nordea Eiendomskreditt. In addition, NE Board has delegated the credit decision-making to the parent company Nordea Bank Abp through the internal risk management framework and intra-roup outsourcing agreements. With effect from 1st of January 2022 NE Board established subsidiary Board Risk Committee (BRIC) in Nordea Eiendomskreditt.

Nordea Eiendomskreditt Board of Directors and Board Risk Committee (BRIC)

NE Board has the following overarching risk management responsibilities:

- It decides on Nordea Eiendomskreditt's risk strategy and the Risk Appetite Framework, including the Risk Appetite Statements, with at least semi-annual reviews and additional updates when needed.
- It decides on and oversees an adequate and effective Risk Management Framework and regularly evaluates whether Nordea Eiendomskreditt has effective and appropriate controls to manage the risks.
- NE Board adopts the Group Board Directive on Capital, which ensures adequate capital levels within the Nordea Group, on an ongoing and forward-looking basis, consistent with the business model, risk appetite, and regulatory requirements and expectations.
- NE BRIC assists NE Board in fulfilling its oversight responsibilities concerning management and control of risk, risk frameworks, controls and processes associated with Nordea Eiendomskreditt's operations, including credit, market, liquidity, business and operational risk, as well as conduct and compliance risk and related frameworks and processes.

Nordea Eiendomskreditt Chief Executive Officer

NE CEO is responsible to NE Board for the overall management of Nordea Eiendomskreditt's operations and risks. Responsibilities include ensuring that the risk strategy and risk management decided by NE Board are implemented, that necessary practical measures are taken, and that risks are monitored and limited. In discharging these responsibilities, NE CEO is supported by Nordea Eiendomskreditt Executive Management (NE management).

Nordea Eiendomskreditt Executive Management

NE management consist of CEO, Head of Credit & Risk Management, Head of Development & Product Management, Chief Financial Officer and Chief Risk Officer. In addition, appointed compliance officer has the right and duty to attend the management meetings.

Credit decision making bodies

The governing bodies for Credit Risk and/or the Credit Risk Management Framework are NE Board. NE Board has delegated credit decision-making according to the powers-to act as described in the adopted Group Board Directive for Risk. The Nordea Group has established a number of committees that also covers Nordea Eiendomskreditt credit decisions. According to the Group Board Directive for Risk, all limits within the Nordea Group are based on credit decisions or authorizations made by an ultimate Decision-Making Authority with the right to decide upon that limit. Credit decisions include, inter alia, pricing, risk mitigation and any terms and conditions related to the limit or expected utilization. Credit decisions also serve to delegate decision making within the approved limit to lower decision makers, unless otherwise explicitly decided.

Governance of Risk Management and Compliance

The flow of risk- related information is passed from the business areas and group functions to NE Board through NE management. The flow of information starts with the divisions that monitor and analyze information on the respective risk types according to intra-group agreements. The risks information is presented and discussed in NE management and then brought to NE Board.

Group Compliance (GC) constitutes the compliance function for Nordea Eiendomskreditt according to intra-group agreement and is responsible for developing and maintaining the risk management framework for managing compliance risks in cooperation with other functions in GR and for guiding the business in their implementation of the framework to ensure continuous adherence to the framework. Reporting from GC is presented directly to NE management, NE BRIC and NE Board.

The Risk Management Framework (RMF) ensures consistent processes for identifying, assessing and measuring, responding to and mitigating, controlling and monitoring, and reporting risks to enable informed decisions on risk-taking. The Risk Management Framework encompasses all risks to which the Nordea Group, including Nordea Eiendomskreditt, is or could be exposed, including off-balance sheet risks and risks in a stressed situation. Detailed risk information covering all risks and Nordea Eiendomskreditt's compliance with regulatory requirements are regularly reported to the NE CEO in NE management and NE Board.

The Risk Identification and Materiality Assessment Process starts with identifying potential risks to which Nordea Group is or could be exposed. Risks are then assessed for relevance, classified, and included in the Nordea Group's Common Risk Taxonomy. All risks within the Nordea Common Risk Taxonomy are categorized as material or not material for risk management and capital purposes for Nordea Eiendomskreditt. Material risks are those assessed as having a material impact on Nordea Eiendomskreditt's current and future financial position, its customers and stakeholders.

Risk Appetite

The Risk Appetite Framework (RAF) supports effective risk management and a sound risk culture by enabling informed decisions on risk-taking, with the objective of ensuring that risk-taking activities are conducted within Nordea Eiendomskreditt's risk appetite and that emerging risks are identified and addressed in a timely way. Risk capacity is the maximum level of risk Nordea Eiendomskreditt is deemed able to assume given its capital (Own funds), its risk management and control capabilities, and its regulatory constraints. The Risk Appetite specifies the aggregate level and types of risk Nordea Eiendomskreditt is willing to assume within its risk capacity, in line with its business model, to achieve its strategic objectives.

The Risk Appetite Statements (RAS) are the articulation of the NE Board approved risk appetite and consist of the qualitative statements and quantitative limits and triggers by main risk type, which are deemed appropriate to be able to operate to ensure a prudent risk profile. Stress test metrics are established for credit risk, market risk metrics and liquidity risk to ensure a forward-looking approach to risk management. Operational risk metrics cover both residual risk levels and requirements for mitigating actions as well as limits for incidents and losses.

Risk Appetite processes

The RAF contains all processes and controls to establish, monitor and communicate Nordea Eiendomskreditt's risk appetite:

- Risk capacity setting based on the capital position: On an annual basis, Nordea Eiendomskreditt's overall risk capacity is aligned with the financial and capital planning process, based on Nordea Eiendomskreditt's risk strategy. The risk capacity is set in line with the capital position, including an appropriate shock absorbing capacity.
- Risk appetite allocation by risk type: Risk appetite includes Risk Appetite Limits for the main risk types that Nordea Eiendomskreditt is or could be exposed to, in line with the Common Risk Taxonomy. Risk Appetite Triggers are also set for these main risk types, to act as early indicators for key decision-makers that the risk profile for a particular risk type is approaching its Risk Appetite Limit.
- Risk limit setting: Risk Appetite Limits set by NE Board are the basis for the lower risk limits in 1st LoD which are established and approved at lower decision-making levels, including NE management. Risk limits are set in alignment with Norwegian regulatory requirements and the risk capacity and consistent with the Nordea Group Risk Limits.
- Controlling and monitoring of risk exposures against risk limits: Risk appetite limits and risk limits are regularly monitored and controlled to ensure that risk taking activity remains within the risk appetite.

- Risk appetite limit breach management process: Nordea Eiendomskreditt's Chief Risk Officer (NE CRO) ensures that any Risk Appetite Limit breaches are appropriately escalated to NE management, NE Board and other parties as specified in internal escalation routines. In case of a breach of the risk appetite limit, NE CRO reports at least monthly to NE management and NE Board and other relevant governing bodies, including a follow-up on the status of actions to be taken, until the relevant risk exposure is back within the risk appetite.

Embedding risk appetite in business processes

The end-to-end risk appetite process cycle is aligned with other strategic processes, including the Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP) and the Recovery and Resolution Plan. Moreover, the risk appetite is embedded in business processes and communicated across the organisation in order to meet Nordea Eiendomskreditt's objectives of maintaining a sound risk culture. This includes, but is not limited to, ensuring a strong link between the assessed risk appetite and the business plans and budgets, the capital and liquidity position, the systemic risk profile/the recoverability and resolvability assessments, as well as the incentive structures/remuneration framework. 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

Additional information on risk and capital management is presented in the Capital and Risk Management Report, in accordance with the Capital Requirements Regulation (CRR). The report is available at www.nordea.com.

Credit risk management

Credits granted shall conform to the common principles established for the Nordea Group. Nordea Eiendomskreditt strives to have a well-diversified credit portfolio that is adapted to the structure of its home market. The key principles for managing Nordea Eiendomskreditt's risk exposures are:

- the three Lines of Defence (LoD) as further described in the Group Board Directive on internal Governance that has been adopted by NE Board;
- independence, i.e. the risk control function should be independent of the business controls; and,
- risk-based approach, i.e. the risk control functions should be aligned to the nature, size and complexity of Nordea Eiendomskreditt's business, ensuring that efforts undertaken are proportional to the risks in question.

NE Head of Credit & Risk Management in 1LoD is responsible for implementing the Nordea Group's credit process framework and operational credit risk guidelines and SOPs (Standard Operating Procedures) in Nordea Eiendomskreditt. NE CRO in 2LoD is responsible for implementing the Nordea Group's credit risk framework, consisting of policies and instructions. NE CRO is also responsible for controlling and monitoring the quality of the credit portfolio and the credit process. NE Head of Credit & Risk Management and NE CRO are supported by Nordea Group resources in these responsibilities according to intragroup agreements.

Nordea Eiendomskreditt's credit risk management framework includes the credit RAF which provides a comprehensive and risk-based portfolio perspective through relevant asset quality and concentration risk measures. Individual credit decisions within the approved internal credit risk limit are taken within the customer responsible unit (CRU) in Nordea Bank Abp, filial i Norge or in Group Credit Management. The risk categorisation together with the exposure of the customer determine at what level the credit decision will be made.

Responsibility for credit risk lies with the customer responsible unit. Customers are risk categorized by a score in accordance with the Nordea Group's common scoring guidelines. The scoring of customers aims to predict their probability of default and consequently rank them according to their respective default risk. Scoring are used as integrated parts of the credit risk management and decision-making process.

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 lending portfolio is secured by collateral in real estate with average loan to value of 56.0% (57.6%). 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 mitigations. Pledge of collateral is a fundamental credit risk mitigation technique in the bank and collaterals are always sought, when reasonable and possible, to minimize the potential for credit losses. In every credit decision and review, the value of collaterals must be considered.

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.

Collective assessment of impairment

Requirements for impairment are set forth in IFRS 9, which are based on an expected loss model.

Assets tested 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. Assets are tested for impairment collectively. Impairment testing 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, future debt service capacity, and the possible need for 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, 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 the transferring of assets from stage 1 to stage 2. For assets recognized 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 means eased 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, approved according to powers-to-act and followed by impairment testing. Forborne exposures can be servicing or non-servicing. Loan loss provisions are recognized if necessary.

Credit portfolio

Including on- and off -balance sheet exposures and exposures related to securities, the total credit risk exposure at year end was NOK 361.2bn (NOK 342.1bn last year). More information and breakdown of exposure according to the CRR definition is presented in the Capital and Risk Management Report (Pillar 3 report) at www.nordea.com.

On-balance lending consists of fair value lending and amortized cost lending and constitutes the major part of the credit portfolio. Amortized cost lending is the basis for impaired loans allowances 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 to 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 0.2bn at year end (NOK 0.6bn).

Nordea Eiendomskreditt's total lending to the public increased to NOK 323bn at the end of 2022 (NOK 306bn). The portfolio includes residential mortgage loans as well as loans to holiday homes, secured by properties in Norway, and secured construction loans for residential properties and holiday homes. Including off-balance sheet exposures the total credit risk exposure at year end was NOK 354.9bn (NOK 335.4bn).

Lending to credit institutions amounted to NOK 0.7bn at the end of the year (NOK 0.7bn), all of which was placed in the parent bank as cash accounts, payable on demand. Nordea Eiendomskreditt also has interest bearing securities amounting to NOK 5.4bn at the end of 2022 (NOK 5.4bn).

Scoring distribution

One way of assessing credit quality is through analysis of the distribution across risk grades for scored household customers.

The average credit quality decreased slightly in the scoring portfolio in Q4-2022. 15.3% of the number of customers migrated upwards while 11.9% were down-rated . Exposure-wise, 18% of the customer exposure migrated upwards while 14.7% were down-rated. By the end of 2022, 93.4% of the exposure were scored 4- or higher compared to 94.2% at the end of Q3-2022.

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 531m in 2021 to NOK 609m in 2022 and corresponded to 19bps (17bps) of total loans. 34% of impaired loans gross are servicing loans and 66% are non-servicing loans. Impaired loans net, after allowances for Stage 3 loans, amounted to NOK 494m (NOK 435m), corresponding to 15bps (14bps) of total loans. Allowances for Stage 3 loans amount to NOK 115.2m (NOK 95.7m). Allowances for Stages 1 and 2 amounted to NOK 195.3m

(NOK 122.5m). The ratio of allowances in relation to impaired loans is 18.9% (18.0%) and the allowance ratio for loans in Stages 1 and 2 is 6.0% (4.0%) of total loans in Stages 1 and 2.

The volume of past due loans to household customers (excluding impaired loans) was NOK 2,416m at the end of 2022 (NOK 1,600m). The majority of the volume is past due between 6 and 30 days, but there are also corresponding increases in all other periods. The development is closely monitored related to potential negative impact of interest raises and high inflation. Nordea Eiendomskreditt has not taken over any properties for protection of claims due to default.

Loan losses amounted to NOK 106.4 in 2022 (NOK 53.2m). This corresponds to a loan loss ratio of 3.4 basis points (1.8 basis points).

ESG (Environmental, Social and Governance) related risk

Nordea defines ESG risk as the risk of negative financial impact over the short to longer term, stemming from the direct or indirect impact that environmental (including climate), social and governance issues may have on Nordea. It is important for us to integrate ESG assessments into our risk management frameworks.

EU Taxonomy set the standard for classification of economic activities and regulation in this area is under development.

Further information about how the Nordea Group works with Sustainability is available in Nordea's Annul Report published at https://www.nordea.com/en/investors/group-annual-reports/. The report covers the Nordea Group and its subsidiaries.

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 2022 for Nordea Eiendomskreditt was NOK 124m (NOK 315m). 100% of the exposure and 100% of the current exposure net was towards financial institutions. Nordea Eiendomskreditt mainly uses counterparties in the Nordea group in derivative transactions. For information about financial instruments subject to master netting agreement, see note 19 Financial instruments set off on balance or subject to netting agreements.

Market risk

Market risk is the risk of loss in a position in either the trading book or non-trading book as a result of changes in market rates and parameters that affect the market values or net interest income flows. Market risk exist irrespective of the accounting treatment of the positions.

The market risk appetite for Nordea Eiendomskreditt is expressed through risk appetite statements issued by NE Board. The statements are defined for the banking book as Nordea Eiendomskreditt does not have any trading book assets. The 2LoD ensures that the risk appetite is appropriately translated through relevant committees into specific risk appetite limits for Group Treasury. Treasury is responsible for managing the market risk according to intra group outsourcing agreement.

As part of the overall RAF, holistic and bespoke stress tests are used to measure the market risk appetite and calibrate limits to monitor and control the full set of material market risk factors to which Nordea Eiendomskreditt is exposed.

Non-traded market risk

Non-traded market risk principally arises from the core banking business of Nordea Eiendomskreditt, related hedges and regulatory or other external requirements (e.g. liquid asset buffer). Treasury is responsible for the comprehensive risk management of all non-traded market risk exposures in the Nordea Group's balance sheet, including Nordea Eiendomskreditt.

For transparency and a clear division of responsibilities within Treasury, the comprehensive banking book risk management is divided across several frameworks – each with a clear risk mandate and specific limits and controls.

The non-traded market risks that Nordea Eiendomskreditt is exposed to is interest rate risk in the banking book (IRRBB) defined as the current or prospective risk to Nordea Eiendomskreditt's capital and earnings arising from adverse movements in interest rates. The market risks are managed centrally by Treasury from an earnings and Economic Value perspective and include gap risk, basis risks, credit spread risk and option risk stemming from floors in issued bonds and customer contracts.

Due to the lending structure in Nordea Eiendomskreditt's home market Norway, most of the contractual interest rate exposures are floating rate while fixed rate lending only constitutes a small part of the loan book. Consequently, wholesale funding is also issued in or swapped to floating rate format. The resulting residual repricing gap risk and fixing risk are managed by Treasury for Nordea Eiendomskreditt. The net outright interest rate risk stemming from the repricing gaps, together with the limited fixed interest rate risk, are hedged with interest rate swaps (IRS).

Liquid assets held to satisfy liquidity buffer requirements are managed with minimal market risk exposure in accordance with the Liquidity Buffer frameworks.

Measurement of market risk

Economic value (EV) stress tests look at the change in economic value of banking book assets, liabilities and interest-bearing derivative exposures resulting from interest rate movements, independently of the accounting classification and ignoring credit spreads and commercial margins. The model assumes a run-off balance sheet and includes behavioural modelling for pre-payments. Changes in the Economic Value of the Equity of the banking book are measured under the 6 standardised scenarios defined by the Basel Committee on Banking Supervision (BCBS). The exposure limit under this metric is measured against the worst outcome out of the 6 scenarios measured.

The earnings risk metric measures the change in net interest income relative to a base scenario, creating a Net Interest Income (NII) value over a one-year horizon. The model uses a constant balance sheet assumption, implied forward rates and behavioural modelling for pre-payments. The measurement of IRRBB is dependent on key assumptions applied in the models. The most material assumptions relate to the modelling of embedded behavioural options in both assets and liabilities. The behavioural option held by Nordea Eiendomskreditt's lending customers to execute early loan pre-payments is estimated using pre-payment models. On the other hand Nordea has floor options towards customers stemming from the fact that customer rates are modelled to not go negative. Furthermore, issued bonds also contain floors because Nordea currently does not charge negative rates to investors in bonds issued by Nordea Eiendomskreditt. After interest rates have increased significantly in 2022 the floors in customer contracts and bonds are no longer relevant from a risk perspective.

Market risk analysis

Net Interest Income (NII) / Economic Value (EV)

At the end of the year, the loss for NII was NOK 590.4m for the 200 bps down scenario (NOK 457.8m). The most severe impact from the Basel scenarios on EV was NOK 168.4m loss at end of year 2022 (NOK 162.3m).

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk. Operational risks are inherent in all of Nordea Eiendomskreditt's businesses and operations. Consequently, all managers are accountable for the operational risks related to their area of responsibility, and responsible for managing these risks within risk limits and risk appetite limits in accordance with the operational risk management framework. NE CRO constitutes the 2LoD risk control function 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 1LoD.

The 2LoD control function monitors and controls that operational risks are appropriately identified, assessed and mitigated. The 2LoD control function also follows-up on risk exposures towards risk appetite limits and assesses the adequacy and effectiveness of the operational risk management framework and framework implementation. Staff within the 2LoD control function are responsible for preparing and submitting regular risk reports on all material risk exposures including risk appetite limit utilization and operational risk incidents to NE CRO, who thereafter reports to NE CEO in NE management and NE Board.

Nordea supports a hybrid working model and preventive measures focusing on e.g. awareness communications and training activities, as well as preventive and compensating controls have been put in place to mitigate operational risk related to remote working.

The RAS for operational risk is expressed in terms of:

1) residual risk level
2) total loss amount from incidents and management of Incidents.

Management of operational risk

The Nordea Group's Group Board Directives on Risk, Risk Appetite and Internal Governance, which have been adopted by NE Board, set the principles for the management of risks in Nordea Eiendomskreditt. Based on these principles, the Nordea Group has established supporting internal rules for operational and compliance risk that form the overall operational risk and compliance risk management frameworks. These also apply to Nordea Eiendomskreditt. Management of operational and compliance risk includes all activities aimed at identifying, assessing and measuring, responding and mitigating, controlling and monitoring and reporting on risks. Risks are identified through various processes as detailed in the following section.

Risk and control self-assessment (RCSA)

The RCSA process provides an overview and assessment of operational and compliance risks for Nordea Eiendomskreditt. The process improves risk awareness and enables effective assessment, control, and mitigation of identified risks.

Change Risk Management and Approval (CRMA) framework

The objective of the CRMA framework is to ensure that there is a full understanding of both financial and non-financial risks when executing changes. Associated risks shall be adequately managed consistent with Nordea Eiendomskreditt's Risk Strategy, Risk Appetite and corresponding risk limits before a change is approved, executed or implemented. Changes in scope of the CRMA framework include e.g. new or significant changes to processes, products, services, or IT systems. The CRMA includes Quality and Risk Analysis.

Incident Reporting Management

The objectives of Incident Reporting Management are to ensure appropriate handling and reporting of detected incidents to minimize the impact on Nordea Eiendomskreditt and its customers, prevent reoccurrence, and reduce the probability and impact of future incidents. In addition, the Incident Management shall secure timely notification to defined external bodies and parties, including relevant supervisory authorities.

Raising Your Concern (RYC)

The objectives of the RYC ("whistleblowing") process are to ensure that Nordea Group employees and customers have the right to and feel safe when speaking up if they witness or suspect misconduct or unethical behaviour. The RYC process encompasses ways to report a suspected breach of ethical standards, or breach of internal or external rules. Concerns can be raised openly, confidentially or anonymously by individuals. The RYC process also outlines rules and procedures for how RYC investigations are conducted.

Complaints Handling
The objective of complaints handling is to ensure customer satisfaction and to identify pain points for IT-development or process changes. Complaints handling is managed by the customer responsible units together with the "Customer Ombudsman" as regulated by an intra-group agreement. Reporting on the number and types of complaints is produced monthly and presented to members of NE management together with ongoing or proposed mitigating actions per complaint area.

Third Party Risk Management (TPRM)
The objective of TPRM is to ensure compliance to regulatory requirements and that risks related to Third Parties (TPs) and TP Activities, including but not limited to Outsourcing, are appropriately managed both before, during as well as when exiting a TP arrangement. While Nordea Eiendomskreditt may delegate day-to-day operational activities to TPs, Nordea Eiendomskreditt always remains fully accountable and responsible and must demonstrate effective over-sight and governance of the procured or outsourced services and functions.

Business Continuity and Crisis Management (BC & CM)
The objective of BC & CM is the overall risk management under which Nordea Eiendomskreditt is building and maintaining the appropriate levels of resilience, readiness, response and management of extraordinary events and crises. The Business Continuity Plan sets out the procedures to respond, recover, resume and restore operations following an extraordinary event. Crisis Management provides the governance to execute plans and enhance decision making during a crisis.

Information Security Management
The objective of Information Security Management is to ensure the protection and preservation of information with respect to confidentiality, integrity and availability. The Nordea Group's information security management system, consisting of e.g. policies, procedures, tools and methods, supports the management and control of information security risks as well as the protection and preservation of information security and the achievement of business objectives.

Significant/Key Operating Processes (SiOPs)
The objective of the SiOPs framework is to identify and document SiOPs to ensure risks and controls in the most important processes are assessed and managed, for these processes to operate as intended, which includes ensuring Nordea Eiendomskreditt's customers are offered products and services in a compliant, safe and timely way.

Reputational Risk
The objective of Reputational Risk Management is to protect the Nordea Group's and Nordea Eiendomskreditt's reputation. Reputational risk is defined as the risk of damage to the trust in the Nordea brand from our customers, employees, authorities, investors, partners and the general public with the potential for adverse financial impact. Reputational risk is often an impact from, or a cause of, other types of risks, e.g. credit, liquidity, market, operational, compliance and legal risks inherent in the business. A reputational risk framework with guiding principles for managing reputational risk has been developed. The framework is strongly linked with the risk management framework and related processes for identifying, assessing and mitigating risk. It includes considering stakeholders' perceptions in the decision-making processes.

Minimum own funds requirement for operational risk
Nordea Eiendomskreditt's own funds requirements for operational risk are calculated according to the standardised approach. In this approach, the institution's activities are divided into eight standardised business lines and the gross income-based indicator for each business line is multiplied by a predefined beta coefficient. The consolidated own funds requirement for operational risk is calculated as the average of the last three years' own funds requirement.

Compliance risk
Nordea defines compliance risk as the risk of failure to comply with applicable Regulations and related internal rules governing Nordea's activities in any jurisdiction where Nordea operates. The key governance principle for management of risks at Nordea is the three Lines of Defence ("LoD") model.

1LoD is represented by the staff in Nordea Eiendomskreditt performing business activities as well as staff in the Nordea Group operating under intra-group agreement on account of Nordea Eiendomskreditt. All employees in the 1LoD have a role of understanding and adhering to prudent risk management and are accountable for managing Compliance Risks as part of performing their tasks. All managers are fully responsible for the risks they assume and are accountable for ensuring compliance with applicable Regulations within their respective area of responsibility. Hence, they are responsible for ensuring that the appropriate organisation, governance, controls, procedures and support systems are implemented to ensure a sufficient system of internal controls.

Group Risk (GR) and Group Compliance (GC) represent Nordea's independent second line of defence (2nd LoD) control function. GR & GC oversee the implementation of the financial and the non-financial risk policies and according to a risk-based approach, monitor and control the Risk Management Framework including the Compliance Risk Management Framework and oversee that all risks that Nordea is or could be exposed to, are identified, assessed, monitored, managed and reported on. GR is organized in divisions with individual risk type responsibility. The following divisions are part of GR; Group Credit Risk Control, Model Risk & Validation, Group Financial Risk Management & Control, Group Operational Risk, Risk Models, Chief Security Office, Enterprise-wide Risk Management and Recovery & Resolution Planning, CRO Office and Country CROs.

Group Compliance (GC) constitutes the compliance function for Nordea Eiendomskreditt according to intra-group agreement and is responsible for developing and maintaining the risk management framework for managing compliance risks in cooperation with other functions in GR and for guiding the business in their implementation of the framework to ensure continuous adherence to the framework. GC is responsible for regular reporting to NE Board and NE CEO at least quarterly. GC reports on the status and development of Nordea Eiendomskreditt's compliance risks including information on major deficiencies along with consequence analyses and emerging risks and trends; status and key observations from monitoring activities and investigations; general updates on Financial Supervisory Authority interactions and impact; and preparations on regulatory changes. The reports shall also contain recommendations on actions to be undertaken to mitigate Compliance Risk.

For compliance related risks, appointed Compliance Officer conduct the CIRA (Compliance Independent Risk Assessment) process and challenge the 1LoD's RCSA results on compliance risks. The objective of the CIRA process is to provide an independent view on the Compliance Risk exposure and to assess, challenge and advise the 1LoD on implementation of an effective risk management framework. The CIRA process is an independent 2LoD risk assessment conducted in parallel with the RCSA, where the CIRA is a top down risk assessment using the same assessment methodology as in the RCSA process.

Group Internal Audit (GIA) represents the 3LoD according to intra-group agreement. GIA conducts risk based and general audits and shall assess whether the internal control framework is both effective and efficient, including assessing whether existing policies and procedures and Group internal Rules remain adequate and comply with legal and regulatory requirements, and with the risk appetite and strategy of Nordea. GIA is also in charge of the independent review of 1LoD and 2LoD including ensuring that the segregation of duties is defined and established between risk management (1LoD) and risk control (2LoD).

Customer Protection

The aim of Customer Protection is to ensure fair treatment of customers and fair customer outcomes. Treating customers fairly include open and transparent communication, meeting the customer needs (outcome focused), employee awareness, honest and open approach in customer complaints and communication as well as timely, accurate and relevant management information. The key areas covered in Customer Protection are financial advice (including mortgage credit offering), product governance arrangements, employee knowledge and competence, and customer complaints handling. Customer Protection related to advisory activities seeks to ensure that advice given to the customers meets customers' needs and circumstances; the advice given on suitable products; and that lending is responsible. Customer Protection related to products and services consists of delivering high quality, good, and valuable products and services which meet customer needs. This means defining and meeting target market, delivering value for money and provision of fair product materials and customer communications. It is also important to manage conflicts of interest in relation to products and services. In 2019, enhancements were implemented in regular product reviews and approval process. Customer complaints are an important tool for monitoring customer protection. The complaints handling framework has in the recent years been developed and the process is renewed with clear and regular reporting, a strong feedback culture, root cause analysis and mitigating activities.

Conduct Risk Management

Conduct risk is defined as the risk of inappropriate culture and behaviour of employees, or the risk that intentional or unintentional actions across the end to end customer lifecycle can lead to unfair outcomes and harm for customers or disrupt market integrity. Conduct risk management approaches are continuously developed to ensure that culture and employee behaviours are consistent with the values, and that employees deliver fair outcomes for customers across all stages of the customer lifecycle. This includes driving a strong focus on putting the customer first in the business strategy, the design and development of products, the sales, and the ongoing service provided to Nordea Eiendomskreditt's customers.

Financial Crime Prevention

Financial crime is a serious threat to the security and integrity of the global financial system, and cooperation between banks and authorities is what is required to fight it. It is a joint responsibility to improve safety in the global financial system. The Nordea Group is committed to comply with applicable laws and regulations concerning anti-money laundering, counter terrorist financing, sanctions, bribery and corruption in the jurisdictions in which Nordea operates. Nordea and Nordea Eiendomskreditt will not accept being exploited for money laundering or any other types of financial crime. Therefore, a number of global policies has been established by the Nordea Group in order to achieve robust and consistent standards of compliance. These have been adopted by the NE Board and support the broader customer strategy, values and vision, and provide a uniform set of risk management principles and mandatory standards for Nordea Eiendomskreditt and the Nordea Group as a whole.

It is important for Nordea Eiendomskreditt that robust risk-based due diligence measures are conducted when onboarding new customers, and on a continuous basis. By knowing customers and counterparties well, screening and monitoring activities can be performed to detect suspicious or illegal activity and reported to the authorities for further investigation. Nordea Eiendomskreditt has outsourced to the customer responsible units in the Nordea Group to perform all due diligence measures and regulated this service in an intra group outsourcing agreement.

To detect suspicious transactions, monitoring systems and controls are in place to detect transaction activities that are outside normal activity patterns. Every year, these processes generate hundreds of thousands of alerts in the Nordea Group, although only a fraction is for Nordea Eiendomskreditt's customers. All alerts are managed and, where necessary, investigated for potential suspicious activity which may result in a Suspicious Activities Report being filed with the relevant authorities in the relevant jurisdictions.

Nordea Eiendomskreditt also has an obligation to comply with all international and local sanctions programmes.

Nordea Eiendomskreditt's customers and their transactions are therefore screened against applicable sanctions lists to ensure adherence to sanctions requirements. In recent years, considerable

improvements have been implemented to reduce financial crime risks through significant investment in technology, capabilities and more sophisticated assessment techniques.

Liquidity risk

Liquidity management

During 2022, Nordea Eiendomskreditt continued to benefit from its prudent liquidity risk management, in terms of maintaining a diversified and strong funding base and a diversified liquidity buffer. Nordea Eiendomskreditt maintained a strong liquidity position, and the situation with higher energy and commodity prices on the back of the war in Ukraine has not affected the liquidity management. Throughout 2022, Nordea Eiendomskreditt remained compliant with the requirement in Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).

Liquidity risk definition and identification

Liquidity risk is the risk of being unable to service the cash flow obligations when they fall due; or unable to meet the cash flow obligations without incurring significant additional funding costs. Nordea Eiendomskreditt is exposed to liquidity risk in its lending, investment, funding, off-balance sheet exposures and other activities which could result in a negative cash flow mismatch. Nordea Eiendomskreditt's liquidity management is an integral part of the Nordea Group's liquidity risk management.

Management principles and control

Liquidity risk in the Nordea Group is managed across three LoD: 1LoD comprises Treasury and the Business Areas (Nordea Eiendomskreditt included). Treasury is responsible for the day to day management of the liquidity positions, liquidity buffers, external and internal funding including the mobilisation of cash around the Nordea Group, and Funds Transfer Pricing (FTP). Nordea Eiendomskreditt and Treasury have entered into an intra-group agreement for the purpose of liquidity risk management.

2LoD, which includes NE CRO and units within the Nordea Group's Group Risk (GR) acting in accordance with intra-group agreement, are responsible for independently overseeing and challenging providing independent oversight of and challenge to 1LoD.

3LoD includes Group Internal Audit (GIA), which is responsible for providing independent oversight of 1LoD and 2LoD.

NE Board defines the liquidity risk appetite by setting limits for applied liquidity risk metrics. The most central metrics are the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) as well as the internal Liquidity Stress Horizon, which set a minimum survival period of three months under institution-specific and market-wide stress scenarios with limited mitigation actions. A framework of limits and monitoring metrics is in place to ensure Nordea Eiendomskreditt stays within various risk parameters including the risk appetite.

Liquidity risk management strategy

Nordea Eiendomskreditt's liquidity management strategy is based on policy statements resulting in various liquidity risk measures, limits and organisational procedures. Policy statements stipulate that Nordea Eiendomskreditt's liquidity management reflects a conservative attitude towards liquidity risk. Nordea Eiendomskreditt strives to diversify its sources of funding (to larger pool of investors) and seeks to establish and maintain relationships with investors in order to ensure market access.

Nordea Eiendomskreditt's funding programme is limited to long-term covered bonds. Short- and medium-term funding are arranged as intra-group loans priced at market rate. Trust is fundamental in the funding market; therefore, Nordea Eiendomskreditt periodically publishes information on the liquidity situation and the cover pool. Furthermore, Nordea Eiendomskreditt regularly performs stress testing of the liquidity risk position and the cover pool which is covered by the Nordea Group's business contingency plans for liquidity crisis management.

Liquidity risk measurement

To ensure funding in situations if Nordea Eiendomskreditt face an urgent need of cash and the normal funding sources do not suffice, Nordea Eiendomskreditt holds a liquidity buffer. The liquidity buffer consists of central bank eligible, high credit quality and liquid securities that can be readily sold or used as collateral in funding operations. Liquidity risk management focuses on both short-term liquidity risk and long-term structural liquidity risk. Short-term liquidity risk is limited via the Liquidity Coverage Ratio as well as the internal parameters Liquidity Stress Coverage and Liquidity Stress Horizon. The internal parameters stipulate that the liquidity buffer needs to be sufficient to cover peak cumulative stressed outflows experienced over the first three months of a combined stress event, whereby Nordea Eiendomskreditt is subject to a market-wide stress similar to what many banks experienced in 2007-08; and an idiosyncratic stress corresponding to a three-notch credit rating downgrade. Long-term structural liquidity risk is limited via the Net Stable Funding Ratio (NSFR) which was implemented in RAF from 1st of January 2022. Together these metrics form the basis for Nordea Eiendomskreditt's liquidity risk appetite, which is reviewed and approved by the NE Board at least annually.

Liquidity risk analysis

The Liquidity Coverage Ratio (LCR) according to the EBA Delegated Act was 1274% (462%) at the end of the year. Nordea Eiendomskreditt does not have other significant currencies than Norwegian krone.

The Liquidity Stress Coverage (LSC) and Liquidity Stress Horizon (LSH) were at the end of the year 152% (169%) and 172 days (165 days) respectively. Net Stable Funding Ratio (NSFR) was at the end of the year 113.1% (107.5%).

Note 3 Net interest income

NOKt	2022	2021
Interest income calculated using the effective interest rate method	8 458 243	5 245 785
Other interest income	98 957	26 064
Interest expense	6 238 603	2 254 184
Net Interest income	**2 318 597**	**3 017 665**

Interest income calculated using the effective interest rate method		
Loans to credit institutions	44 839	6 143
Loans to customers	8 338 649	5 185 017
Yield fees	69 467	71 825
Net interest paid or received on derivatives in accounting hedges of assets	5 288	-17 200
Interest income calculated using the effective interest rate method	**8 458 243**	**5 245 785**

Other interest income		
Interest-bearing securities measured at fair value	98 957	26 064
Other interest income[1]	**98 957**	**26 064**

Interest expense		
Deposits by credit institutions	3 425 269	1 198 196
Debt securities in issue	2 611 354	1 143 121
Subordinated loan capital	36 518	42 694
Other interest expenses[1]	156 613	130 443
Net interest paid or received on derivatives in hedges of liabilities	8 849	-260 274
Interest expense	**6 238 603**	**2 254 180**

Interest from categories of financial instruments

NOKt	2022	2021
Financial assets at amortised cost	8 454 945	5 261 655
Financial assets at fair value through profit or loss (related to hedging instruments)[1]	102 256	10 194
Financial liabilities at amortised cost	-6 229 755	-2 514 458
Financial liabilities at fair value through profit or loss	-8 849	260 274
Net interest income	**2 318 597**	**3 017 665**

[1] Includes net interest income from derivatives, measured at fair value and related to Nordea Eiendomskreditt's funding. This can have both a positive and negative impact on other interest expense, for further information see Note 1 Accounting policies.

Note 4 Net result from items at fair value

Net gains/losses for categories of financial instruments

NOKt	2022	2021
Net result from items at fair value	-11 077	-179 212
Total	**-11 077**	**-179 212**

NOKt	2022	2021
Financial assets and liabilities mandatorily at fair value through profit or loss[1]	-866 788	-574 572
Financial assets at amortised cost[2]	-65 688	-44 541
Financial liabilities at amortised cost[3]	920 915	439 955
Foreign exchange gains/losses excluding currency hedges	483	-54
Total	**-11 077**	**-179 212**

[1] This row comprises of interest bearing securities and derivatives held for economic hedging, which do not meet the requirements for hedge accounting according to IAS 39.

[2] This row includes net gain/loss arising from derecognition of financial assets measured at amortised cost of NOK -27m (NOK 1m). The reason for derecognition is that the assets were prepaid by the customer. This line item also includes fair value changes of hedged amortised cost assets in hedges of interest rate risk of NOK -39m (NOK -46m).

[3] This row mainly includes fair value changes of hedged amortised cost liabilities in hedges of interest rate risk of NOK 937m (NOK 574m).

Note 5 Staff costs

NOKt	2022	2021
Salaries and remunerations[1]	22 340	19 518
Pension costs (note 13)	3 477	2 768
Social security contributions	4 885	4 344
Other staff costs	468	337
Total	**31 171**	**26 966**

[1] Of which allocation to profit-sharing 2022 amounted to NOK 663t (NOK 485t), consisting of a new allocation of NOK 670t (NOK 533t) and an adjusment to prior years of NOK -7t (NOK -48t).

Number of employees/full time positions	**2022**	**2021**
Number of employees at 31 Dec	23	21
Number of full time equivalents at 31 Dec	21,5	20,5

Gender distribution of Board members (percentage at year end)		
- Men	43%	50%
- Women	57%	50%

Explanations of individually specified remuneration in the table below.
Fixed salary and fees - relates to received regular salary for the financial year paid by Nordea Eiendomskreditt AS.

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

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

31 Dec 2022, NOKt **Executive management of Nordea Eiendomskreditt AS**	**Fixed salary and fees**	**Variable salary**	**Other benefits**	**Pensions**	**Total remunerations**
Børre Sten Gundersen, CEO	1 618	465	385	200	2 667
Total for the executive management[1]	**1 618**	**465**	**385**	**200**	**2 667**

[1] Executive management of Nordea Direct Boligkreditt AS Jan Kåre Raae, CEO 1.1.2022 - 31.10.2022, received a total remuniation of NOK 1529t, of which pension NOK 140t, for the period before the merger with Nordea Eiendomskreditt AS.

Board of Directors of Nordea Eiendomskreditt AS					
Gro Elisabeth Lundevik	140				140
Alex Madsen	140				140
Total for the directors of Nordea Eiendomskreditt AS[2]	**280**	**0**	**0**	**0**	**280**

[2] Directors of Nordea Direct Boligkreditt AS received remuniation of: Alex Madsen, board member NOK 83t, Cathrine Kaasen Conradi, board member NOK 117t.

Total remuneration of executive management and elected officers of Nordea Eiendomskreditt AS	**1 898**	**465**	**385**	**200**	**2 947**

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 2022 for services provided in 2021.

Nordea Eiendomskreditt has provided mortgage loans to its employees, but loans to the executive management 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.

31 Dec 2021, NOKt **Executive management of Nordea Eiendomskreditt AS**	**Fixed salary and fees**	**Variable salary**	**Other benefits**	**Pensions**	**Total remunerations**
Børre Sten Gundersen, CEO	1 594	389	365	252	2 600
Total for the executive management	**1 594**	**389**	**365**	**252**	**2 600**

[1] Executive management of Nordea Direct Boligkreditt Jan Kåre Raae, CEO, received a total remuniation of NOK 1852t of which pension NOK 174t.

Board of Directors of Nordea Eiendomskreditt AS					
Gro Elisabeth Lundevik	140				140
Alex Madsen	140				140
Total for the directors of Nordea Eiendomskreditt AS	**280**	**0**	**0**	**0**	**280**

[2] Directors of Nordea Direct Boligkreditt AS received remuniation of: Alex Madsen, board member NOK 100t.

Total remuneration of executive management and elected officers of Nordea Eiendomskreditt AS	**1 874**	**389**	**365**	**252**	**2 880**

Note 6 Other expenses

NOKt	2022	2021
Market data services	5 406	5 212
Services bought from Group companies	1 326 320	1 662 151
Auditor's fee	2 017	1 953
Resolution fees	47 037	37 086
Other operating expenses	6 554	6 249
Total	**1 387 333**	**1 712 651**

Auditor's fee for 2022 comprise NOKt 2,017 incl.VAT, of which NOKt 1,977 relates to audit work and NOKt 40 relates to other audit related services.

Note 7 Loan losses

Based on IFRS 9

NOKt	2022	2021
Net loan losses, Stage 1	16 112	-9 074
Net loan losses, Stage 2	62 172	13 854
Total loan losses, non-defaulted	**78 284**	**4 780**
Stage 3, defaulted		
Net loan losses, individually assessed, collectively calculated	19 951	34 092
Realised loan losses	15 704	28 986
Decrease of provisions to cover realised loan losses	0	-6 662
Recoveries on previous realised loan losses	-7 122	-515
New/increase in provisions	0	0
Reversals of provisions	-442	-7 441
Net loan losses, defaulted	**28 091**	**48 461**
Net loan losses	**106 375**	**53 241**

Key ratios

	2022	2021
Loan loss ratio, basis points	3,37	1,77
- of which stage 1	0,51	-0,30
- of which stage 2	1,97	0,46
- of which stage 3	0,89	1,61

Note 8 Taxes

Income tax expense

NOKt	2022	2021
Current tax[1]	222 352	248 289
Deferred tax[2]	-7 330	32 966
Total	**215 022**	**281 255**
[1] of which relating to prior years	13 023	0
[2] of which relating to prior years	-13 023	0
Total	0	0

Current and deferred tax recognised in Other comprehensive income		
Deferred tax on remeasurements of pension obligations DBP	-376	-519
Deferred tax relating to cash flow hedges	-1 755	-9 936
Total	**-2 131**	**-10 455**

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

NOKt	2022	2021
Profit before tax	862 841	1 125 001
Tax calculated at a tax rate of 25%	-215 010	-281 250
Non-deductable expenses	-12	-5
Tax exempt income	0	0
Change of tax rate [1]	0	0
Adjustments related to prior years	0	0
Total tax charge	**-215 022**	**-281 255**
Average effective tax rate	-24,9 %	-25,0 %

Deferred tax

NOKt	2022	2021
Deferred tax expense (-) / income (+)		
Deferred tax due to temporary differences	-5 693	-32 966
Income tax expense, net	**-5 693**	**-32 966**

	Deferred tax assets		Deferred tax liabilities	
NOKt	2022	2021	2022	2021
Deferred tax assets/liabilities related to:				
Financial instruments and derivatives			-139 585	-145 094
Retirement benefit obligations	6 171	6 502		
Property and equipment	,	,	-101	-121
Other				
Netting between deferred tax assets and liabilities	-6 171	-6 502	6 171	6 502
Total deferred tax assets/liabilities	**0**	**0**	**-133 515**	**-138 714**

Movements in deferred tax assets/liabilities net, are as follows:	2022	2021
Balance at 1 January	-138 714	-95 293
Deferred tax relating to items recognised in Other comprehensive income	-2 131	-10 455
Adjustments relating to prior years	13 023	0
Deferred tax in the income statement	-5 693	-32 966
Balance at 31 December	**-133 515**	**-138 714**

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 relates to the same fiscal authority.

Deferred tax totalling tNOK 133.515 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 2022.

Note 9 Loans and impairment

NOKt	31 Dec 2022	31 Dec 2021
Loans measured at amortised cost, impaired (Stage 1 and 2)	322 953 240	305 367 280
Impaired loans (Stage 3)	609 274	530 835
- Servicing	206 772	144 288
- Non-servicing	402 502	360 102
Loans before allowances	**323 562 514**	**305 898 114**
Allowances for individually assessed impaired loans (Stage 3)	-115 213	-95 703
- Servicing	-36 088	-18 218
- Non-servicing	-79 124	-76 987
Allowances for collectively assessed impaired loans (Stage 1 and 2)	-195 315	-122 515
Allowances	**-310 527**	**-218 218**
Loans, carrying amount	**323 251 987**	**305 679 896**

Accrued interest on loans to the public is included with NOKt 530,662 at 31 December 2022.

Nordea Eiendomskreditt does not have any financial instruments for which a loss allowance has not been recognised because of the collateral.

Reconciliation of allowance accounts for impaired loans

NOKt	Individually calculated	Collectively calculated	Total
Opening balance at 1 January 2022	**-856**	**219 074**	**218 218**
Provisions	0	92 751	92 751
Reversals of previous provisions	-442	0	-442
Allowances used to cover realised loan losses	0	0	0
Changes through the income statement	**-442**	**92 751**	**92 309**
Changes due to acquisition	0	0	**0**
Closing balance at 31 December 2022	**-1 298**	**311 825**	**310 527**

1 See also Note 7 Loan losses

NOKt	Individually calculated	Collectively calculated	Total
Opening balance at 1 January 2021	**13 246**	**178 347**	**191 593**
Provisions	0	40 728	40 728
Reversals of previous provisions	-7 440	0	-7 440
Allowances used to cover realised loan losses	-6 662	0	-6 662
Changes through the income statement	**-14 102**	**40 728**	**26 626**
Changes due to acquisition	0	0	**0**
Closing balance at 31 December 2021	**-856**	**219 074**	**218 218**

Note 9 Loans and impairment cont.

Carrying amount of loans measured at amortised cost, before allowances

	Credit institutions				The public			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2022	**748 009**	**0**	**0**	**748 009**	**294 411 988**	**10 955 292**	**530 835**	**305 898 114**
Changes due to origination and acquisition	0	0	0	0	67 889 259	454 195	61 313	68 404 767
Changes due to transfers between Stage 1 and Stage 2, (net)	0	0	0	0	-1 740 554	1 740 554	0	0
Changes due to transfers between Stage 2 and Stage 3, (net)	0	0	0	0	0	-34 341	34 341	0
Changes due to transfers between Stage 1 and Stage 3, (net)	0	0	0	0	-94 029	0	94 029	0
Changes due to repayments and disposals	0	0	0	0	-79 325 355	-3 298 755	-187 930	-82 812 041
Changes due to write-offs	0	0	0	0	0	0	-15 709	-15 709
Other changes	-16 537	0		-16 537	28 405 182	3 589 806	92 396	32 087 383
Translation differences	0	0	0	0	0	0	0	0
Closing balance at 31 December 2022	**731 472**	**0**	**0**	**731 472**	**309 546 490**	**13 406 750**	**609 274**	**323 562 514**

	Credit institutions				The public			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2021	**935 367**	**0**	**0**	**935 367**	**277 236 039**	**10 030 049**	**796 922**	**288 063 009**
Changes due to origination and acquisition	0	0	0	0	111 649 254	905 262	2 445 442	114 999 958
Changes due to transfers between Stage 1 and Stage 2, (net)	0	0	0	0	-939 249	939 249	0	0
Changes due to transfers between Stage 2 and Stage 3, (net)	0	0	0	0	0	-296 070	296 070	0
Changes due to transfers between Stage 1 and Stage 3, (net)	0	0	0	0	-80 647	0	80 647	0
Changes due to repayments and disposals	-187 358	0	0	-187 358	-116 025 268	-3 561 718	183 747	-119 403 240
Changes due to write-offs	0	0	0	0	0	0	-28 982	-28 982
Other changes	0	0	0	0	22 571 860	2 938 520	-3 243 011	22 267 369
Translation differences	0	0	0	0	0	0	0	0
Closing balance at 31 December 2021	**748 009**	**0**	**0**	**748 009**	**294 411 988**	**10 955 292**	**530 835**	**305 898 114**

Movements of allowance accounts for loans measured at amortised cost

	The public			
NOKt	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2022	**-35 501**	**-87 014**	**-95 703**	**-218 218**
Changes due to origination and acquisition	-28 894	-36 748	-4 466	-70 108
Changes due to transfers from Stage 1 to Stage 2	1 764	-67 368	0	-65 604
Changes due to transfers from Stage 1 to Stage 3	50	0	-20 469	-20 419
Changes due to transfers from Stage 2 to Stage 1	-1 126	34 266	0	33 140
Changes due to transfers from Stage 2 to Stage 3	0	1 335	-11 285	-9 949
Changes due to transfers from Stage 3 to Stage 1	-98	0	5 796	5 698
Changes due to transfers from Stage 3 to Stage 2	0	-703	4 400	3 697
Changes due to changes in credit risk without stage transfer	6 362	-15 371	-32 961	-41 970
Changes due to repayments and disposals	10 117	27 383	41 529	79 029
Write-off through decrease in allowance account	0	0	0	0
Other changes	-2 719	-1 049	-2 055	-5 822
Closing balance at 31 December 2022	**-50 045**	**-145 269**	**-115 213**	**-310 527**

	The public			
NOKt	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2021	**-42 546**	**-73 334**	**-75 714**	**-191 593**
Changes due to origination and acquisition	-111 988	-24 420	-47 230	-183 637
Changes due to transfers from Stage 1 to Stage 2	14 036	-130 820	0	-116 784
Changes due to transfers from Stage 1 to Stage 3	761	0	-23 599	-22 838
Changes due to transfers from Stage 2 to Stage 1	-5 249	118 260	0	113 011
Changes due to transfers from Stage 2 to Stage 3	0	90 249	-166 031	-75 782
Changes due to transfers from Stage 3 to Stage 1	-56	0	9 204	9 149
Changes due to transfers from Stage 3 to Stage 2	0	-3 906	13 687	9 781
Changes due to changes in credit risk without stage transfer	26 323	-134 035	45 446	-62 266
Changes due to repayments and disposals	83 218	70 990	141 871	296 078
Write-off through decrease in allowance account	0	0	6 662	6 662
Other changes	0	0	0	0
Closing balance at 31 December 2021	**-35 501**	**-87 014**	**-95 703**	**-218 218**

Note 9 Loans and impairment cont.

Rating /scoring information for loans measured at amortised cost

Rating /scoring grade	Gross carrying amounts 31 Dec 2022 Stage 1	Stage 2	Stage 3	Total	Gross carrying amounts 31 Dec 2021 Stage 1	Stage 2	Stage 3	Total
A+	171 859 834	1 159 199	40 615	173 059 648	126 724 849	465 653	13 982	127 204 483
A	30 147 349	595 400	24 295	30 767 044	40 865 638	299 899	12 372	41 177 909
A-	19 782 796	591 616	3 674	20 378 086	29 442 915	376 639	4 387	29 823 942
B+	12 774 291	676 131	545	13 450 967	19 022 888	376 072	3 240	19 402 200
B	10 338 335	947 612	3 462	11 289 409	16 046 332	603 163	6 997	16 656 491
B-	6 289 202	955 618	7 478	7 252 298	8 969 294	771 309	1 425	9 742 028
C+	3 852 982	771 503	7 293	4 631 779	5 750 447	876 526	5 364	6 632 337
C	4 032 623	1 017 703	12 081	5 062 407	4 543 574	1 129 415	12 676	5 685 665
C-	2 852 195	697 378	19 571	3 569 144	3 025 170	621 977	6 934	3 654 081
D+	2 598 328	634 100	2 032	3 234 460	2 468 488	788 305	7 574	3 264 367
D	2 502 895	879 202	0	3 382 096	1 946 487	717 683	9 725	2 673 896
D-	12 848 614	1 539 774	11 133	14 399 521	9 643 557	1 653 564	6 346	11 303 466
E+	1 583 110	797 797	3 269	2 384 176	4 148 933	552 074	2 300	4 703 307
E	498 689	497 736	11 373	1 007 799	526 054	336 671	2 742	865 467
E-	1 020 262	593 809	47 373	1 661 444	495 007	354 255	3 536	852 797
F+	91 234	144 709	3 265	239 208	383 913	268 792	16 842	669 547
F	42 903	102 493	0	145 395	42 584	82 057	0	124 641
F-	217 459	356 870	33 403	607 733	115 722	318 311	25 320	459 353
0+ /0 /0-	142 899	125 742	335 141	603 783	192 073	146 043	362 628	700 743
Internal[1]	857 257	0	0	857 257	523 581	0	0	523 581
Standardised/Unrated[2]	25 944 705	322 357	43 271	26 310 333	20 282 492	216 884	26 444	20 525 821
Total	**310 277 962**	**13 406 750**	**609 274**	**324 293 986**	**295 159 997**	**10 955 292**	**530 835**	**306 646 123**

[1] Exposures towards Nordea entities.

[2] Of the standardized/unrated portfolio NOK 25 973 946t (NOK 19 673 244t) stems from Nordea Direct Boligkreditt which where merged with Nordea Eiendomskreditt 1November 2022.

Key ratios	31 Dec 2022	31 Dec 2021
Impairment rate, (stage 3) gross, basis points [1)]	18,8	17,4
Impairment rate (stage 3), net, basis points [2)]	15,3	14,2
Total allowance rate (stage 1, 2 and 3), basis points [3)]	9,6	7,1
Allowances in relation to credit impaired loans (stage 3), % [4)]	18,9	18,0
Allowances in relation to loans in stage 1 and 2 , basis points [5)]	6,0	4,0

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

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

[3] Total allowances divided by total loans measured at amortised cost before allowances.

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

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

Sensitivities

The provisions are sensitive to rating migration even if the triggers are not reached. The table below shows the impact on provisions from a one-notch downgrade of Nordea Eiendomskreditt's household lending portfolio. It includes both the impact of the higher risk for all exposures and the impact of transferring exposures that reach the trigger, from stage 1 to stage 2. It also includes the impact of exposures with one rating grade above default going into default. For more information on the rating scale, see table "Rating/scoring information on loans measured at amortised cost" above.

NOKm	31 Dec 2022 Recognised provisions	Provision if one notch downgrade	31 Dec 2021 Recognised provisions	Provision if one notch downgrade
Retail portfolios	311	417	218	281

Forward looking information

Forward looking information is used both for assessing significant increases in credit risk and in the calculation of expected credit losses. Nordea Eiendomskreditt uses three macroeconomic scenarios, a baseline scenario, a favourable scenario and an adverse scenario. For the fourth quarter of 2022 the scenarios were weighted into the final expected credit losses (ECL) as follows: baseline 50%, adverse 40% and favourable 10% (baseline 60%, adverse 20% and favourable 20% at the end of December 2021 and baseline 50%, adverse 40% and favourable 10% at the end of September 2022). The weightings reflected increasing downside risks to the macroeconomic projections during the last year.

Note 9 Loans and impairment cont.

The macroeconomic scenarios are provided by Group Risk in Nordea, based on the Oxford Economics model. The forecast is a combination of modelling and expert judgement, subject to thorough checks and quality control processes. The model has been built to give a good description of the historical relationships between economic variables and to capture the key linkages between those variables. The forecast period in the model is ten years, and for periods beyond, a long-term average is used in the ECL calculations.

The macroeconomic scenarios reflect Nordea's view of how the Nordic economies might develop in light of Russia's invasion of Ukraine and the associated sanctions and countersanctions on trade with Russia. This includes consideration of the high level of energy prices seen after the invasion, continued supply chain disruptions and an expectation of significantly higher interest rates in response to the strong inflationary pressures. When developing the scenarios and determining the relative weighting between the scenarios, Nordea took into account projections made by Nordic governments and central banks, Nordea Research and the European Central Bank.

The baseline scenario foresees mild recessions in Denmark, Finland and Sweden, triggered by high interest rates and elevated inflation. On the other hand, the high energy prices will support weak growth in Norway. The weak growth impulse is expected to continue into 2023, weighing on the recovery. Nordic housing markets have turned around, with sales showing a marked slowdown and prices starting to decline, with the price fall in Sweden being particularly pronounced. This development is expected to continue into 2023. The risks around the baseline forecast are tilted to the downside.

Nordea's two alternative macroeconomic scenarios cover a range of plausible risk factors which may cause growth to deviate from the baseline scenario. The high energy prices may lead to a deeper and longer recession due to weaker growth in private consumption and investments. In addition, house prices may see an even larger fall due to the high level of interest rates and squeeze in household purchasing power. A stabilisation of energy prices at a lower level may on the other hand lead to a milder setback over the winter and a stronger recovery going forward.

At the end of the fourth quarter of 2022 adjustments to model-based allowances/provisions (management judgements) amounted to NOK 102m (NOK 32m at the end of the third quarter 2022 and NOK 38m at the end of 2021). The management judgements cover expected credit losses not yet covered by the IFRS 9 model. The cyclical reserve amounted to NOK 95m at the end of the fourth quarter of 2022 (NOK 25m at the end of the third quarter of 2022 and NOK 25m at the end of 2021) and the reserve covering issues identified in the IFRS 9 model to be later covered in model updates (structural reserve) amounted to NOK 7m (NOK 7m at the end of the third quarter of 2022 and NOK 14m at the end of 2021

The cyclical reserve was reassessed during the fourth quarter, moving from the specific concerns related to the pandemic to the extraordinary challenges raised by the energy crisis. The adequacy of allowances was analysed based on specific potential impacts of higher costs, including loan interest rates, and decrease in housing prices, leading to a potential increase of PD (Probability of Default) and LGD (Loss Given Default) beyond what is captured in the model calculations. The management therefore decided to increase the level of provisions by NOK 64m. The level of allowances was concluded to be largely sufficient for the changed risk outlook.

Scenarios	2023	2024	2025	Probability weight
Favourable scenario				10%
GDP growth, %	1.6	1.2	1.0	
Unemployment, %	3.1	3.3	3.2	
Change in household consumption, %	-0.4	0.6	3.0	
Change in house prices, %	-1.8	1.9	4.7	
Baseline scenario				50%
GDP growth, %	0.8	0.8	0.3	
Unemployment, %	3.3	3.6	3.6	
Change in household consumption, %	-1.1	0.3	1.9	
Change in house prices, %	-2.4	1.3	4.1	
Adverse scenario				40%
GDP growth, %	-1.5	0.3	0.4	
Unemployment, %	4.2	4.4	4.4	
Change in household consumption, %	-2.6	-0.9	1.0	
Change in house prices, %	-7.2	-3.0	1.3	

Note 10 Derivatives and hedge accounting

Nordea Eiendomskreditt enters into derivatives for risk management purposes. Derivatives held for risk management purposes include hedges that either meet the hedge accounting requirements or hedges that are economic hedges, but do not meet the hedge accounting requirements. The table below shows the fair values of derivative financial instruments together with their notional amounts. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of either the market or credit risk.

31 Dec 2022, NOKt	Fair value Positive	Fair value Negative	Total nominal amount
Derivatives at FVPL - Mandatorily [1]:			
Interest rate swaps	-17 698	158 537	37 000 000
Total	**-17 698**	**158 537**	**37 000 000**
Derivatives used for hedge accounting:			
Interest rate swaps	146 033	504 303	16 376 000
Currency and interest rate swaps	295 397	98 196	4 208 000
Total	**441 430**	**602 499**	**20 584 000**
-of which fair value hedges [2]	146 033	504 303	16 376 000
-of which cash flow hedges [2]	295 397	98 196	4 208 000
Total derivatives	**423 732**	**761 036**	**57 584 000**

31 Dec 2021, NOKt	Fair value Positive	Fair value Negative	Total nominal amount
Derivatives at FVPL - Mandatorily [1]:			
Interest rate swaps	7 705	45 583	45 600 000
Total	**7 705**	**45 583**	**45 600 000**
Derivatives used for hedge accounting:			
Interest rate swaps	274 265	16 477	12 794 000
Currency and interest rate swaps	392 171	0	4 208 000
Total	**666 436**	**16 477**	**17 002 000**
-of which fair value hedges	274 265	16 477	12 794 000
-of which cash flow hedges	392 171	0	4 208 000
Total derivatives	**674 141**	**62 059**	**62 602 000**

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

Hedge Accounting

Risk management

Nordea Eiendomskreditt manages its identified market risks according to the risk management framework and strategy described in the Market risk section in Note 2 "Risk and liquidity management".
Nordea Eiendomskreditt's exposure to market risk is non-trading (the Banking Book), and includes all hedges qualifying for hedge accounting. The hedging instruments and risks hedged are further described below per risk and hedge accounting relationship.

Interest rate risk

Nordea Eiendomskreditt’s primary business model is to grant mortgage loans and fund these by issuing covered bonds. Interest rate risk is the impact that changes in interest rates could have on Nordea Eiendomskreditt’s margins, profit or loss, and equity. Interest rate risk arises from mismatch of interest from interest-bearing liabilities and interest-bearing assets such as the loan portfolio and the liquidity portfolio.

Note 10 Derivatives and hedge accounting cont.

As part of Nordea Eiendomskreditt's risk management strategy, the Board has established limits on the non–trading interest rate gaps for the interest rate sensitivities. These limits are consistent with Nordea Eiendomskreditt's risk appetite and the company aligns its hedge accounting objectives to keep exposures within those limits. Nordea Eiendomskreditt's policy is to monitor positions on a daily basis. For further information on measurement of risks, see the Market risk section in Note 2 "Risk and liquidity management".

For hedge accounting related to interest rate risk, the hedge relationship is mainly on a portfolio basis and is established by matching the notional of the derivatives against the principle of the hedged items.

The benchmark rate is determined as a change in present value of the future cash flows using benchmark rate discount curves. The benchmark rate is separately identifiable and reliably measurable and is typically the most significant component of the overall change in fair value or cash flows.

Fair value hedges

In order to reduce or eliminate changes in the fair value of financial assets and financial liabilities due to movements in interest rates, Nordea Eiendomskreditt enters into fair value hedge relationships as described in Note 1 section 8 Hedge accounting. Nordea Eiendomskreditt uses pay floating/receive fixed interest rate swaps to hedge its fixed rate liabilities.

There is an economic relationship between the hedged item and the hedging instrument as the terms of the interest rate swap match the terms of the fixed rate loan (i.e., notional amount, maturity, payment and reset dates).

The below table presents the accumulated fair value adjustments arising from continuing hedge relationships, irrespective of whether or not there has been a change in hedge designation during the year.

Hedged items

	Interest rate risk	
NOKt	**31 Dec 2022**	**31 Dec 2021**
Fair value hedges		
Carrying amount of hedged assets[1]	1 020 446	1 461 976
- of which accumulated amount of fair value hedge adjustment[3]	-55 554	-17 024
Carrying amount of hedged liabilties[2]	15 043 955	11 516 783
- of which accumulated amount of fair value hedge adjustment[3]	-555 408	161 100

[1] Presented on the balance sheet rows Loans to the public and Fair value changes of the hedged items in portfolio hedge of interest rate risk.

[2] Presented on the balance sheet rows Debt securities in issue.

[3] Of which all relates to continuing portfolio / micro hedges of interest rate risk.

Hedging instruments

	Fair value		Total nom
31 Dec 2022, NOKt	**Positive**	**Negative**	**amount**
Fair value hedges			
Interest rate risk	146 033	504 303	16 376 000

	Fair value		Total nom
31 Dec 2021, NOKt	**Positive**	**Negative**	**amount**
Fair value hedges			
Interest rate risk	274 265	16 477	12 794 000

The below table presents the changes in the fair value of the hedged items and changes in fair value of the hedging instruments used as the basis for recognising ineffectiveness. These changes are recognised on the row "Net result from items at fair value" in the income statement.

Hedge ineffectiveness

	Interest rate risk	
NOKt	**31 Dec 2022**	**31 Dec 2021**
Fair value hedges		
Changes in fair value of hedging instruments	-870 873	-531 205
Changes in fair value of hedged items used as basis for recognising hedge ineffectiveness	898 117	528 784
Hedge ineffectiveness recognised in the income statement	27 244	-2 421

Note 10 Derivatives and hedge accounting cont.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Nordea Eiendomskreditt operates with a policy of hedging all currency risk (fx 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.

Cash flow hedges

For hedge accounting relationships related to currency risk, the hedged item is a foreign currency component. The hedging ration is one-to-one and is established by matching the notional of the derivatives against the principle of the hedged item.

The below tables provide information about the hedging instruments addressing currency risk including the notional and the carrying amounts of the hedging instruments as well as the cash flow hedge reserve.

Hedging instruments

	Fair value		Total nom
31 Dec 2022, NOKt	**Positive**	**Negative**	**amount**
Cash flow hedges			
Interest rate risk	295 397	98 196	4 208 000

	Fair value		Total nom
31 Dec 2021, NOKt	**Positive**	**Negative**	**amount**
Cash flow hedges			
Interest rate risk	392 171	0	4 208 000

In the below table, the fair value adjustments arising from continuing hedging relationships, irrespective of whether there has been a change in hedge designation during the year, are specified.

Cash flow hedge reserve

	Foreign exchange risk	
NOKt	**31 Dec 2022**	**31 Dec 2021**
Balance at 1 January	**-14 945**	**-44 754**
Cash flow hedges:		
Valuation gains/losses during the year	41 160	89 111
Tax on valuation gains/losses during the year	-10 290	-22 278
Transferred to the income statement during the year	-34 140	-49 366
Tax on transfers to the income statement during the year	8 535	12 342
Other comprehensive income, net of tax	**5 265**	**29 809**
Balance at 31 December	**-9 680**	**-14 945**

Note 10 Derivatives and hedge accounting cont.

Maturity profile of the nominal amount of hedging instruments – Fair value hedges

31 Dec 2022	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Total
Instrument hedging interest rate risk	0	165 000	7 000	7 793 000	9 349 000	17 314 000
Total	**0**	**165 000**	**7 000**	**7 793 000**	**9 349 000**	**17 314 000**

31 Dec 2021	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Total
Instrument hedging interest rate risk	0	60 000	4 958 000	6 412 000	1 451 600	12 881 600
Total	**0**	**60 000**	**4 958 000**	**6 412 000**	**1 451 600**	**12 881 600**

Maturity profile of the nominal amount of hedging instruments – Cash flow hedges

31 Dec 2022	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Total
Instrument hedging foreign exchange risk	0	0	3 270 000	0	0	3 270 000
Total		**0**	**3 270 000**	**0**	**0**	**3 270 000**

31 Dec 2021	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Total
Instrument hedging foreign exchange risk	0	0	0	3 270 000	850 400	4 120 400
Total	**0**	**0**	**0**	**3 270 000**	**850 400**	**4 120 400**

Note 11 Cover pool

	31 Dec 2022		31 Dec 2021	
NOKt	**Nominal value**	**Net present value**	**Nominal value**	**Net present value**
Loans to the public	323 064 144	322 450 476	305 667 836	305 238 890
- whereof pool of eligible loans	244 935 636	244 470 375	232 191 758	231 872 997
Supplementary assets and derivates:	409 225	-84 792	619 546	1 057 121
- whereof CIRS	409 225	180 556	375 082	421 083
- whereof IRS	0	-265 348	0	391 573
Total cover pool	**245 344 861**	**244 385 583**	**232 811 304**	**232 930 118**
Debt securities in issue (net outstanding amount)	148 332 225	148 427 632	105 766 082	106 367 111
Over-collateralization calculated on net outstanding covered bonds	65,4%	64,6%	120,1%	119,0%
Debt securities in issue (issue amount)	148 332 225	148 427 632	105 766 082	106 367 111
Over-collateralization calculated on issued covered bonds (gross outstanding covered bonds)[1]	65,4%	64,6%	120,1%	119,0%

[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 regulatory calculation shall be based on gross outstanding covered bonds and by use of nominal values. Net present values are disclosed for information and may differ from fair values disclosed in other notes to this report due to different calculation methods.

Note 12 Debt securities in issue and loans from financial institutions

NOKt	31 Dec 2022 Nominal value	Other [1]	Carrying amount	31 Dec 2021 Nominal value	Other [1]	Carrying amount
Covered bonds issued in Norwegian kroner	143 715 000			101 183 000		
Holdings of own covered bonds in Norwegian kroner	0			0		
Outstanding covered bonds issued in Norwegian kroner	**143 715 000**			**101 183 000**		
Covered bonds issued in GBP (in NOK)	3 565 425			3 581 232		
Covered bonds issued in EUR (in NOK)	1 051 800			1 001 850		
Total outstanding covered bonds	**148 332 225**	**1 020 049**	**149 352 274**	**105 766 082**	**1 385 394**	**107 151 476**
Loans and deposits from financial institutions for a fixed term	155 312 021	601 858	155 913 879	181 180 332	197 310	181 377 642
Subordinated loan	1 100 000	3 819	1 103 819	1 100 000	1 826	1 101 826
Total	**304 744 246**	**1 625 727**	**306 369 973**	**288 046 414**	**1 584 530**	**289 630 944**

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

Maturity information	31 Dec 2022	31 Dec 2021
Maximum 1 year	65 238 796	107 788 032
More than 1 year	239 505 450	180 258 383
Total	**304 744 246**	**288 046 414**

Norwegian covered bonds (NOKt) at 31 December 2021

ISIN code	Issue date	Final payment date	Interest	Interest rate in %	Currency	Outstanding nominal amount
NO0010593064	22-12-2010	18-06-2025	Fixed	4.8	NOK	550 000
NO0010678766	08-05-2013	08-05-2025	Fixed	3.6	NOK	600 000
NO0010766827	21-06-2016	18-06-2031	Fixed	2.2	NOK	500 000
NO0010789266	23-03-2017	23-05-2023	Float	3M Nibor + 0.57%	NOK	2 932 000
NO0010812084	11-12-2017	17-09-2043	Fixed	2.2	NOK	300 000
NO0010819717	21-02-2018	21-06-2023	Float	3M Nibor + 0.30%	NOK	13 483 000
NO0010821986	04-05-2018	04-05-2048	Fixed	2.6	NOK	300 000
NO0010843626	26-02-2019	19-06-2024	Float	3M Nibor + 0.34%	NOK	38 900 000
NO0010852650	22-05-2019	22-05-2026	Fixed	2.17	NOK	6 000 000
NO0010873334	22-02-2020	19-03-2025	Float	3M Nibor + 0.26%	NOK	20 000 000
NO0010893282	16-09-2020	16-09-2025	Float	3M Nibor + 1.50%	NOK	19 700 000
NO0010981301	21-04-2021	18-03-2026	Float	3M Nibor + 1.50%	NOK	12 950 000
NO0011151771	17-11-2021	17-09-2026	Float	3M Nibor + 0.75%	NOK	7 000 000
NO0012441643	15-02-2022	15-02-2030	Fixed	2.45	NOK	3 500 000
NO0012513532	03-05-2022	17-03-2027	Float	3M Nibor + 0.33%	NOK	13 450 000
NO0012720988	12-10-2022	12-10-2029	Fixed	4.0	NOK	3 150 000
NO0012732017	28-10-2022	28-10-2037	Fixed	4.0	NOK	400 000
Total						**143 715 000**

Covered bonds issued in foreign currency (NOKt) at 31 December 2021

ISIN code	Issue date	Final payment date	Interest	Interest rate in %	Currency	Outstanding nominal amount
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)						**4 617 225**

Note 13 Retirement benefit obligations

NOKt	31 Dec 2022	31 Dec 2021
Defined benefit plans, net	-24 682	-26 007
Total	**-24 682**	**-26 007**

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 affected 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 2022 employees in the DCP have had the following contribution rates:

* Pensionable salary representing 0-7.1 times G: 7%

* Pensionable 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 2.049 in 2022.

IAS 19 Pension calculations and assumptions

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

Assumptions[1]	**2022**	**2021**
Discount rate[2]	3,40%	1,96%
Salary increase	3,50%	2,25%
Inflation	2,00%	1,50%
Social Security increase	3,50%	2,25%
Expected adjustments of current pensions	1,00%	1,04%

[1] The assumptions disclosed for 2022 have an impact on the liability calculation by year-end 2022, while the assumptions disclosed for 2021are used for calculating the pension expense in 2022.

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

Note 13 Retirement benefit obligations cont.

Sensitivities - Impact on Pension Benefit Obligation (PBO)	2022	2021
Discount rate - Increase 50bps	-7,0%	-7,9%
Discount rate - Decrease 50bps	7,7%	8,8%
Salary increase - Increase 50bps	0,2%	0,2%
Salary increase - Decrease 50bps	-0,1%	-0,2%
Inflation - Increase 50bps	7,8%	8,6%
Inflation - Decrease 50bps	-7,1%	-8,2%

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. The sensitivity analysis include the impact on the liabilities held for future SSC (social security contributions).

Net retirement benefit liabilities/assets

NOKt	2022	2021
Obligations	59 231	63 248
Plan assets	35 301	37 241
Restriction to Net Defined Benefit Asset due to the Asset Ceiling	-751	0
Net liability (-)/asset (+)	**-24 682**	**-26 007**

Movements in the obligation

NOKt	2022	2021
Opening balance	63 248	60 355
True up opening balance	0	0
Current service cost	517	252
Interest cost	1 145	999
Pensions paid	-1 461	-1 286
Past service cost	0	0
Settlements	0	0
Transfers between entities	0	0
Remeasurement from changes in financial assumptions	-7 615	-1 845
Remeasurement from experience adjustments	3 350	4 773
Closing balance before social security contribution	**59 184**	**63 247**
Change in provision for social security contribution [1]	47	1
Closing balance	**59 231**	**63 248**

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

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

Movements in the fair value of plan assets

NOKt	2022	2021
Opening balance	37 241	32 651
Interest income (calculated using the discount rate)	724	586
Pensions paid	-784	-625
Settlements	0	0
Contributions/refunds by employer	15	0
Transfers between entities	0	0
Remeasurement (actual return less interest income)	-1 895	4 629
Closing balance	**35 301**	**37 241**

Note 13 Retirement benefit obligations cont.

Asset composition

The combined return on assets in 2022 was -6,0% (4,6%). 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 21% (22%) of total assets.

Asset composition in funded schemes

	2022	2021
Equity	21%	22%
Bonds	61%	60%
Real estate	16%	15%
Other assets	3%	3%

Movements in the effect of the Asset Ceiling

NOKt	2022	2021
Opening balance	0	0
Interest on the effect of the Asset Ceiling in Profit and Loss Account		
Change in the Effect of the Asset Ceiling in Other Comprehensive Income (OCI)	-751	
Closing balance	**-751**	**0**

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 2022 is NOKt 3.477. The amount covers both funded and unfunded pension plans, DCP as well as AFP premium.

Recognised in the income statement, NOKt	2022	2021
Current service cost	517	252
Net interest	421	416
Past service cost and settlements	0	0
Social Security Contribution	179	120
Pension cost on defined benefit plans	**1 118**	**788**

Recognised in other comprehensive income, NOKt	2022	2021
Remeasurement from changes in financial assumptions	-4 151	2 553
Remeasurement from experience adjustments	0	0
Remeasurement of plan assets (actual return less interest income)	1 895	-4629
Change in the Effect of the Asset Ceiling excluding Interest	751	0
Social security contribution	0	0
Pension cost on defined benefit plans	**-1 504**	**-2 076**

The defined benefit pension plan cost for 2023 is expected to be NOKt 1.764.

Note 14 Assets pledged as security for own liabilities

NOKt	31 Dec 2022	31 Dec 2021
Assets pledged as security for own liabilities:		
Loans to the public	245 131 742	232 191 758
Total	**245 131 742**	**232 191 758**
The above pledges pertain to the following liability and committment items:		
Debt securities in issue[1]	149 907 682	106 964 025
Total	**149 907 682**	**106 964 025**

[1]Excluding fair value hedge adjustment.

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 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 2022	31 Dec 2021
Accepted, not disbursed loans (unutilised portion of granted limit on flex loans)	31 618 092	29 698 530
Other commitments, excluding derivatives [1]	0	0
Total	**31 618 092**	**29 698 530**

[1] 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 outlined in the Capital Requirement Directive (CRD IV) and Capital Requirement Regulation (CRR), entered into force on 1 January 2014. In Norway, CRR and CRD IV entered finally into force on 31 December 2019.

Over the years, amendments have been made to the first version of the capital adequacy regulation. In 2014, revised rules for calculating capital adequacy required 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 to be drawn in periods of stress and new liquidity standards were introduced. The CRD IV and the BRRD were 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. In June 2019, the 'Banking package' containing revisions to the BRRD, the CRD and the CRR was adopted .The implementation of the 'banking package' in Norway entered into force 1 June 2022.

The Basel III framework is implemented in the EU through the CRR and the CRD IV and is built on three Pillars;

o Pillar I – requirements for the calculation of REA and capital requirements

o Pillar II – rules for the Supervisory Review Process (SREP), including the Internal Capital Adequacy Assessment Process (ICAAP)

o 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 2023, 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.

Note 16 Capital adequacy cont.

Summary of items included in own funds

NOKm	31 Dec[1] 2022	31 Dec[1,2] 2021
Equity	22 054	22 125
Proposed/actual dividend	-648	-726
Common Equity Tier 1 capital before regulatory adjustments	21 406	21 399
Deferred tax assets		
Intangible assets		
IRB provisions shortfall (-)	-79	-130
Pension assets in excess of related liabilities		
Other items, net	-9	8
Total regulatory adjustments to Common Equity Tier 1 capital	-88	-122
Common Equity Tier 1 capital (net after deduction)	**21 317**	**21 277**
Additional Tier 1 capital before regulatory adjustments		
Total regulatory adjustments to Additional Tier 1 capital		
Additional Tier 1 capital		
Tier 1 capital (net after deduction)	**21 317**	**21 277**
Tier 2 capital before regulatory adjustments	1 100	1 100
IRB provisions excess (+)	113	94
Deductions for investments in insurance companies		
Other items, net		
Total regulatory adjustments to Tier 2 capital	113	94
Tier 2 capital	1 213	1 194
Own funds (net after deduction)	**22 530**	**22 471**

[1] Including profit for the period

[2] Q4 2021adjsuted to include Nordea Direct

Own Funds, excluding profit

NOKm	31 Dec 2022	31 Dec 2021
Common Equity Tier 1 capital, excluding profit	21 330	21 277
Total Own Funds, excluding profit	22 543	22 471

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.

Note 16 Capital adequacy cont.

Minimum capital requirement and REA, Risk Exposure Amount

NOKm	31 Dec 2022 Minimum Capital requirement	31 Dec 2022 REA	31 Dec 2021 Minimum Capital requirement	31 Dec 2021 REA
Credit risk	**6 111**	**76 377**	**5 720**	**71 505**
- of which counterparty credit risk	10	124	25	315
IRB	5 360	66 995	5 131	64 143
- institutions	17	214	18	225
- retail	5 343	66 780	5 113	63 917
- secured by immovable property collateral	4 691	58 634	4 548	56 847
- other retail	652	8 146	565	7 070
- other	0	1	0	1
Standardised	751	9 382	589	7 362
- institutions	21	260	37	456
- retail	1	16	1	10
- secured by mortgages on immovable properties	726	9 069	550	6 878
- in default	3	37	1	10
- covered bonds			0	8
- other items			0	0
Credit Value Adjustment Risk			**2**	**24**
Operational risk	**302**	**3 784**	**250**	**3 122**
Standardised	302	3 784	228	2 846
Basic Indicator approach			22	276
Additional risk exposure amount related to Swedish RW floor due to Article 458 CRR			**2**	**25**
Sub total	**6 413**	**80 161**	**5 974**	**74 676**

Capital ratios

Percentage	31 Dec[1] 2022	31 Dec 2021
Common Equity Tier 1 capital ratio, including profit	26,6	28,5
Tier 1 capital ratio, including profit	26,6	28,5
Total capital ratio, including profit	28,1	30,1
Common Equity Tier 1 capital ratio, excluding profit	26,6	28,3
Tier 1 capital ratio, excluding profit	26,6	28,3
Total capital ratio, excluding profit	28,1	29,9

[1] Assumed 100% of profit is distributed as dividend

Leverage ratio	31 Dec[1] 2022	31 Dec[1] 2021
Tier 1 capital, transitional definition, NOKm	21 317	21 277
Leverage ratio exposure, NOKm	344 994	327 512
Leverage ratio, percentage	6,2	6,5

[1] Including profit for the period

Note 17 Classification of assets and liabilities

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

31 December 2022		Fair value through profit or loss (FVPL)			
NOKt	Amortised cost (AC)	Mandatorily	Derivatives used for hedging	Non-financial assets	Total
Assets					
Loans to credit institutions	731 472				731 472
Loans to the public	323 251 987				323 251 987
Interest-bearing securities		5 435 886			5 435 886
Derivatives		-17 698	441 430		423 732
Fair value changes of hedged items in portfolio hedges of interest rate risk	-55 554				-55 554
Equipment owned and RoU				77	77
Other assets				-33	-33
Prepaid expenses and accrued income	18 148			1 376	19 524
Total Assets	**323 946 054**	**5 418 188**	**441 430**	**1 420**	**329 807 092**

		Fair value through profit or loss (FVPL)			
NOKt	Amortised cost (AC)	Mandatorily	Derivatives used for hedging	Non-financial liabilities	Total
Liabilities					
Deposits by credit institutions	155 913 879				155 913 879
Debt securities in issue	149 352 274				149 352 274
Derivatives		158 537	602 499		761 036
Current tax liabilities				209 297	209 297
Other liabilities	3 597			17 247	20 844
Accrued expenses and prepaid income	3 883			222 132	226 015
Deferred tax liabilities				133 515	133 515
Provisions				8 211	8 211
Retirement benefit obligations				24 682	24 682
Subordinated loan capital	1 103 819				1 103 819
Total Liabilities	**306 377 452**	**158 537**	**602 499**	**615 083**	**307 753 572**

Note 17 Classification of assets and liabilities cont.

31 December 2021		Fair value through profit or loss (FVPL)			
NOKt	Amortised cost (AC)	Mandatorily	Derivatives used for hedging	Non-financial assets	Total
Assets					
Loans to credit institutions	733 910				733 910
Loans to the public	305 679 895				305 679 895
Interest-bearing securities		5 394 540			5 394 540
Derivatives		7 705	666 436		674 141
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-17 024				-17 024
Equipment owned and RoU				213	213
Other assets	24 413			-78	24 335
Prepaid expenses and accrued income	1 031			1 635	2 665
Total Assets	**306 422 225**	**5 402 244**	**666 436**	**1 769**	**312 492 675**

		Fair value through profit or loss (FVPL)			
NOKt	Amortised cost (AC)	Mandatorily	Derivatives used for hedging	Non-financial liabilities	Total
Liabilities					
Deposits by credit institutions	181 377 642				181 377 642
Debt securities in issue	107 151 476				107 151 476
Derivatives		45 583	16 477		62 059
Current tax liabilities				248 289	248 289
Other liabilities	2 784			6 525	9 309
Accrued expenses and prepaid income	414			249 149	249 562
Deferred tax liabilities				138 714	138 714
Provisions				2 731	2 731
Retirement benefit obligations				26 007	26 007
Subordinated loan capital	1 101 826				1 101 826
Total Liabilities	**289 634 142**	**45 583**	**16 477**	**671 414**	**290 367 615**

Note 18 Assets and liabilities at fair value

Fair value of financial assets and liabilities

	31 Dec 2022		31 Dec 2021	
NOKt	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans	323 927 906	328 228 331	306 421 195	307 197 057
Interest-bearing securities	5 435 886	5 435 886	5 394 540	5 394 540
Derivatives	423 732	423 732	674 141	674 141
Prepaid expenses and accrued income	18 148	18 148	1 031	1 031
Total financial assets	**329 805 671**	**334 106 097**	**312 490 906**	**313 266 768**

	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Deposits and debt instruments	306 369 973	306 385 298	289 630 944	290 391 323
Derivatives	761 036	761 036	62 059	62 059
Other financial liabilities	3 597	3 597	2 784	2 784
Accrued expenses and prepaid income	3 883	3 883	414	414
Total financial liabilities	**307 138 488**	**307 153 814**	**289 696 201**	**290 456 579**

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 fair value hierarchy

31 Dec 2022, NOKt	Quoted prices in active markets for same instrument (Level 1)	Valuation technique using observable data (Level 2)	Valuation technique using non-observable data (Level 3)	Total
Financial assets [1]				
Interest-bearing securities		5 435 886		5 435 886
Derivatives		423 732		423 732
Total assets	**0**	**5 859 618**	**0**	**5 859 618**
Financial liabilities [1]				
Derivatives		702 726	58 310	761 036
Total liabilities	**0**	**702 726**	**58 310**	**761 036**

31 Dec 2021, NOKt	Quoted prices in active markets for same instrument (Level 1)	Valuation technique using observable data (Level 2)	Valuation technique using non-observable data (Level 3)	Total
Financial assets [1]				
Interest-bearing securities		5 394 540		5 394 540
Derivatives		674 141	0	674 141
Total assets	**0**	**6 068 681**	**0**	**6 068 681**
Financial liabilities [1]				
Derivatives		62 059		62 059
Total liabilities	**0**	**62 059**	**0**	**62 059**

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

Note 18 Assets and liabilities at fair value cont.

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. For Nordea Eiendomskreditt this is relevant for derivatives with maturity longer than 20 years.

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). If the impact from unobservable parameters on the valuation of the bond is significant the bond is categorised as Level 3 in the fair value hierarchy.

For OTC derivatives valuation models are used for establishing fair value. 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. 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, Nordea obtains credit spreads from the credit default swap (CDS) market, and probabilities of defaults (PDs) are inferred from this data. For counterparties that do not have a liquid CDS, PDs are estimated using a cross sectional regression model, which calculates an appropriate proxy CDS spread given each counterparty's rating region and industry.

Nordea Eiendomskreditt's pricing models are calibrated to the market and if climate risk has any impact on a particular market, it will already be taken into consideration by other market participants. Hence, Nordea Eiendomskreditt have not implemented any changes to pricing models to accommodate for climate risk and no critical valuation adjustments are taken. Going forward, Nordea Eiendomskreditt will follow areas in the valuation space where climate risk could have an impact on the models (e.g. in relation to Credit Valuation Adjustment).

Transfers between Level 1 and Level 2

There has not been any transfers between Level 1 and Level 2 in 2022. When transfers between levels occur, these are considered to have occurred at the end of the reporting period.

Note 18 Assets and liabilities at fair value cont.

Movements in Level 3

31 Dec 2022, NOKt	1 Jan	Transfers into Level 3	Transfers out of Level 3	31 Dec
Derivatives (net)		58 310		58 310

During the period Nordea Eiendomskreditt AS had transfers from level 2 to level 3 of the fair value hierarchy. The reason for the transfer into level 3, was that in this period, observable market data has not been available for maturities longer than 20 years. Fair value gains and losses in the income statement during the year are included in Net result from items at fair value, see Note 4 "Net result from items at fair value".

31 Dec 2022, NOKt	Fair value	Valuation techniques	Unobservable input
Derivatives			
Interest rate derivatives	58 310	Option model	Correlation, volatilities
Total	**58 310**		

The table above shows, for each class of assets and liabilities categorised in level 3, the fair value, the valuation techniques used to estimate the fair value and significant unobservable inputs used in the valuation techniques.

Fair value of assets and liabilities in level 3 are estimated using valuation techniques based on assumptions that are not supported by market observable prices or rates. There may be uncertainty about a valuation, resulting from the choice of valuation technique or model used, the assumptions embedded in those models, the extent to which inputs are not market observable, or as a result of other elements affecting the valuation technique. For financial instruments portfolio adjustments are applied to reflect such uncertainties and are deducted from the fair values produced by the models or other valuation techniques (for further information see Note 1 "Determination of fair value of financial instruments").

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

	31 Dec 2022		31 Dec 2021		
NOKt	Carrying amount	Fair value	Carrying amount	Fair value	Level in fair value hierarchy
Assets not held at fair value on the balance sheet					
Loans	323 927 906	328 228 331	306 421 195	307 197 057	3
Other financial assets	0	0	0	0	3
Prepaid expenses and accrued income	18 148	18 148	1 031	1 031	3
Total assets	**323 946 054**	**328 246 479**	**306 422 226**	**307 198 088**	
Liabilities not held at fair value on the balance sheet					
Deposits and debt instruments	306 369 973	306 385 298	289 630 944	290 391 323	3
Other financial liabilities	3 597	3 597	2 784	2 784	3
Accrued expenses and prepaid income	3 883	3 883	414	414	3
Total liabilities	**306 377 452**	**306 392 778**	**289 634 142**	**290 394 520**	

Note 18 Assets and liabilities at fair value cont.

Loans

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

Other assets and prepaid expenses and accrued income

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

Note 19 Financial instruments set off on balance or subject to netting agreements

31 Dec 2022, NOKt	Gross recognised financial assets[1]	Gross recognised financial liabilities set off on the balance sheet	Net carrying amount on the balance sheet[2]	Amounts not set off but subject to master netting agreements and similar agreements: Financial instruments	Financial collateral received	Cash collateral received	Net amount
Assets							
Derivatives	423 732	0	423 732	-221 051	0	0	202 681
Total	**423 732**	**0**	**423 732**	**-221 051**	**0**	**0**	**202 681**

31 Dec 2022, NOKt	Gross recognised financial liabilities[1]	Gross recognised financial assets set off on the balance sheet	Net carrying amount on the balance sheet[2]	Amounts not set off but subject to master netting agreements and similar agreements: Financial instruments	Financial collateral pledged	Cash collateral pledged	Net amount
Liabilities							
Derivatives	761 036	0	761 036	-221 051	0	0	539 985
Total	**761 036**	**0**	**761 036**	**-221 051**	**0**	**0**	**539 985**

[1] All amounts are measured at fair value.

[2] Reverse repurchase agreements and Securities borrowing agreements are on the balance sheet classified as Loans to central banks, Loans to credit institutions or Loans to the public. Repurchase agreements and Securities lending agreements are on the balance sheet classified as Deposits by credit institution or as Deposits and borrowings from the public.

31 Dec 2021, NOKt	Gross recognised financial assets[1]	Gross recognised financial liabilities set off on the balance sheet	Net carrying amount on the balance sheet[2]	Amounts not set off but subject to master netting agreements and similar agreements: Financial instruments	Financial collateral received	Cash collateral received	Net amount
Assets							
Derivatives	674 141	0	674 141	-62 059	0	0	612 082
Total	**674 141**	**0**	**674 141**	**-62 059**	**0**	**0**	**612 082**

31 Dec 2021, NOKt	Gross recognised financial liabilities[1]	Gross recognised financial assets set off on the balance sheet	Net carrying amount on the balance sheet	Amounts not set off but subject to master netting agreements and similar agreements: Financial instruments	Financial collateral pledged	Cash collateral pledged	Net amount
Liabilities							
Derivatives	62 059	0	62 059	-62 059	0	0	0
Total	**62 059**	**0**	**62 059**	**-62 059**	**0**	**0**	**0**

[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 Eiendomskreditt would be allowed to benefit from netting in the case of default by its counterparties, in any calculations involving counterparty credit risk.

For a description of counterparty risk see section Counterparty credit risk in Note 2 “Risk and liquidity management”.

Note 20 Maturity analysis for assets and liabilities

Contractual undiscounted cash flows

31 Dec 2022, NOKt	< 1 month	1-3 month	3-12 month	1-2 years	2-5 years	5-10 years	>10 years	Total
Loans to the public	2 181 450	4 327 618	16 792 977	21 395 773	69 888 602	140 973 890	230 237 230	485 797 539
Loans to credit institutions	731 474	0	0	0	0	0	0	731 474
Interest-bearing securities	430 159	26 218	293 270	499 212	4 730 816	0	0	5 979 675
Other non-derivative financial assets	0	0	0	0	0	0	0	0
Total non-derivative financial assets	**3 343 083**	**4 353 836**	**17 086 247**	**21 894 985**	**74 619 418**	**140 973 890**	**230 237 230**	**492 508 689**
Deposits by credit institutions	110 502	70 383	42 058 223	60 431 731	62 049 254	0	0	164 720 093
Debt secuirities in issue	0	1 356 666	23 864 475	43 060 926	84 559 986	8 938 099	1 277 400	163 057 552
- of which covered bonds	0	1 356 666	23 864 475	43 060 926	84 559 986	8 938 099	1 277 400	163 057 552
Subordinated liabilities	0	13 558	41 426	1 113 708	0	0	0	1 168 691
Other non-derivative financial liabilities	4 733	0	0	0	0	0	0	4 733
Total non-derivative financial liabilities	**115 235**	**1 440 607**	**65 964 123**	**104 606 365**	**146 609 240**	**8 938 099**	**1 277 400**	**328 951 070**
Derivatives, cash inflows	3 065	373 641	4 555 466	954 124	1 255 038	1 774 197	277 400	9 192 931
Derivatives, cash outflows	198 603	268 056	4 535 752	1 228 480	1 527 466	1 720 572	368 276	9 847 205
Derivatives, net cash flows	**-195 538**	**105 586**	**19 715**	**-274 357**	**-272 428**	**53 625**	**-90 876**	**-654 274**
Credit commitments								31 618 092
Issued guarantees								0

31 Dec 2021, NOKt	< 1 month	1-3 month	3-12 month	1-2 years	2-5 years	5-10 years	>10 years	Total
Loans to the public	1 455 028	3 188 522	14 398 555	17 656 276	60 246 418	127 023 022	181 377 501	405 345 322
Loans to credit institutions	733 910	0	0	0	0	0	0	733 910
Interest-bearing securities	13 568	32 369	3 173 260	600 765	1 813 334	0	0	5 633 296
Other non-derivative financial assets	24 413	0	-14 236	0	0	0	25 382	35 559
Total non-derivative financial assets	**2 226 918**	**3 220 891**	**17 557 579**	**18 257 041**	**62 059 752**	**127 023 022**	**181 402 883**	**411 748 087**
Deposits by credit institutions	70 762	414 475	78 711 125	37 543 178	69 974 708	0	0	186 714 248
Debt secuirities in issue	0	324 629	20 886 093	25 593 771	64 094 958	1 683 959	819 181	113 402 591
- of which covered bonds	0	324 629	20 886 093	25 593 771	64 094 958	1 683 959	819 181	113 402 591
Subordinated liabilities	0	7 944	23 951	38 052	1 111 718	0	0	1 181 665
Other non-derivative financial liabilities and equity	0	0	0	0	0	0	20 769 634	20 769 634
Total non-derivative financial liabilities and equity	**70 762**	**747 048**	**99 621 169**	**63 175 001**	**135 181 384**	**1 683 959**	**21 588 815**	**322 068 139**
Derivatives, cash inflows	766	9 213	652 779	4 264 220	794 430	1 180 091	211 801	7 113 299
Derivatives, cash outflows	46 521	74 693	487 917	3 894 000	799 119	1 178 539	147 107	6 627 896
Derivatives, net cash flows	**-45 755**	**-65 479**	**164 861**	**370 220**	**-4 689**	**1 552**	**64 694**	**485 404**
Credit commitments								29 698 530
Issued guarantees								0

Note 21 Related-party transactions

NOKt	2022				2021			
	Nordea Bank Abp, filial i Norge	Nordea Bank Abp, filial i Sverige	Nordea Bank Abp	Other group companies	Nordea Bank Abp, filial i Norge	Nordea Bank Abp, filial i Sverige	Nordea Bank Abp	Other group companies
Profit and loss account								
Interest income on loans with financial institutions	44 839				6 143			
Other interest income	15 115				12 509			
Net gains/losses on items at fair value	206 342		5 479		2 794	2 904		
Commisson income	1 282				1 282			
Other operating income	3 359				1 349			1 082
Total income	**270 937**	**0**	**5 479**	**0**	**24 077**	**2 904**	**0**	**1 082**
Interest expenses on liabilities to financial institutions	3 426 966				1 198 196			
Interest and related expense on securities issued incl. hedging	120 641	18 762	170 665		-135 097	10 982	23 900	
Other interest expenses			152 758				130 442	
Net gains/(losses) on items at fair value	641 555	226 419	86		594 881	65 464		
Interest and related expense on subordinated loan capital			36 518				42 694	
Commission and fee expense for banking services	24 506				18 825			
Other operating expenses	1 325 925			316	1 661 407		12	418
Total expenses	**5 539 593**	**245 181**	**360 027**	**316**	**3 338 212**	**76 446**	**197 048**	**418**
Balance sheet								
Loans and receivables to credit institutions	731 472				733 758		155	
Derivatives	139 732	295 397	-16 192		256 587	392 171		
Accrued income and prepaid expenses	16 948							
Total assets	**888 152**	**295 397**	**-16 192**	**0**	**990 345**	**392 171**	**155**	**0**
Deposits by credit institutions	155 913 879				181 378 621			
Issued bonds	20 077 086		265 327				385 239	
Derivatives	681 318	98 196	-21 671		59 612			
Accrued expenses and prepaid income	61 425	13 486	152 760		103 725	2 622	130 442	1 046
Subordinated loan capital			1 103 819				1 101 826	
Share capital and share premium			11 753 647				11 753 647	
Total libilities and equity	**176 733 708**	**111 682**	**13 253 882**	**0**	**181 541 958**	**2 622**	**13 371 154**	**1 046**
Off balance sheet items								
Interest rate swaps (nominal value)	53 376 000	4 208 000			57 794 000	4 208 000		

From May 2019 mortgage loans are originated directly from the company's own balance sheet, and there has been no transfers of loans from the parent bank Nordea Bank Abp, filial i Norge in 2022.

Nordea Eiendomskreditt AS has from 1 October 2018 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 2022		31 Dec 2021	
NOKt	Aquired amount	Carrying amount	Aquired amount	Carrying amount
Financial assets				
States, municipalities and other public bodies	2 305 259	2 267 883	2 241 620	2 204 462
Mortgage institutions	3 166 323	3 168 003	3 189 464	3 190 077
Total	**5 471 582**	**5 435 886**	**5 431 085**	**5 394 540**

Provisions for credit risks amount to NOKt 0 (NOKt 0).

Note 23 Credit risk disclosures

Credit risk management and credit risk analysis is described in the Credit risk management section in Note 2 "Risk and liquidity management". Additional information on credit risk is also disclosed in the Capital and Risk Management Report (Pillar 3), which is available on www.nordea.com. Much of the information in this note is collected from the Pillar 3 report in order to fulfil the disclosure requirement regarding credit risk in the Annual Report.

The Pillar 3 report contains the disclosures required by the Capital Requirements Regulation (CRR). The Pillar 3 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	2022	2021
Loans to the public	9	311	218
Total		**311**	**218**

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).

Note 23 Credit risk disclosures cont.

Maximum exposure to credit risk

		31 Dec 2022		31 Dec 2021	
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		731		748	
Interest-bearing securities	22		5 436		5 395
Loans to the public incl accrued interest	9	323 252		305 690	
Derivatives			203		589
Total loans and receivables (on-balance exposure)		**323 983**	**5 639**	**306 438**	**5 984**
Off balance credit exposure:					
- of which lending to the public	15	31 618		29 699	
Off balance credit exposure		**31 618**	**0**	**29 699**	**0**
Exposure At Default (EAD)		**355 602**	**5 639**	**336 137**	**5 984**

Loans-to-value distribution and loans to the public[1]

	31 Dec 2022		31 Dec 2021	
	NOKm	in %	NOKm	in %
<50%	266 550	82,5 %	248 835	81,4 %
50-70%	45 378	14,0 %	43 803	14,3 %
70-80%	8 255	2,6 %	7 832	2,6 %
80-90%	2 540	0,8 %	2 823	0,9 %
>90%	528	0,2 %	2 397	0,8 %
Total	**323 252**	**100 %**	**305 689**	**100 %**

[1] The LTV distribution is based on the Basel rules, where each portion of a loan is allocated to the appropriate bucket.

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 2022	31 Dec 2021
6-30 days	1 831	1 262
31-60 days	383	211
61-90 days	118	59
>90 days	83	69
Total	**2 416**	**1 600**
Past due not impaired loans divided by loans to the public after allowances	0,7 %	0,5 %

The majority of the volume is past due between 6 and 30 days, but there are also corresponding increases in all other periods. The development is closely monitored related to potential negative impact of interest raises and high inflation.

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.

Auditor's report

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 (the Company), which comprise the balance sheet as at 31 December 2022, the 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 financial statements comply with applicable statutory requirements, and
- the financial statements give a true and fair view of the financial position of the Company as at 31 December 2022, 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 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 relevant laws and regulations in Norway and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), 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.

To the best of our knowledge and belief, no prohibited non-audit services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided.

We have been the auditor of the Company for 8 years from the election by the general meeting of the shareholders on 6 June 2015 for the accounting year 2015.

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 Company's activities are largely unchanged compared to the prior year, and there have not been any changes to laws and regulations, transactions or events which could have a significant impact on the financial statements as a whole. *Impairment of loans to the public* carries the same characteristics and risks this year, and consequently continues to be in our focus for the 2022 audit.

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Statsautoriserte revisorer, medlemmer av Den norske Revisorforening og autorisert regnskapsførerselskap

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Key Audit Matters	How our audit addressed the Key Audit Matter
Impairment of loans to the public	
Nordea Eiendomskreditt AS' loans to the public represent NOK 323 252 million (98% of total assets) of 31 December 2022. Total expected credit losses on loans to customers amount to NOK 311 million. A high level of Management judgement is involved in determining the appropriate impairment loss to be recognized, as expected credit losses (ECL) are calculated as a function of the probability of default, the exposure at default and the loss given default, as well as the timing of loss. Due to the use of judgement in applying the ECL measurement criteria of IFRS 9, the complexity of calculation and the effect on estimates, we consider provisioning for ECL a key audit matter. We refer to Note 1 - Accounting policies (Critical judgements and estimation uncertainty), Note 7 – Net loan losses and Note 9 – Loans and impairment to the financial statements, where management explain their use of judgement.	We obtained an understanding of the loan origination process, credit risk management and the impairment allowances for loans and advances to customers. Furthermore, our audit procedures included a combination of testing of relevant internal controls and substantive testing. For ECL models, where we also involved our modelling specialists, we obtained a detailed understanding of the process and relevant controls associated with: • the calculation and methodologies used by management, • whether the management-approved model was in compliance with the framework and the model worked as intended, • the reliability of the sources of the data used in the model, • post-model-adjustments. We also performed test of details to support the data entered into the calculation. The data input is covered by the audit of IT-systems to support the data extracted for the calculations. We noted no material errors in the ECL model or material deviations from IFRS 9 as a result of our audit procedures. We performed a benchmark analysis to compare the level of ECL with a sample of comparable entities and found the ECL to be in line with an acceptable range. We assessed the disclosures related to impairment of loans and found that they satisfied the relevant accounting requirements.

Other Information

The Board of Directors and the Managing Director (management) are responsible for the information in the Board of Directors' report and the other information accompanying the financial statements. The other information comprises information in the annual report, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the information in the Board of Directors' report nor the other information accompanying the financial statements.

In connection with our audit of the financial statements, our responsibility is to read the Board of Directors' report and the other information accompanying the financial statements. The purpose is to consider if there is material inconsistency between the Board of Directors' report and the other information accompanying the financial statements and the financial statements or our knowledge obtained in the audit, or whether the Board of Directors' report and the other information accompanying the financial statements otherwise appear to be materially misstated. We are required to report if there is a material misstatement in the Board of Directors' report or the other information accompanying the financial statements. We have nothing to report in this regard.

Based on our knowledge obtained in the audit, it is our opinion that the Board of Directors' report

- is consistent with the financial statements and
- contains the information required by applicable statutory requirements.

Our opinion on the Board of Director's report applies correspondingly to the statements on Corporate Governance and Corporate Social Responsibility.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view 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 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 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 a true and fair view.

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.

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

Report on Compliance with Requirement on European Single Electronic Format (ESEF)

Opinion
As part of the audit of the financial statements of Nordea Eiendomskreditt AS, we have performed an assurance engagement to obtain reasonable assurance about whether the financial statements included in the annual report, with the file name NEK Annual Report 2022_signed.xhtml, have been prepared, in all material respects, in compliance with the requirements of the Commission Delegated Regulation (EU) 2019/815 on the European Single Electronic Format (ESEF Regulation) and regulation pursuant to Section 5-5 of the Norwegian Securities Trading Act, which includes requirements related to the preparation of the annual report in XHTML format.

In our opinion, the financial statements, included in the annual report, have been prepared, in all material respects, in compliance with the ESEF regulation.

Management's Responsibilities
Management is responsible for the preparation of the annual report in compliance with the ESEF regulation. This responsibility comprises an adequate process and such internal control as management determines is necessary.

Auditor's Responsibilities
Our responsibility, based on audit evidence obtained, is to express an opinion on whether, in all material respects, the financial statements included in the annual report have been prepared in compliance with ESEF. We conduct our work in compliance with the International Standard for Assurance Engagements (ISAE) 3000 – "Assurance engagements other than audits or reviews of historical financial information". The standard requires us to plan and perform procedures to obtain

reasonable assurance about whether the financial statements included in the annual report have been prepared in compliance with the ESEF Regulation.

As part of our work, we have performed procedures to obtain an understanding of the Company's processes for preparing the financial statements in compliance with the ESEF Regulation. We examine whether the financial statements are presented in XHTML-format. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Bergen, 7 March 2023
PricewaterhouseCoopers AS

Jon Haugervåg
State Authorised Public Accountant

5 / 5

Statement by the Chief Executive Officer and the Board of Directors

Pursuant to Section 5-5 of the Securities Trading Act

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 2022, including comparative figures for 2021 (the "2022 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 2022 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 2022 and as of 31 December 2021.

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

Nordea Eiendomskreditt AS
Oslo, 7 March 2023

Marte Kopperstad
Chair

Gro Elisabeth Lundevik
Vice Chair

Ola Littorin
Board member

Asbjørn Rødal
Board member

Pål Ekberg
Board member

Lene Steinum
Board member

Anne Sofie Knoph
Employee representative

Elen M. Stiksrud
Acting Chief Executive Officer

Board of Directors and Auditor

Board of Directors

Chair

Marte Kopperstad

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

Members

Gro Elisabeth Lundevik

University of Agder
Senior Advisor, Economic and property divison
Vice Chair, Board member since 2019

Ola Littorin

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

Pål Ekberg

Nordea Bank Abp, filial i Norge
Head of Advisory and Sales, Personal Banking Nordea Norway
Board member since 2021

Lene Steinum

Nordea Bank Abp, filial i Norge
Head of Cross Technology Capabilities, Technology Nordea
Board member since 2022

Asbjørn Rødal

Independent consultant and non-executive board member with 25 years' experience as partner in global audit firm
Board member since 2023

Anne Sofie Knoph (Employee representative)

Nordea Eiendomskreditt AS
Master expert in Nordea
Board member since 2017

Auditor

PricewaterhouseCoopers AS

Jon Haugervåg
Authorised Public Accountant

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