Nordea

Annual Report 2017

Nordea Hypotek AB (publ)

Contents

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Board of Directors' report

The Board of Directors and the President of Nordea Hypotek AB (publ) (corp. id no. 556091–5448), hereby present the Annual Report for 2017. The company is a wholly owned subsidiary of Nordea Bank AB (publ) (corp. id no. 516406–0120).

5 year overview

Income statement

SEKm	2017	2016	2015	2014	2013
Net interest income[1]	8,786	7,828	6,687	5,393	4,647
Net fee and commission income[1]	4	18	23	–76	–83
Net result from items at fair value	–283	–145	–140	–130	–167
Total operating income	**8,507**	**7,701**	**6,570**	**5,187**	**4,397**
General administrative expenses:					
– Staff costs	–26	–10	–7	–7	–7
– Other expenses	–1,477	–521	–511	–490	–492
Total operating expenses	**–1,503**	**–531**	**–518**	**–497**	**–499**
Profit before loan losses	7,004	7,170	6,052	4,690	3,898
Net loan losses	–11	–9	–22	–52	–14
Operating profit	**6,993**	**7,161**	**6,030**	**4,638**	**3,884**
Appropriations	—	—	—	—	446
Income tax expense	–1,551	–1,575	–1,326	–1,020	–953
Net profit for the year	**5,442**	**5,586**	**4,704**	**3,618**	**3,377**

Balance sheet

SEKm	2017	2016	2015	2014	2013
Assets					
Loans to credit institutions	7,274	3,274	2,602	91	1,259
Loans to the public	536,933	531,061	500,852	474,904	451,742
Derivatives	6,176	9,642	9,792	13,297	8,824
Fair value changes of the hedged items in portfolio hedge of interest rate risk	–71	–26	57	563	581
Current tax assets	342	87	153	358	2
Other assets	1,154	2,466	2,485	1,476	—
Prepaid expenses and accrued income	698	644	550	437	588
Total assets	**552,506**	**547,148**	**516,491**	**491,126**	**462,996**
Liabilities					
Deposits by credit institutions	194,469	168,609	157,977	150,702	118,985
Debt securities in issue	319,801	336,900	320,934	301,859	305,233
Derivatives	498	686	1,715	1,463	4,418
Fair value changes of the hedged items in portfolio hedge of interest rate risk	4,796	6,936	6,450	9,998	4,867
Current tax liabilities	—	—	—	—	477
Other liabilities	7,833	6,912	6,747	5,847	2,184
Accrued expenses and prepaid income	39	39	171	163	6,141
Deferred tax liabilities	15	155	139	89	67
Subordinated liabilities	1,800	3,101	4,702	4,703	4,400
Equity	23,255	23,810	17,655	16,302	16,224
Total liabilities and equity	**552,506**	**547,148**	**516,491**	**491,126**	**462,996**

1) The comparative figures for 2015 have been restated, for more information see Note 1 "Accounting Policies".

Ratios and key figures

SEKm	2017	2016	2015	2014	2013
Return on average shareholders equity, %	21.7	24.9	26.2	21.0	21.3
Return on total capital, %	1.4	1.3	1.2	1.0	0.9
Return on assets, %	1.0	1.0	0.9	0.7	0.7
Investment margin, %[1]	1.6	1.4	1.3	1.1	1.0
Cost/income ratio, %	17.8	7.0	8.2	10.6	11.7
Risk-weighted amount, before transition rules, SEKm	37,362	34,937	34,765	35,234	49,751
Risk-weighted amount, SEKm	279,149	273,761	255,603	237,326	218,588
Capital base, SEKm	24,899	26,176	21,795	20,536	20,199
Total capital ratio, before transition rules, %[2]	66.6	74.9	62.7	58.3	40.6
Tier 1 capital ratio, before transition rules, %[2]	61.8	66.0	49.2	44.9	31.9
Total capital ratio, %[2]	8.9	9.6	8.6	8.7	9.2
Tier 1 capital ratio, %[2]	8.3	8.5	6.7	6.7	7.3
Average number of employees (recalculated to FTEs)	22	5	3	3	3

1) The comparative figures for 2015 have been restated, for more information see Note 1 "Accounting Policies".
2) Including result for the period.

Definitions

Capital base	The capital base constitutes the numerator in calculating the capital ratio. It consists of the sum of tier 1 capital (equity) and supplementary capital (subordinated debenture loans).
Cost/income ratio after loan losses	Operating expenses plus loan losses as a percentage of operating income.
Investment margin	Net interest income as a percentage of average total assets, monthly average.
Return on average shareholders' equity	Net profit for the year as a percentage of equity, monthly average.
Return on assets	Net profit for the year as a percentage of total assets at end of the year.
Return on total capital	Operating profit as a percentage of average total assets, monthly average.
Risk-weighted amount	Total assets as shown in balance sheet and off-balance-sheet items valued on the basis of credit and market risks in accordance with regulations governing capital adequacy.
Risk-weighted amount, before transition rules	Risk-weighted assets before adjusting for floor rules.
Tier 1 capital ratio, before transition rules	Tier 1 capital ratio in relation to risk-weighted assets before adjusting for floor rules.
Tier 1 capital ratio	Tier 1 capital as a percentage of risk-weighted amounts.
Total capital ratio	Capital base as a percentage of risk-weighted amounts.
Total capital ratio, before transition rules	The capital base in relation to risk-weighted assets before adjusting for floor rules.

Our operations 2017

Operations

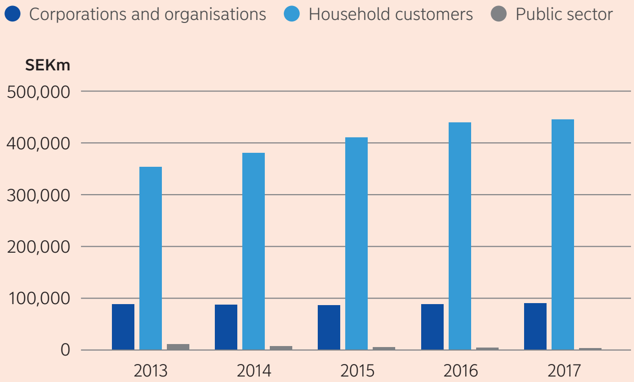
The company operates in the Swedish market and grants loans, primarily long-term in nature, to households, sole business proprietors, municipalities and other legal entities through the parent bank's distribution network. The purpose of the lending is primarily to finance properties, tenant-owned apartments, agriculture and forestry, and municipal operations. The key emphasis is on housing financing. Collateral consists mainly of mortgages on residential properties and tenant-owner apartments, or municipal guarantees.

Profit/loss

Operating profit amounted to SEK 6,993m (7,161), which is a decrease of 2.4% from the previous year. When comparing earnings with the previous year, account should mainly be taken of the following major items affecting comparability:

- Net interest income amounted to SEK 8,786m (7,828); an increase of 12.2%. The main reason for the increase in net interest income is higher lending volumes and lower funding costs.
- Net earnings from items at fair value declined by SEK 138m. This is chiefly attributable to financial instruments under hedge accounting, which positively affected the item by SEK 45m, lower premature loan redemption penalties, which had a negative impact on the item in the amount of SEK 21m, and to the repurchase of issued bonds entered at amortised cost, which had a negative effect of SEK 162m on the item.
- Net commission income declined by SEK 15m. This is mainly due to reduced commissions related to lending.
- The volume of loans past due that are not classified as impaired amounted to 0.07% (0.07) for household lending, and to 0.52% (0.45) for corporate lending.
- Credit losses amounted to SEK -11m (-9) net, and the entire amount is attributable to household lending.
- Return on equity, after standard tax, was 21.7% (24.9).
- Operating expenses at the end of the year were SEK 1,503m (531), an increase of SEK 971m compared to 2016. This is mainly due to the fact that the model for calculating distribution remuneration for Nordea Bank AB changed in 2017, and that an adjustment was made to the amount of remuneration for 2016 in the first quarter of 2017. Combined, this resulted in a substantially increased cost for the company in the amount of SEK 919m compared to 2016. If the same model would have been used in 2016, the remuneration to Personal Banking and to Commercial and Business Banking, which represents a majority of the total remuneration, would have increased with around 12 percent. This is due to the Nordea Group's investments in compliance functions, IT and efficiency measures during 2017 which Nordea Hypotek also takes advantage of. Nordea Hypotek also increased its workforce in December 2016 and in connection with this, responsibility for expenses related to systems and applications for the mortgage process was also transferred from the Parent Company to Nordea Hypotek.

Distribution of the loan portfolio



Lending

Lending to the public increased during the year by 1.1% (6.0) to SEK 536,933m (531,061) at year-end.

Lending to companies, organisations and municipalities

Lending to legal entities increased by SEK 192m (0.2%) to SEK 92,599m (92,407) at the end of the financial year.

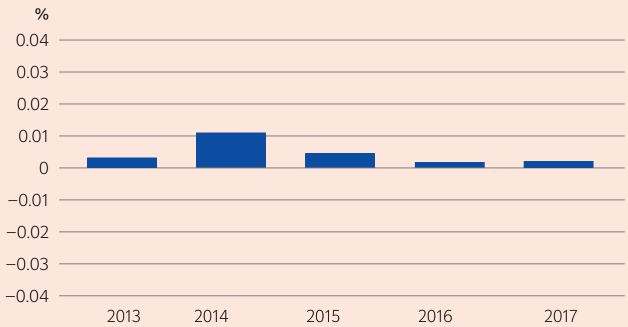
Household lending

Household lending increased by SEK 5,681m (1.3%) to SEK 444,335m (438,654) at year-end.

Credit losses

New incurred and expected losses exceeded recoveries of impaired claims and reversals of provisions in previous years to a net amount of SEK -11m (-9).

Net loan losses in relation to lending



Foreign exchange risk

The company's policy is to hedge foreign exchange risk exposure. Assets and liabilities are essentially hedged through FX swaps.

Borrowings

In 2017, all long-term funding, with the exception of subordinated debenture loans, was in the form of covered bonds. A covered bond is a funding instrument, regulated under the Covered Bonds (Issuance) Act (SFS 2003:1223), which gives investors special priority in the event the borrower's bankruptcy. Covered bonds may only be issued upon special permission from the Financial Supervisory Authority and on the basis of high-quality assets. Covered bonds and received credit ratings provide the company with access to a broader base of funding sources.

In the Swedish market, in 2017 the company issued bonds with maturities exceeding one year to the amount of SEK 39.1bn (87.7), of which all bonds were fixed-rate. The issues take place regularly in existing and new series, with the majority being so-called benchmark bonds. In 2017 the company held agreements with five banks regarding the distribution of the bonds in the benchmark series. During the year the company did not issue any subordinated debenture loans (0.0).

Total outstanding covered bonds at year-end amounted to SEK 310.5bn (325.2). In addition, the company had outstanding subordinated debenture loans of SEK 1.8bn (3.1).

Besides long-term funding as above, the company regularly arranged short-term funding with the Parent Company during the year. At the end of the year the outstanding amount from such funding was SEK 194.6bn (168.7).

Rating

The company is rated Aaa by Moody's Investor Service and AAA by Standard & Poor's for the covered bonds which account for the company's main long-term funding.

Counter party risk and exposures

In total, risk-weighted assets for counterparty risk amounted to SEK 0m (3). The risk-weighted assets for other off-balance sheet exposures were SEK 1,354m (849) and chiefly relate to credit commitments.

Derivatives

Derivative instruments primarily pertain to interest payment exchange contracts (rate swaps) and forward currency exchange contracts (FX swaps). The item "Derivative instruments" in the balance sheet recognises derivative contracts at fair value. The nominal value of derivative contracts is provided in Note 11.

Capital adequacy

Since 1 January 2014, Basel III has applied in the EU. It is described in detail in the section Risk, Liquidity and Capital Management. The section also provides numerical data for assessing the company's capital adequacy.

CSR

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

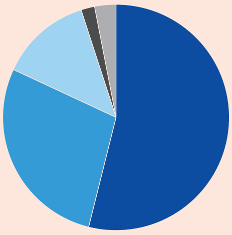
Legal proceedings

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

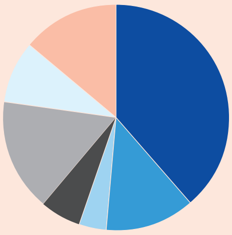
2018 outlook

In line with market practice, Nordea has decided not to publish any forecasts for 2018.

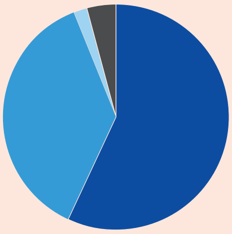
Breakdown of lending by collateral



Geographical distribution of loans in the covered pool



Nordea Hypotek's funding structure



Corporate governance

The company has chosen to prepare a separate corporate governance report. The Corporate Governance Report will be available at www.nordea.com.

Change in the board of directors

Torsten Allqvie and Cathrine Skoglund Bognäs left the board in January 2017. Anna Storåkers, Head of Personal Banking SE replaced Torsten Allqvie as Chairman in January 2017. Since January 2017, Nicklas Ilebrand, Head of Products within Personal Banking, has been deputy chair, and Maria Härdling, Head of Treasury Asset and Liability Management (TALM) Analytics, has been an ordinary board member.

For further information about personnel matters, see Note 6 "Staff costs" and Note 27 "Related party transactions".

Substantial changes after the end of the financial year

No major events have occurred since 31 December 2017.

Distribution of earnings

After the company paid group contributions of SEK 7,048,958,560, profit for the year of SEK 5,442,214,197 and retained earnings of SEK 17,651,205,712 as well as a cash flow hedge reserve of SEK 51,915,820 are available for distribution by the annual meeting of shareholders. The proposed distribution of earnings is provided in Note 29 on page 56.

Risk, liquidity and capital management

The Company's organisational structure

Definitions
The Company = Nordea Hypotek AB (publ.)
The Bank = Nordea Bank AB (publ.)
The Nordea Group/the Group = Nordea Bank AB (publ.) incl. all subsidiaries

Part of the Nordea Group
The Company is a wholly owned subsidiary of the Bank and does not have its own subsidiaries or ownership in other companies. The Company's business is conducted in close integration with the Bank and its branch business in Sweden.

According to outsourcing agreements between the Company and the Bank, inter alia all credit decisions are delegated to the Bank within the bounds of the credit instructions decided by the Company's board of directors and other internal and external rules and regulations. Different units within the bank conduct, according to outsourcing agreements, on the Company's behalf, sale, borrowings, accounting and reporting, allocation of the Company's capital in accordance with prevailing regulations, IT systems, internal credit and quality control, credit administration, vault management and HR functions.

The Company's business consists of being the product-responsible unit (PRU), which entails responsibility for, and ownership of, the mortgage process, a number of loan products and requisite related systems/tools. Through the close cooperation with the Bank, it has been possible to limit the workforce of the Company to comprise only requisite staff for product and system development, management, risk management as well as analysis and information-related work. As at year end, the Company has 25 employees.

Funding the Company's business
The Company funds its business by issuing bonds in both Sweden and abroad. The Company also obtains funding from the Bank. The Company is authorised by Finansinspektionen (the Swedish financial supervisory authority) to issue covered bonds under the Covered Bonds (Issuance) Act (2003:1223). All of the Company's bond loans outstanding as at year end have the status of covered bonds. The Company may, if so required, issue new bond loans with or without covered bond status.

The Company's administrative and management body
The board of directors
The composition of the board of directors is as follows:
- Anna Storåkers (born 1974), Chairman, Head of Personal Banking SE at Nordea Bank AB (publ.)
- Nicklas Ilebrand (born 1980), Deputy Chairman, Head of Products at Nordea Bank AB (publ.)
- Peter Dalmalm (born 1968), Head of Commercial Banking SE at Nordea Bank AB (publ.)
- Nils Lindberg (born 1947), Senior Partner, Ekonans AB, former CFO Pandox AB (publ.) and holds board assignments in several companies in the Pandox group
- Maria Härdling (born 1972), Head of TALM Analytics at Nordea Bank AB (publ.)
- Elisabet Olin (born 1961), Business Risk Manager Personal Banking SE and Commercial & Business Banking SE at Nordea Bank AB (publ.)
- Michael Skytt (born 1959), Managing Director, Nordea Hypotek AB (publ.)

Executive management
- Chief Executive Officer – Michael Skytt (born 1959)
- Chief Operating Officer/Deputy CEO – Lena Sjöberg Svensson (born 1964)
- Head of Credit – Lars Andersson (born 1959)
- Chief Financial Officer – Daniel Oppenheimer (born 1977)
- Chief Risk Officer – Mats Bergström (born 1981)
- Compliance Officer – Nina Sala (born 1981)

The address of the executive management's office is as follows: Nordea Hypotek AB (publ), L 8300, 105 71 Stockholm. Correspondence can be sent to other board members, employees of Nordea Bank AB (publ) at the aforementioned address. The address of the office of Nils Lindberg is Ekonans AB, Rosenhillsvägen 11, 115 25 Stockholm.

Conflicts of interest
The aforementioned persons are or may become customers and be granted mortgage loans with the Company. As far as the Company is aware, there are no conflicts between the Company's interests and the private interests of the aforementioned persons.

In order to avoid conflicts of interest and demonstrate how an individual shall act in the event of a conflict of interest, several guidelines established by the Nordea Group apply at the Company, such as ethical guidelines, guidelines for employee engagements beyond their position with the bank, and rules for employees' securities and foreign exchange dealings. In addition, board members are subject to the rules regarding bias stipulated by the Swedish Companies Act.

Auditors
Öhrlings PricewaterhouseCoopers AB (re-elected by the AGM 2016). The Chief Auditor is Catarina Ericsson, Member of the Swedish Association of Authorised Public Accountants (FAR).

Independent auditor
Finansinspektionen has appointed Jan Palmqvist, Deloitte AB, as independent auditor of the Company in accordance with the Covered Bonds (Issuance) Act (2003:1223). The term of the appointment applies as of 1 January 2016 and until further notice.

The Company's risk management

Risk management at the Nordea Group
General information about risk management
The risk exposures to which the Nordea Group is exposed shall reflect the business strategy and the Group's long-term financial interests. They shall be consistent with the Group's capacity for risk-taking and keep within the risk profile established by the board of directors of the bank through its risk appetite. The objective of the risk management in the group is the efficient monitoring of risk exposure, and verifying that the exposure is kept within the limits set by the risk appetite as decided by the board of directors. Risk appetite and risk exposure shall be kept at a level that takes account of the Group's ability to absorb losses, and is therefore closely linked to the capital structure management of the group.

The Nordea Group's risk management and control organisation

It is the board of directors of the bank that has the ultimate responsibility for limiting and monitoring the Group's risk exposure as well as for setting the targets for the capital ratios. Risk is measured and reported according to common principles and policies approved by the Bank's board of directors. It is also the Bank's board of directors which decides on policies for e.g. credit risk, counterparty credit risk, market risk, liquidity risk, business risk, operational risk, as well as the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP). All policies are reviewed at least annually.

The board of directors of the Bank has chosen to organise the Group's risk management into three lines of defence, with all business areas and Group-wide functions making up the first line of defence (LoD). Group Risk Management & Control (GRMC) and Group Compliance (GC) constitute the second LoD and are the Group's control functions. Group Internal Audit (GIA) is the third LoD, independent of the others.

The first line of defence is responsible for its own risk and for keeping within its risk exposure limits, and working in accordance with the Group's internal control and risk management framework. The second line of defence, which is independent of the first line, is responsible for preparing the internal control and risk management framework. This task includes ensuring that the business functions efficiently and that the information and controls in place are sufficient and appropriate for identifying and managing the risks in the business. The third LoD, which is independent of the first and second LoD, has the task of protecting the Group's assets, reputation and viability by verifying that all risks in the business are identified and reported to the management and the Group risk functions.

Risk management at the Company

General information about the Company's risk management

The majority of the Company's business is conducted by the Bank and its branch network, so it is natural for the majority of the Company's risk management to be integrated with that of the Group. The Company's risk management has the same purpose and follows the same policies, directives and guidelines as the Group in general. The Company's risk function and executive management have the task of ensuring that the guidelines, proposed risk exposures and the risk appetite proposed in the Group are not harmful or inappropriate for the Company's specific business, and to take appropriate measures if this is the case.

The Company's risk management and control organisation

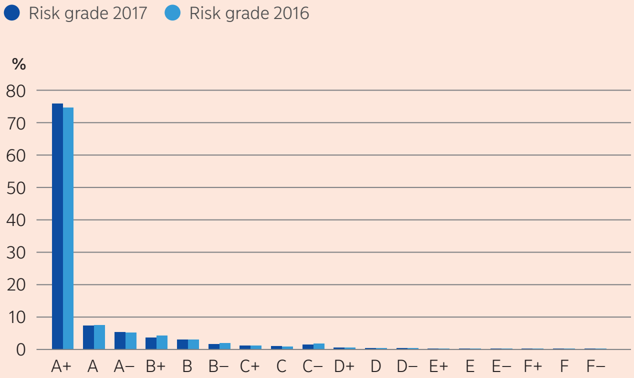
It is the board of directors of the Company that has the ultimate responsibility for limiting and monitoring the Company's risks as well as for setting the targets for the capital ratios. The Company's board of directors has established that it is appropriate to measure and report risks according to the same policies as for the Group as a whole. The board of directors of the Company has also established that the Company's risk management shall largely be conducted across the three lines of defence of the Nordea Group, since the majority of the Company's business is conducted by the Bank. As support for the board of directors in its risk management control, they have appointed a separate risk function in the Company. The Company's control of the services rendered by the Bank is regulated by a number of outsourcing agreements.

Risks associated with the Company's business

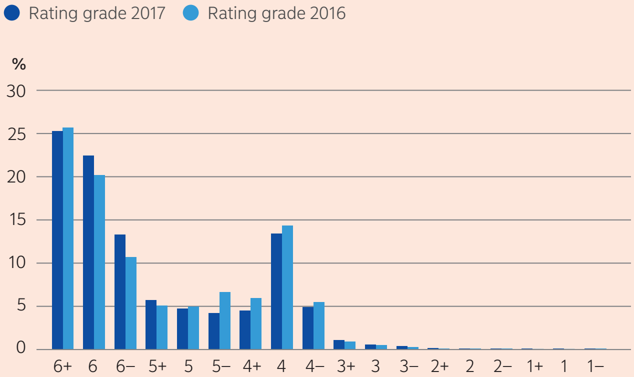
General information about risks to the Company

All companies that conduct business are exposed to various risks. The Company mainly conducts mortgage lending through sales channels in the Bank through outsourcing agreements. In this business, a number of critical risks have been identified, which must be managed efficiently. Several risks cannot be eliminated; they are inherent in the very business and are fundamental to the ability to conduct the business operations. For the Company, the greatest financial risks are credit, market and liquidity risk, and the greatest non-financial risk is operational risk (including compliance).

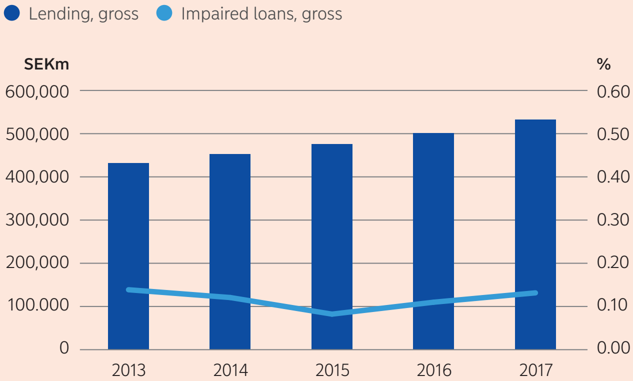
Risk grade distribution for the Retail portfolio



Rating distribution for the Corporate portfolio



Lending to the public and impaired loans



Credit risk

Credit risk definition and identification

The risks in the Company's business are mainly attributable to credit risk.

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. It stems mainly from various forms of lending, but also from e.g. issued guarantees. Credit risk includes counterparty credit risk, transfer risk and settlement risk. The Company's loan portfolio is furthermore broken down by segment, industry and geography. Industry policies are established for those industries that have a significant weight in the portfolio and are either very volatile or require special industry competencies.

Credit decisions are made after a credit risk assessment based on principles that are defined consistently across the Group. These principles emphasize the need to adjust the depth and scope of the assessment according to the risk. The same credit risk assessments are used as input for determining the internal ratings. Credit decisions in the Company reflect the Company's view of both the customer relationship and credit risk.

All credit assessments in the Company shall adequately reflect a consideration of relevant environ-mental, social and governmental risks and conform to the Bank's Sustainability Policy. The total credit risk assessment shall be a combined risk conclusion on the obligor's repayment capacity and the Company's recovery position. The risk conclusion must be sufficiently forward looking as compared to the risk profile of the customer and maturity of the transaction.

In addition to credit risk assessment in conjunction with new or changed exposure towards a customer, an annual credit review process is in place. The annual review process is important part of the on-going credit analysis.

If credit weakness is identified in relation to a customer exposure, the customer is categorized as "High Risk" and receives special attention in terms of more frequent review. In addition to continuous monitoring, an action plan is established outlining as to how to minimise the potential credit loss. If necessary, a work-out team is set up to support the customer responsible unit.

Credit risk – the Company's organisation for credit risk management

Group Credit Risk Management in 1st LoD, together with representatives from management in the Company, is responsible for the credit process framework and operational credit risk guidelines and Standard Operating Procedures. Group Risk Management and Control, together with the Company's risk function, in 2nd LoD is responsible for the credit risk management framework, consisting of policies and instructions for the Company. Group Risk Management and Control is also supporting the risk function in controlling and monitoring the quality of the credit portfolio and the credit process according to outsourcing agreement.

The basis of credit risk management in the Company is limits to customers and customer groups that are aggregated and assigned to units responsible for their continuous monitoring and development. An additional dimension, based on collateral level and type, is regulated in the collateral instruction and serve as a cap on original exposure. Each division/unit is primarily responsible for managing the credit risks in its operations within the applicable framework and limits, including identification, control and reporting.

Within the powers to act granted by the Board of Directors, internal credit risk limits are approved by credit decision making authorities on different levels in the organisation constituting the maximum risk appetite on the customer in question. Individual credit decisions within the approved internal credit risk limit are taken within the customer responsible unit (CRU). The risk categorisation and the exposure of the customer decide at what level the decision will be made. Responsibility for a credit risk lies with a customer responsible unit. Customers are risk categorized by a rating or scoring in accordance with the Group's rating and scoring guidelines. The rating and scoring of customers aims to predict their probability of default and to consequently rank them according to their respective default risk. Rating and scoring are used as integrated parts of the credit risk management and decision-making process. Representatives from 1st LoD credit organization approve the rating independently.

Credit risk mitigation

Credit risk mitigation is an inherent part of the credit decision process. In every credit decision and review, the valuation of collaterals is considered as well as the adequacy of covenants and other risk mitigations. Pledging of collateral is the main credit risk mitigation technique and collaterals are always sought to minimize the potential for credit losses. In every credit decision and review the value of collaterals must be considered.

In corporate exposures, the main collateral are residential real estate mortgages, commercial real estate mortgages, and municipal guarantees. Collateral coverage is higher for exposures to financially weaker customers than for those who are financially strong. Limit decisions are taken independent from collateral coverage. Regarding some exposures credit risk mitigation by the use of credit default swaps is applied to a limited extent.

The collateral value shall always be based on the market value. The market value is defined as the estimated amount for which the asset would exchange between a willing buyer and willing seller under current market conditions. In accordance with restrictions in the Covered Bonds (Issuance) Act (2003:1223) and internal collateral instruction, the maximum loan to value is restricted depending on the collateral type.

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

Individual and collective assessment of impairment

Throughout the process of identifying and mitigating credit impairments, the Company continuously reviews the quality of the credit exposures. Weak and impaired exposures are

Minimum capital requirement and REA

	31 Dec 2017		31 Dec 2016	
SEKm	Minimum Capital requirement	REA	Minimum Capital requirement	REA
Credit risk	**2,208**	**27,594**	**2,137**	**26,707**
- of which counterparty credit risk	—	—	0	3
IRB	2,208	27,594	2,126	26,571
- of which sovereign	29	359	—	—
- of which corporate	828	10,352	737	9,215
- of which advanced	828	10,352	737	9,215
- of which foundation	—	—	—	—
- of which institutions	—	—	—	—
- of which retail	1,317	16,455	1,360	17,002
- of which secured by immovable property collateral	1,255	15,686	1,250	15,628
- of which other retail	62	769	110	1,374
- of which other	34	428	29	354
Standardised	—	—	11	136
- of which central governments or central banks	—	—	0	0
- of which regional governments or local authorities	—	—	11	133
- of which public sector entities	—	—	—	—
- of which multilateral development banks	—	—	—	—
- of which international organisations	—	—	—	—
- of which institutions	—	—	0	3
- of which corporate	—	—	—	—
- of which retail	—	—	—	—
- of which secured by mortgages on immovable property	—	—	0	0
- of which in default	—	—	—	—
- of which associated with particularly high risk	—	—	—	—
- of which covered bonds	—	—	—	—
- of which institutions and corporates with a short-term credit assessment	—	—	—	—
- of which collective investments undertakings (CIU)	—	—	—	—
- of which equity	—	—	—	—
- of which other items	—	—	—	—
Credit Value Adjustment Risk	—	—	**—**	**—**
Market risk	—	—	**—**	**—**
- of which trading book, Internal Approach	—	—	—	—
- of which trading book, Standardised Approach	—	—	—	—
- of which banking book, Standardised Approach	—	—	—	—
Operational risk	**781**	**9,768**	**646**	**8,075**
Standardised	781	9,768	646	8,075
Additional risk exposure amount due to Article 3 CRR			12	155
Sub total	**2,989**	**37,362**	**2,795**	**34,937**
Adjustment for Basel I floor				
Additional capital requirement according to Basel I floor	19,343	241,787	19,106	238,824
Total	**22,332**	**279,149**	**21,901**	**273,761**

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

Exposures that have been past due more than 90 days are by definition regarded as defaulted and non-servicing, and reported as impaired or not impaired depending on the deemed loss potential. Forbearance is negotiated terms or restructuring due to the borrower experiencing or about to experience financial difficulties. The intention with granting forbearance for a limited period of time is to ensure full repayment of the outstanding debt. Examples of negotiated terms are changes in amortisation profile, repayment schedule, customer margin as well as ease of financial covenants.

Forbearance is undertaken on a selective and individual basis and followed by impairment testing. Loan loss provisions are recognized if necessary. Forborne rated customers without impairment charges are fully covered by either collateral and/or the net present value of future cash flows.

In addition to individual impairment testing of all individually significant customers, collective impairment testing is performed for groups of customers that have not been found to be impaired on individual level. The purpose of collective loan loss reserves is to account for value reductions in the performing credit portfolio due to loss events that have occurred. The Company's model for collective provisions uses a statistical model as a base-line for assessing the amount of provisions needed for the parts of the portfolios that are not individually assessed. The Collective provisioning model is

Summary of items included in own funds

SEKm	31 Dec 2017[3]	31 Dec 2016[3]
Calculation of own funds		
Equity	23,255	23,810
Proposed/actual dividend	—	—
Common equity tier 1 (CET1) capital before regulatory adjustments	23,255	23,810
Deferred tax assets	—	—
Intangible assets	—	—
IRB provisions shortfall (–)	–107	–136
Deduction for investments in credit institutions (50%)	—	—
Pensions assets in excess of related liabilities[1]	—	—
Other items, net	–73	–598
Total regulatory adjustments to Common Equity Tier 1 capital	–180	–734
Common Equity Tier 1 capital (net after deduction)	**23,075**	**23,076**
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)	**23,075**	**23,076**
Tier 2 capital before regulatory adjustments	1,800	3,100
IRB provisions excess (+)	24	—
Deduction for investments in credit institutions (50%)	—	—
Deductions for investments in insurance companies	—	—
Pension assets in excess of related liabilities	—	—
Other items, net	—	—
Total regulatory adjustments to Tier 2 capital	24	—
Tier 2 capital	1,824	3,100
Own funds (net after deduction)[2]	**24,899**	**26,176**

1) Based on conditional FSA approval.
2) Own funds adjusted for IRB provision, i.e. adjusted own funds equal SEK 24 982m by 31 Dec 2017.
3) Including profit of the period.

based on migration of rated and scored customers in the credit portfolio. The assessment of collective impairment is built on an incurred loss concept, where the credit quality of each exposure is related to its initial credit quality. If the credit quality has deteriorated, collective provisions corresponding to a true and fair assessment of the expected loss is calculated by the model. Moreover, defaulted customers without individual provisions are also collectively assessed. The output of the model is complemented with an expert based analysis process to ensure adequate provisioning. The model is executed quarterly and the output is a result of a bottom-up calculation from sub-exposure level, taking the latest portfolio development into account. Collective impairment is assessed quarterly. The rationale for this two-step procedure with both individual and collective assessment is to ensure that all incurred losses are accounted for up to and including each balance sheet day.

From 1 Jan 2018 the Nordea Group will adhere to IFRS 9 for impairment of financial instruments. The impairment requirements in IFRS 9 are based on an expected credit loss model and replace the IAS 39 incurred loss model. IFRS 9 introduces a three-stage model for impairment where Stage 1 is considered as the Good book, Stage 2 as the Deteriorated book, and Stage 3 as the Bad book. Collective and individual credit loss provisions will be based on three scenarios. These scenarios will be probability weighted and forward looking. See more in Note 30.

Further information on credit risk is presented in Note 28.

Market risk

Market risk – definition

Market risk is defined as the risk of losses related to the Company's financial exposures resulting from changes in market rates and related assumptions that affect market value, for example, changes in interest rates, credit spreads, FX rates, equity prices, commodity prices and option volatilities. Group Treasury & Asset and Liability Management (TALM), within Group Finance & Treasury, is the key manager of market risk for the Company according to outsourcing agreement. TALM is responsible for long and short-term wholesale funding activities and investments for the Company's account, for asset and liability management, liquidity portfolios, pledge/collateral account portfolios as well as all other banking activities.

Structural FX risk arises from the mismatch in currency composition between assets and capital. The mismatch creates volatility in the CET1-ratio (and any other capital ratios) from the revaluation of foreign currency assets and capital to SEK.

Earnings and cost streams generated in foreign currencies generate an FX exposure, which is handled in the Company's FX position. In addition to the immediate change in the market value of the Company's assets and liabilities that could be caused by a change in financial market variables, a change in interest rates could also affect the net interest income over time. This is structural interest income risk (SIIR) discussed further below. Market risk on the Company's account also arises from the Nordea-sponsored defined benefit pension plans for employees (pension risk).

Measurement of market risk

The Company calculates value-at-risk (VaR) using historical simulation. The current portfolio is revaluated using the daily changes in market prices and parameters observed during the last 500 trading days, thus generating a distribution of 499 returns based on empirical data. From this distribution, the expected shortfall method is used to calculate a VaR figure, meaning that the VaR figure is based on the average of the worst outcomes from the distribution. The historical observation period assumes equally weighted market prices.

The one-day VaR figure is subsequently scaled to a 10-day figure. The 10-day VaR figure is used to limit and measure market risk both in the trading book and in the banking book. Separate VaR figures are calculated for interest rate, credit spread, foreign exchange rate, equity and inflation risks. The total VaR includes all these risk categories and allows for diversification among them. The VaR figures include a combination of full revaluation and both linear positions and options. Linear products are calculated via a linear approach whereas options are calculated via full revaluation.

When simulating potential movements in risk factors the Company use relative, absolute and mixed approaches depending on the risk factor. The model has been calibrated to generate a 99% VaR figure. It is important to note that while every effort is made to make the VaR model as realistic as possible, all VaR models are based on assumptions and approximations that have a significant effect on the risk figures produced. While historical simulation has the advantage of not being dependent on a specific assumption regarding the distribution of returns, it should be noted that historical observations of the market variables that are used as input may not give an adequate description of the behaviour of these variables in the future.

The choice of the time period used is also important. While using a longer time period may enhance the model's predictive properties and lead to reduced cyclicality, using a shorter time period increases the model's responsiveness to sudden changes in the volatility of financial markets. The choice to use the last 500 days of historical data has thus been made with the aim to strike a balance between the pros and cons of using longer or shorter time series in the calculation of VaR.

Nordea Hypotek, market risk measured by VaR

SEKm	Measure	31 Dec 2017	2017 High	2017 Low	2017 avg	31 Dec 2016
Total risk	VaR	63.8	63.8	15.9	41.0	15.8
Interest rate risk	VaR	63.8	63.8	15.9	41.0	15.8
Equity risk	VaR	0.0	0.0	0.0	0.0	0.0
Credit spread risk	VaR	0.0	0.0	0.0	0.0	0.0
Foreign exchange risk	VaR	0.0	0.0	0.0	0.0	0.0
Inflation risk	VaR	0.0	0.0	0.0	0.0	0.0
Diversification effect	VaR	0.0	0.0	0.0	0.0	0.0

Market risk, VaR

The market risk for Nordea Hypotek is presented in the tables above. The total VaR was SEK 63,8m at the end of 2017 (SEK 15,8m at the end of 2016). Interest rate VaR represented the whole risk.

Structural Interest Income Risk (SIIR)

SIIR is the amount by which the Company's accumulated net interest income would change during the next 12 months if all interest rates were to change by 100 basis points. SIIR reflects the mismatches in the balance sheet and the off-balance sheet items due to differences in the interest rate repricing periods, volumes or reference rates of assets, liabilities and derivatives. The Company's SIIR management is based on policy statements resulting in different SIIR measures and organisational procedures.

Policy statements focus on optimising financial structure, balanced risk taking and reliable earnings growth, identification of all significant sources of SIIR, measurement under stressful market conditions and adequate public information.

SIIR measurement methods

The Company's SIIR is measured through dynamic simulations by calculating several net interest income scenarios and comparing the difference between these scenarios and the base Net Interest Income (NII) expectation. Several interest rate scenarios are applied, but the basic measures for SIIR that constitute the risk limit are the two parallel rate shift scenarios (increasing rates and decreasing rates). These scenarios measure the effect on the Company's net interest income for a 12-month period of a 100 basis point change in all interest rates where the balance sheet is assumed to be constant. Significant elements of customer behaviour and the decision-making process concerning the Company's own rates, are taken into account.

SIIR analysis

At the end of the year, the SIIR for interest rates increasing 1% was SEK -174m and the SIIR for interest rates decreasing 1% was SEK 117m. These figures imply that net interest income would decrease if interest rates rise.

Liquidity risk

Liquidity risk – definition

Liquidity risk is the risk that the Company is unable to service its cash flow obligations when they fall due; or unable to meet its cash flow obligations without incurring significant additional funding costs. The Company is exposed to liquidity risk in its lending, funding, off-balance sheet exposures and other activities which result in a negative cash flow mismatch. Cash flow mismatches can occur at the end of a day or intraday.

Management principles and control

The Company is part of the same liquidity group as Nordea Bank AB (publ), Nordea Finans Sverige AB (publ) and Nordea Investment Management AB (publ) (the "Liquidity Group").

Liquidity risk at Nordea is managed across three Lines of Defence:

The First Line of Defence comprises TALM and the Business Areas (including the Company). TALM is responsible for the day to day management of the Liquidity Group's liquidity positions, including liquidity buffers, external and internal funding including the mobilisation of cash around the Group, and Funds Transfer Pricing (FTP).

The Second Line of Defence, which includes GRMC and GC, is responsible for providing independent oversight of and challenge to the first line of defence.

The Third Line of Defence includes GIA, which is responsible for providing independent oversight of the first - and second lines of defence.

The Board of Directors defines the liquidity risk appetite by setting limits for applied liquidity risk metrics. The most central metric is the internal survival horizon, which defines the risk appetite by setting a minimum survival 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 stays within various risk parameters including the risk appetite.

A Funds Transfer Pricing (FTP) framework is in place that recognises that liquidity is a scarce and costly resource. By quantifying and allocating the liquidity and funding costs and benefits to the respective business areas, behaviours and strategic decisions are appropriately incentivised.

Liquidity risk management strategy

Nordea's liquidity management strategy is based on policy statements resulting in various liquidity risk measures, limits and organisational procedures.

Policy statements stipulate that Nordea's liquidity management reflects a conservative attitude towards liquidity risk. Nordea strives to diversify its sources of funding and seeks to establish and maintain relationships with investors in order to ensure market access. Trust is fundamental in the funding market; therefore Nordea periodically publishes information on the liquidity situation of the whole Group. Furthermore, Nordea regularly performs stress testing of the liquidity risk position and has put in place business contingency plans for liquidity crisis management.

Liquidity risk measurement methods

To ensure funding in situations where the Liquidity Group is in urgent need of cash and the normal funding sources do not suffice, the bank holds a liquidity buffer. The liquidity buffer consists of central bank eligible, high credit quality and liquid securities and central bank cash 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. Liquidity risk is limited by the Board of Directors via an internal survival horizon metric that stipulates that the liquidity buffer needs to be sufficient to cover peak cumulative stressed outflows experienced over the first 3 months of a combined stress event, whereby Nordea 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. This metric forms the basis for Nordea's liquidity risk appetite, which is reviewed and approved by the Board at least annually.

Furthermore, short-term funding risk is measured via the Liquidity Coverage Ratio (LCR) and a funding gap risk metric. The funding gap risk metric expresses the expected maximum accumulated need for raising liquidity in the course of the next 30 days. Cash flows from both on-balance sheet and off- balance sheet items are included. Funding gap risk is measured and limited for each currency and as a total figure for all currencies combined.

Structural liquidity risk of Nordea is measured via many metrics of which the Net Stable Funding Ratio (NSFR) and the internally defined Net Balance of Stable Funding (NBSF) are very important. Furthermore, the loan to deposit ratio is closely monitored together with the wholesale funding refinancing profile and rating agency metrics.

Liquidity risk analysis

It should be noted that due to the Legal Structure Programme in Nordea, which was executed 1 January 2017, figures from 31 December 2016 are not fully comparable with figures per 31 December 2017.

The liquidity risk position remained at a low level throughout 2017. The average funding gap risk, i.e. the average expected need for raising liquidity in the course of the next 30 days, was SEK +222bn (SEK +98bn in 2016).

Liquidity buffer ranged between SEK 900bn and 1,268bn (SEK 107bn and 204bn) throughout 2017 with an average liquidity buffer of SEK 1096bn (SEK 150bn). The liquidity buffer consists of central bank eligible, high credit quality and liquid securities and central bank cash that can be readily sold or used as collateral in funding operations.

The total Liquidity Coverage Ratio (LCR) according to EBA Delegated Act was 144% (182%) at the end of the year with a yearly average of 163% (186%).

Operational risk

Operational risk – definition

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

Operational risks are inherent in all of the Company's business and operations. The Company's operational risk is largely attributable to the Bank's operational risk, since the majority of the business is outsourced there. The Company performs its own assessment of the most important risks that must be managed, and regulates the management thereof in the outsourcing agreements with the Bank. Consequently, managers throughout the Company and the Bank are accountable for the operational risks related to their area of responsibility and to manage them within limits and risk appetite in accordance with the operational risk management framework. GRMC and the Company's risk function, constituting 2nd LoD for operational risk, develops and maintains the Operational risk management framework. Further GRMC and the Company's risk function monitors and assesses the operational risks as well as the adequacy and effectiveness of the operational risk management framework and reports regularly to the CEO and the Board of Directors of the Company.

The risk appetite framework in the Company, including risk appetite statements, is approved annually by the board of directors.

Management of operational risk

The Company's internal rules framework, decided by the board of directors, sets out the general principles for management of risks in the Company. Based on these principles, supporting instructions and guidelines are established and form the operational risk management framework. Management of operational risks includes all activities aimed at identifying, assessing, mitigating, monitoring and reporting risks. Risk exposures are governed by limits set within the boundaries of the risk appetite

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

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

Key risk management processes

Risk and Control Self-Assessment and Compliance Independent Risk Assessment.

A Risk and Control Self-Assessment (RCSA) covering both compliance and operational risk is conducted on a yearly basis and covers all units in the Company including outsourcing. For risks identified in the RCSA, the levels of risk exposure, as well as the controls in place to mitigate the risks, are assessed. If additional mitigating actions are required to reduce the risk exposure, these are identified and implemented. Based on the self-assessment, the risk function of the Company (with support from GRMC) independently monitor and challenge the identified risks and management of these.

Change Risk Management and Approval

A key part of the operational risk management framework is the management of risk taking and therefore the management of operational risks when planning and conducting changes. The definition of a change in this context includes all new or changed products, services, markets, processes or IT systems or substantial changes to the operations or the organisation, including exceptional transactions and decommissioning.

The Change Risk Management and Approval (CRMA) process consists of an initial materiality assessment and a subsequent risk identification, assessment and mitigation. The required level of involvement of subject matter experts depends on the materiality level of the change. The CRMA process includes the involvement of both mandatory and relevant subject matter experts in the risk assessment to ensure thorough and proper risk identification, assessment and management before a change.

Incident reporting

Incident reporting has several objectives, of which analysis of incident data in order to take relevant mitigating actions is key. Incident reporting also serves to embed a sound risk culture in daily operations and to create awareness so that all employees are observant to occurrences and risks that can turn into incidents, in order to prevent them from materialising.

Incidents and security weaknesses are immediately handled to minimize damage. Upon detection of an incident, handling of the incident has first priority. Actions to reduce the impact should be taken without delay and long-term mitigating actions must be planned and executed in order to prevent or reduce the impacts of future incidents. Unit managers are responsible for the proper handling, documentation and reporting of incidents. Incident reporting is a Group-wide process and the data from the process is stored in a database to which the Company has access.

Crisis Management and Business Continuity

Business Continuity and Crisis Management aims to build and maintain appropriate levels of resiliency and readiness for a wide range of expected and unexpected operational and financial risk events in order to minimise impact of operational disruptions on the business. The framework includes documented instructions, guidelines and procedures that guide the organisation on how to respond, recover, resume and restore to a predefined level of operation following a disruption. It covers the broad scope from the procedures for handling incidents via escalation procedures to crisis management on Company and Group level. As most service chains are supported by IT applications, disaster recovery plans for technical infrastructure and IT systems are an essential part of business continuity management in the Company and the Group.

Information Security

Information security is an inherent part of risk management and is defined as the protection of information in respect of confidentiality, integrity and availability. The Group has a documented Information Security framework, which has been adopted by the Company, consisting of instructions, guidelines, standards and procedures to support and enable the organisation to protect information against accidental or malicious disclosure, modification or destruction and to maintain availability. Cyber security is considered a subset of information security.

Third Party Risk Management

While the Company may delegate day-to-day operational activities to Third Parties, it is the Company's responsibility to maintain effective oversight and governance of the outsourced activities and third-party relationships, managing outsourcing risks, and implementing an adequate Third-Party Risk Management Framework (TPRM) in line with regulatory requirements.

The Company's and the Group's TPRM Framework ensures the risk management, due diligence and monitoring of its third parties throughout the life cycle of a relationship. The Third-Party Risk Assessment process is to be considered prior to engaging with a third party to safeguard the Company in regard to its selection of appropriate third parties and to understand and control the risks posed by the relationship, consistent with the risk appetite.

Reputational Risk

Reputational risk in the Company is defined as "The risk of damage to trust in the Company from our customers, employees, authorities, investors, partners and general public with the potential for adverse economic impact."

Reputational risk is often an impact resulting from other types of risks, e.g. credit, liquidity, market, operational, compliance and legal risks inherent in the business. Sometimes reputational risk can also be the cause of these risks. However, the root cause analysis should in all cases identify the causes behind the reputational damage, which then can be addressed to mitigate reputational risk.

The Group and the Company have developed a reputational risk framework that includes guiding principles for managing reputational risk. The framework is strongly linked with the operational risk management framework but also includes separate processes targeting the specific nature of reputational risk or impact on reputation.

Compliance risk

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

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

GC is a second line of defence risk control function according to outsourcing agreement, coordinating, facilitating and overseeing the effectiveness and integrity of the Company's compliance risk management. GC provides an independent view on compliance to relevant rules and regulations, and also advises, supports and trains first line on ways to effectively and efficiently handle compliance obligations. On a quarterly basis, GC reports on all significant compliance risks to Senior Management and the Board in order to inform about the current risk exposure in relation to the predefined risk appetite and tolerance level.

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

During 2017 Nordea introduced new purpose and core values, implemented across the Group through a culture transformation programme. The values are applicable to all employees in conjunction with the Code of Conduct principles to strengthen and secure the foundation for a sound corporate culture.

In addition, the bank is continuing to invest in enhanced compliance standards, processes, and to adequately resource compliance.

The Company's capital management

Capital management

General information about the capital assessment

The Company strives to attain an efficient capital structure though active balance sheet management. The goal is to enhance returns while maintaining a prudent risk level. The Company is granted to use internal rating based (IRB) approach for the majority of exposures. At the end of 2017, 100% (99.5) of the Company's total credit risk exposures were covered by the IRB approach. The Company bases the internal capital requirements under the Internal Capital Adequacy Assessment Process (ICAAP) on the minimum capital

requirements and on internally identified risks. The internal capital requirement is thus based on a combination of risk defined in the Capital Requirements (CRR), and identified risks not covered by the Regulation. The following major risk types are included in the assessment of the internal capital requirement for the Company: credit risk, market risk, liquidity risk, operational risk (including compliance) and business risk.

Testing and calculating capital requirements

In addition to calculating risk capital for its various risk types, the Company performs comprehensive capital adequacy stress tests to analyse the effects of a series of global and local shock scenarios. The results of stress tests are considered, along with potential management interventions, in the Company's internal capital requirements as reserves for economic stress. The internal capital requirement is a key component of establishing the Company's capital ratio target.

The ICAAP also comprises the Company's management, mitigation and measurement of material risks and assesses the adequacy of internal capital. The latter is achieved by establishing an internal capital requirement which reflects the Company's specific risks. Buffer requirements were however introduced with the implementation of CRD IV. This entails additional capitalisation requirements than what is determined in the internal capital requirement.

Total capital requirement and capital adequacy

At the end of the year, the total capital requirement was SEK 22,332m (21,901). Total own funds at the end of the year were SEK 24,889m (26,176). The total capital adequacy ratio at the end of the year was 8.9% (9.6).

Additional information regarding capital management and capital adequacy is provided in Note 21 Capital adequacy, and in the information provided in accordance with the disclosure requirements in CRR and published on www.nordea.com.

Subordinated loans

At the end of 2017 Nordea Hypotek held SEK 1.8bn in dated subordinated debenture loans (3.1).

Own funds

Own funds are the sum Tier 1 and Tier 2 capital. Tier 1 capital consists of both Common Equity Tier 1 and additional Tier 1 capital. CET1 capital is considered to be capital of the highest quality with ultimate loss-absorbing characteristics and consists predominately of paid in capital and retained earnings. Profit may only be included after permission from the financial supervisory authority and after deduction of proposed dividend. Additional Tier 1 and Tier 2 capital consist mostly of undated and dated subordinated loans, respectively. Holdings

of other financial sector entities' subordinated loans are deducted from the corresponding tier.

Additional information

Additional information regarding capital management and capital adequacy is provided in Note 21 Capital adequacy, and in the information provided in accordance with the disclosure requirements in CRR and published on www.nordea.com.

New regulations

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

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

In December 2017, the Swedish National Debt Office (SNDO) formally decided on plans for how banks are to be managed in a crisis and on the minimum requirements for own funds and eligible liabilities (MREL) to be applied from 1 January 2018. From the implementation of Basel II in 2007, banks using internal models have been required to calculate the Basel 1 floor on the capital requirements as regulated prior to 2007. From 2009 the floor has been 80% of the Basel 1 rules. According to the CRR the application of the Basel 1 floor is not valid from 1 January 2018.

Proposal on amended CRR, CRD IV and BRRD

In November 2016, the European Commission (EC) published a proposal amending the BRRD, the CRD IV and the CRR. The amendments to the CRR, being a regulation, will be directly applicable in all EU countries once implemented whereas the amendments to the CRD IV and BRRD, being directives, need to be implemented into national legislation before being applicable. The proposal contains, among others, review to the Minimum Requirement for own funds and Eligible Liabilities (MREL), review to the market risk requirements (Fundamental Review of the Trading Book, FRTB), introduction of a leverage ratio requirement of 3% to be met by Tier 1 capital and amendments to the pillar 2 framework. Negotiations in the EU process are on-going where the Council and the Parliament are preparing their counterproposals. Implementation is expected to start during 2019 at the earliest, with phasing in for some parts.

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

Finalised Basel III framework ("Basel IV")

Basel III is a global, regulatory framework on bank capital adequacy, stress testing, and liquidity risk. In December 2017, the final parts of the Basel III framework, often called the Basel IV package, was published. The Basel IV package will be implemented in 2022 and includes revisions to credit risk, operational risk, credit valuation adjustment (CVA) risk, leverage ratio and introduces a new output floor. In addition, revisions to market risk (the so called Fundamental Review of the Trading Book) were agreed in 2016 and will be implemented together with the Basel IV package.

On credit risk, the package includes revisions to both the internal models (IRB) approach, where restrictions to the use of IRB for certain exposures are implemented, as well as to the standardised approach. For operational risk, the three approaches currently existing will be removed and replaced with one standardised approach to be used by all banks. On CVA risk, the internally modelled approach is removed and the standardised approach is revised. The package also includes the implementation of a minimum leverage ratio requirement of 3% Tier 1 capital with an additional leverage ratio buffer requirement for Global systemically important banks (G-SIB) of half the G-SIB capital buffer requirement. Changes to leverage ratio also includes a revised leverage ratio exposure definition relevant for derivatives and central bank reserves.

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

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

Financial statements

Income statement

SEK (000s)	Note	2017	2016
Operating income			
Interest income		8,874,229	8,710,129
Interest expense		–87,790	–881,852
Net interest income	3	**8,786,439**	**7,828,277**
Fee and commission income		55,506	48,437
Fee and commission expense		–52,021	–30,053
Net fee and commission income	4	**3,485**	**18,384**
Net result from items at fair value	5	–283,049	–144,785
Total operating income		**8,506,875**	**7,701,876**
Operating expenses			
General administrative expenses:			
Staff costs	6	–25,689	–10,127
Other expenses	7	–1,477,150	–521,318
Total operating expenses		**–1,502,839**	**–531,445**
Profit before loan losses		**7,004,036**	**7,170,431**
Net loan losses	8	–11,051	–9,068
Operating profit		**6,992,985**	**7,161,363**
Income tax expense	9	–1,550,771	–1,575,252
Net profit for the year		**5,442,214**	**5,586,111**

Statement of comprehensive income

SEK (000s)	2017	2016
Net profit for the year	**5,442,214**	**5,586,111**
Items that may be reclassified subsequently to the income statement		
Cash flow hedges:		
Valuation gains/losses during the year	–784,039	830,805
Tax on valuation gains/losses during the year	172,488	–182,777
Transferred to profit or loss for the year	144,543	–757,268
Tax on transfers to profit or loss for the year	–31,799	166,599
Other comprehensive income, net of tax	**–498,807**	**57,359**
Total comprehensive income	**4,943,407**	**5,643,470**

Balance sheet

SEK (000s)	Note	31 Dec 2017	31 Dec 2016
Assets			
Loans to credit institutions	10	7,273,948	3,274,464
Loans to the public	10	536,933,355	531,060,543
Derivatives	11	6,175,780	9,641,545
Fair value changes of the hedged items in portfolio hedge of interest rate risk		–70,702	–25,860
Current tax assets	9	341,743	87,466
Other assets	12	1,154,598	2,466,415
Prepaid expenses and accrued income	13	697,728	643,591
Total assets		**552,506,450**	**547,148,164**
Liabilities			
Deposits by credit institutions	14	194,468,518	168,608,677
Debt securities in issue	15	319,801,341	336,899,512
Derivatives	11	498,009	685,702
Fair value changes of the hedged items in portfolio hedge of interest rate risk		4,796,241	6,936,406
Other liabilities	16	7,832,848	6,912,642
Accrued expenses and prepaid income	17	39,266	38,510
Deferred tax liabilities	9	14,643	155,332
Subordinated liabilities	18	1,800,248	3,101,266
Total liabilities		**529,251,114**	**523,338,047**
Equity			
Share capital		110,000	110,000
Fair value reserves		51,916	550,723
Retained earnings		17,651,206	17,563,283
Net profit for the year		5,442,214	5,586,111
Total equity		**23,255,336**	**23,810,117**
Total liabilities and equity		**552,506,450**	**547,148,164**

Other Notes

Note 1 Accounting policies
Note 2 Segment reporting
Note 19 Assets pledged as security for own liabilities
Note 20 Commitments
Note 21 Capital adequacy
Note 22 Classification of financial instruments
Note 23 Assets and liabilities at fair value
Note 24 Financial instruments set off on balance or subject to netting agreements
Note 25 Assets and liabilities in foreign currencies
Note 26 Maturity analysis for assets and liabilities
Note 27 Related-party transactions
Note 28 Credit risk disclosures
Note 29 Proposed distribution of earnings
Note 30 IFRS 9

Statement of changes in equity

	Restricted equity	Unrestricted equity		
SEK (000s)	Share capital[1]	Fair value reserves: cash flow hedges	Retained earnings	Total equity
Balance at 1 January 2017	**110,000**	**550,723**	**23,149,394**	**23,810,117**
Net profit for the year	–	–	5,442,214	5,442,214
Cash flow hedges:				
- Valuation gains/losses during the year	–	–784,039	–	–784,039
- Tax on valuation gains/losses during the year	–	172,488	–	172,488
- Transferred to profit or loss for the year	–	144,543	–	144,543
- Tax on transfers to profit or loss for the year	–	–31,799	–	31,799
Other comprehensive income, net of tax	**–**	**–498,807**	**–**	**–498,807**
Total comprehensive income	**–**	**–498,807**	**5,442,214**	**4,943,407**
Group contribution paid	–	–	–7,048,959	–7,048,959
Tax effect of group contribution	–	–	1,550,771	1,550,771
Balance at 31 December 2017	**110,000**	**51,916**	**23,093,420**	**23,255,336**

1) 100,000 shares.

	Restricted equity	Unrestricted equity		
SEK (000s)	Share capital[1]	Fair value reserves: cash flow hedges	Retained earnings	Total equity
Balance at 1 January 2016	**110,000**	**493,364**	**17,052,024**	**17,655,388**
Net profit for the year	–	–	5,586,111	5,586,111
Cash flow hedges:				
- Valuation gains/losses during the year	–	830,805	–	830,805
- Tax on valuation gains/losses during the year	–	–182,777	–	–182,777
- Transferred to profit or loss for the year	–	–757,268	–	–757,268
- Tax on transfers to profit or loss for the year	–	166,599	–	166,599
Other comprehensive income, net of tax	**–**	**57,359**	**–**	**57,359**
Total comprehensive income	**–**	**57,359**	**5,586,111**	**5,643,470**
Shareholders' contribution received	–	–	4,700,000	4,700,000
Group contribution paid	–	–	–5,370,180	–5,370,180
Tax effect of group contribution	–	–	1,181,439	1,181,439
Balance at 31 December 2016	**110,000**	**550,723**	**23,149,394**	**23,810,117**

1) 100,000 shares.

Cash flow statement

SEK (000s)	2017	2016
Operating activities		
Operating profit	6,992,985	7,161,363
Adjustment for items not included in cash flow	–798,877	–809,329
Income taxes paid	–254,276	–328,664
Cash flow from operating activities before changes in operating assets and liabilities	**5,939,832**	**6,023,370**
Changes in operating assets		
Change in loans to the public	–5,885,940	–30,218,120
Change in derivatives, net	570,553	–244,099
Change in other assets	1,318,817	18,859
Changes in operating liabilities		
Change in deposits by credit institutions	25,867,999	10,721,801
Change in debt securities in issue	–16,376,025	16,475,454
Change in other liabilities	–6,128,752	–5,204,466
Cash flow from operating activities	**5,299,484**	**–2,427,201**
Financing activities		
Amortised subordinated liabilities	–1,300,000	–1,600,000
Shareholders' contribution received	–	4,700,000
Cash flow from financing activities	**–1,300,000**	**3,100,000**
Cash flow for the year	**3,999,484**	**672,799**
Cash and cash equivalents at the beginning of year	3,274,464	2,601,665
Cash and cash equivalents at the end of year	7,273,948	3,274,464
Change	**3,999,484**	**672,799**

Comments on the cash flow statement

The cash flow statement has been prepared in accordance with IAS 7. The cash flow statement shows inflows and outflows of cash and cash equivalents during the year. Nordea Hypotek'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 depreciation and loan losses. The cash flows are classified by operating and financing activities.

Operating 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. Adjustment for non-cash items includes:

SEK (000s)	2017	2016
Loan losses	13,128	9,913
Unrealised gains/losses	2,068,023	–562,167
Change in accruals and provisions	–925,394	–810,770
Change in fair value of the hedged items assets/liabilities, net	–2,095,323	569,873
Other	140,689	–16,178
Total	**–798,877**	**–809,329**

Changes in operating assets and liabilities consist of assets and liabilities that are part of normal business activities, such as loans and debt securities in issue. Changes in derivatives are reported net.

Cash flow from operating activities includes interest payments received and interest expenses paid with the following amounts:

SEK (000s)	2017	2016
Interest payments received	8,894,514	8,742,398
Interest expenses paid	–819,114	–1,483,137

Financing activities

Financing activities are activities that result in changes in equity and subordinated liabilities, such as issued/amortised subordinated liabilities.

Cash and cash equivalents

The following items are included in Cash and cash equivalents assets:

SEK (000s)	2017	2016
Loans to credit institutions, payable on demand	7,273,948	3,274,464

Loans to credit institutions, payable on demand include liquid assets not represented by bonds or other interest-bearing securities.

Notes to the financial statements

Notes to the financial statements
Contents

Note 1. Accounting policies

Content for Note 1

1. Basis for presentation

The financial statements for Nordea Hypotek AB (publ), are prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (1995:1559), the accounting regulations of the Swedish Financial Supervisory Authority (FFFS 2008:25 including amendments) and the accounting recommendation RFR 2 Accounting for legal entities issued by the Swedish Financial Reporting Board. This means that Nordea Hypotek AB (publ) applies International Financial Reporting Standards (IFRS) as endorsed by the European Commission to the extent possible within the framework of Swedish accounting legislation and considering the close tie between financial reporting and taxation.

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

On 22 February 2018 the Board of Directors approved the annual report, subject to final approval of the Annual General Meeting on 12 March 2018.

2. Changed accounting policies and presentation

In all material respects, the accounting policies, basis for calculations and presentation are unchanged in comparison with the 2016 Annual Report. The new accounting requirements implemented in 2017 and their effects on Nordea Hypotek's financial statements are described below.

The following new and amended standards and interpretations were implemented 1 January 2017 but have not had any significant impact on the financial statements of Nordea Hypotek:

- Annual Improvements to IFRSs, 2014–2016
- Annual Improvements to IFRSs, 2015–2017
- Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealised Losses"
- Amendments to IAS 7 "Disclosures Initiative"

Amendments have in addition been made to the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (1995:1559). The amendments were implemented by Nordea Hypotek on 1 January 2017 but have not had any significant impact on Nordea Hypotek's financial statements.

The Swedish Financial Reporting Board has amended the accounting recommendation for legal entities by issuing "RFR 2 Accounting for Legal Entities – January 2017". These amendments have been implemented on 1 January 2017 but have not had any significant impact on the financial statements.

3. Changes in IFRSs not yet applied

IFRS 9 "Financial instruments"

The IASB has completed the new standard for financial instruments, IFRS 9 "Financial instruments". IFRS 9 covers classification and measurement, impairment and general hedging and replaces the current requirements covering these areas in IAS 39. IFRS 9 is effective as from annual periods beginning on or after 1 January 2018. The standard is endorsed by the European Commission. Earlier application is permitted, but Nordea Hypotek has not early adopted the standard. Nordea Hypotek does not either intend to restate the comparative figures in the annual report 2018 due to IFRS 9.

See Note 30 IFRS for further information about the impact of IFRS 9.

Classification and measurement

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

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

Nordea Hypotek has analysed the cash flows from the financial assets held as at 31 December 2017 in order to determine whether they are SPPI compliant. This has been performed by grouping contracts which are homogeneous from a cash flow perspective and conclusions have been drawn for all contracts within that group.

The analysis of the business model and the SPPI review described above has not resulted in any significant changes compared to how the financial instruments are measured under IAS 39. The new requirements will not have any significant impact on Nordea Hypotek's capital adequacy, large exposures, risk management or alternative performance measures in the period of initial application.

Impairment

The impairment requirements in IFRS 9 are based on an expected loss model as opposed to the current incurred loss model in IAS 39. The scope of IFRS 9 impairment requirements is also broader than IAS 39. IFRS 9 requires all assets measured at amortised cost and fair value through other

Note 1. Accounting policies, cont.

comprehensive income, as well as off-balance commitments including guarantees and loan commitments, to be included in the impairment test. Currently Nordea Hypotek does not calculate collective provisions for off balance sheet exposures or the financial instruments classified into the measurement category AFS.

The assets to test for impairment will be divided into three groups depending on the stage of credit deterioration. Stage 1 includes assets where there has been no significant deterioration in credit risk, stage 2 includes assets where there has been a significant deterioration and stage 3 includes defaulting assets. Assets of substantial value in stage 3 are individually impairment tested, while assets of a negligible value are subject to a collective assessment. In stage 1, the provisions should equal the 12-month expected loss. In stage 2 and 3, the provision should equal the lifetime expected losses.

One important driver for size of provisions under IFRS 9 is the trigger for transferring an asset from stage 1 to stage 2. For assets held at transition, Nordea Hypotek has decided to use internal changes in rating and scoring data to determine whether or not a significant increase in credit risk has occurred. For assets added after transition, changes to the lifetime Probability of Default (PD) will be used as the trigger. Nordea Hypotek has concluded it is not possible to calculate the lifetime PDs at origination without undue cost or effort and without the use of hindsight for assets already recognised on the balance sheet at transition. For assets evaluated based on lifetime PDs, Nordea Hypotek has decided to use a mix of absolute and relative changes in PD as the transfer criterion. In addition, customers with forbearance measures and customers with payments more than thirty days past due will also be transferred to stage 2.

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

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

For assets for which there has been a significant increase in credit risk, Nordea Hypotek currently holds provisions equal to the losses expected to emerge during the period between the date when the loss event occurred and the date when the loss event is identified on an individual basis – the emergence period, while IFRS 9 will require provisions equal to the lifetime of the expected credit losses.

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

The quantitative impact from the new impairment requirements on total provisions is a reduction of SEK 14m. Equity is increased by SEK 11m after tax. The impact on the Common Equity Tier 1 capital ratio, after adjustment of the shortfall deduction and before transition rules, is insignificant. Large exposures are not materially affected.

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

Hedge accounting

The main change to the general hedging requirements is that the standard aligns hedge accounting more closely with the risk management activities. As Nordea Hypotek generally uses macro (portfolio) hedge accounting, Nordea Hypotek's assessment is that the new requirements will not have any significant impact on Nordea Hypotek's financial statements, capital adequacy, large exposures, risk management or alternative performance measures in the period of initial application. Nordea Hypotek will continue to use the IAS 39 hedge accounting requirements also after IFRS 9 has been implemented.

IFRS 15 "Revenue from Contracts with Customers"

The IASB published the new standard, IFRS 15 "Revenue from Contracts with Customers" in 2014. Clarifications to the standard were published in April 2016. The new standard outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue recognition standards and interpretations within IFRS, such as IAS 18 "Revenue". The standard does not apply to financial instruments, insurance contracts or lease contracts.

The new standard is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. The standard and its clarifications have been endorsed by the European Commission. Nordea Hypotek has not early-adopted the standard.

The standard will not have any effect on Nordea Hypotek's financial statements, capital adequacy or large exposures in the period of initial application.

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 Nordea Hypotek describes:

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

Critical judgements and estimates are in particular associated with:

- The fair value measurement of certain financial instruments
- Impairment testing of loans to the public/credit institutions
- Effectiveness testing of cash flow hedges

Note 1. Accounting policies, cont.

The fair value measurement of certain financial instruments

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

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

Determining the fair value of financial instruments which lack quoted prices or recently observed market prices is associated with a high degree of estimation uncertainty. That estimation uncertainty is mainly a result of the judgement management exercises when:

- Selecting an appropriate discount rate for the instrument, and
- Determining expected timing of future cash flows from the instrument.

In all of these instances, decisions are based upon professional judgement in accordance with Nordea Hypotek's accounting and valuation policies.

See also section 9 "Determination of fair value of financial instruments" and Note 23 "Assets and liabilities at fair value".

Impairment testing of loans to the public/credit institutions

Management is required to exercise critical judgements and estimates when calculating loan impairment allowances on both individually assessed and collectively assessed loans.

The most judgemental area is the calculation of collective impairment allowances. When testing a group of loans collectively for impairment, a critical judgement is identifying the events and/or the observable data which gave rise to credit losses in the group of loans. Nordea Hypotek monitors its portfolio through rating migrations and a loss event is an event resulting in a negative rating migration. Assessing the net present value of the cash flows generated by the customers in the group of loans also includes estimation uncertainty. This includes the use of historical data on probability of default and loss given default supplemented by acquired experience when adjusting the assumptions based on historical data to reflect the current situation.

See also section 11 "Loans to the public/credit institutions" and Note 10 "Loans and impairment".

Effectiveness testing of cash flow hedges

Where Nordea Hypotek 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 a 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.

Nordea Hypotek's accounting policies for cash flow hedges are described in section 8 "Hedge accounting".

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 a 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 for compensation for risk). The effective interest rate equals the rate that discounts the contractual future cash flows to the net carrying amount of the financial asset or financial liability.

Interest income and expenses from financial instruments are, with the exceptions described below, classified as "Net interest income".

The interest component in FX swaps, and the interest paid and received in interest rate swaps plus changes in accrued interest, is classified as "Net result from items at fair value", apart for derivatives used for hedging, including economical hedges of Nordea Hypotek's funding, where such components are classified as "Net interest income".

Net fee and commission income

Nordea Hypotek earns commission income from services related to lending to customers. Commission income and commission expenses are normally transaction-based and recognised in the period when the services were provided and obtained.

Net result on items at fair value

Realised and unrealised gains and losses on financial instruments measured at fair value through profit or loss are recognised in the item "Net result from items at fair value". Realised and unrealised gains and losses originate from:

- Interest-bearing securities and other interest-related instruments
- Foreign exchange gains/losses
- Other financial instruments.

The ineffective component of cash flow hedges is recognised in "Net result from items at fair value".

Realised gains and losses on financial instruments measured at amortised cost, such as interest differential compensation received and realised gains/losses on buybacks of own debt issued, are also recognised in "Net result from items at fair value".

Net loan losses

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

Counterparty losses attributable to financial instruments classified into the category Financial assets at fair value

Note 1. Accounting policies, cont.

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

Financial assets, other than those for which trade 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 Hypotek, i.e. on settlement date.

In some cases, Nordea Hypotek enters into transactions where it transfers assets that are recognised on the balance sheet, but retains either all or a portion of risks and rewards from the transferred assets. If all or substantially all risks and rewards are retained, the transferred assets are not derecognised from the balance sheet.

If Nordea Hypotek's counterpart can sell or repledge the transferred assets, the assets are reclassified to the item "Financial instruments pledged as collateral" on the balance sheet. Transfers of assets with retention of all risks and rewards include reversed repurchase agreements.

Financial liabilities are derecognised from the balance sheet when the liability is extinguished. This usually occurs when Nordea Hypotek fulfils its part of the agreement, i.e. on the settlement date. Financial liabilities under trade date accounting are generally reclassified to "Other liabilities" on the balance sheet on trade date.

For further information, see section 10 "Financial instruments" (Reverse repurchase agreements).

7. Translation of assets and liabilities denominated in foreign currencies

Nordea Hypotek's functional currency and presentation currency is Swedish kronor (SEK).

Foreign currency is defined as a currency other than the functional currency of the entity. Transactions in foreign currency are recognised at the price on the transaction date.

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate on the balance sheet date. Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction, and unrealised translation differences on unsettled foreign currency monetary assets and liabilities, are recognised in the income statement in the item "Net result from items at fair value".

8. Hedge accounting

Nordea Hypotek applies the EU carve out version of IAS 39 for portfolio hedges of both assets and liabilities. The EU carve out macro hedging enables a group of derivatives (or proportions thereof) to be viewed in combination and designated as the hedging instrument and removes some of the limitations in fair value relating to hedging core deposits and under-hedging strategies.

Nordea Hypotek uses hedge accounting in order to have symmetrical accounting treatment of the changes in fair value of the hedged item and changes in fair value of the hedging instruments as well as to hedge the exposure to variability in future cash flows.

There are three forms of hedge accounting:

- Fair value hedge accounting
- Cash flow hedge accounting
- Hedges of net investments in foreign operations

Hedges of net investments in foreign operations do not occur at Nordea Hypotek.

Fair value hedge accounting

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

At Nordea Hypotek, fair value hedging is applied predominantly on a portfolio basis. Any ineffectiveness is recognised in the income statement in 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 Hypotek consist of both individual assets or liabilities and portfolios of assets and/or liabilities.

Hedging instruments

The hedging instruments used in Nordea Hypotek are interest rate swaps and cross currency interest rate swaps, which are always held at fair value. Cash instruments are only used as hedging instruments when hedging currency risk.

Cash flow hedge accounting

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

Note 1. Accounting policies, cont.

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 Hypotek uses cash flow hedges when hedging currency risk in future payments of interest and principal in foreign currency.

Hedging instruments

The hedging instruments used in Nordea Hypotek are predominantly cross currency interest rate 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. When hedging interest-rate risk in floating-rate lending, Nordea Hypotek uses interest-rate swaps as hedging instruments, which are always held at fair value.

Hedge effectiveness

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

When assessing hedge effectiveness retrospectively Nordea Hypotek measures the fair value of the hedging instruments and compares the change in fair value of the hedging instrument to the change in fair value of the hedged item. Effectiveness is measured accumulatively. The hypothetical derivative method is used when measuring the effectiveness of cash flow hedges, meaning that the change in a perfect hypothetical swap is used as a proxy for the present value of the cumulative change in expected future cash flows for the hedged transaction (the currency component).

If the hedge relationship does not fulfil the requirements, hedge accounting is terminated. For fair value hedges the hedging instrument is reclassified to a trading derivative and 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.

In cash flow hedges, changes in the unrealised value of the hedging instrument will prospectively from the last time it was proven effective be accounted for in the income statement. The cumulative gain or loss on the hedging instrument that has been recognised in the fair value 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 is no longer expected to occur. If the expected transaction is no longer highly probable, but could still be 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.

9. Determination of fair value of financial instruments

Financial assets and liabilities classified into the categories Financial assets/liabilities measured at fair value through profit or loss (including derivative instruments) are recorded at fair value on the balance sheet. Changes in fair values are recognised in the income statement in the item "Net result from items at fair value".

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

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

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

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

Nordea Hypotek predominantly uses valuation techniques to determine the fair value of derivative instruments (OTC derivatives).

For financial instruments, where fair value is estimated by a valuation technique, it is investigated whether the variables used in the valuation model are predominantly based on data from observable markets. By data from observable markets, Nordea Hypotek considers data that can be collected from generally available external sources and where this data is judged to represent realistic market prices.

If non-observable data has a significant impact on the valuation, the instrument cannot be recognised initially at the fair value estimated by the valuation technique and any upfront gains are thereby deferred and amortised through the income statement over the contractual life of the instrument. The deferred upfront gains are subsequently released to income if the non-observable data becomes observable.

A breakdown of fair values of financial instruments measured on the basis of quoted prices in active markets for the same instrument (level 1), valuation technique using observable data (level 2), and valuation technique using non-observable data (level 3), is provided in Note 23 "Assets and liabilities at fair value".

Note 1. Accounting policies, cont.

The valuation models applied by Nordea Hypotek 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 the Model Risk Committee and all models are reviewed on a regular basis.

For further information, see Note 23 "Assets and liabilities at fair value".

10. Financial instruments

Classification of financial instruments

Financial assets are classified into the category Loans and receivables, and financial liabilities are classified into the category Other financial liabilities. Nordea Hypotek also holds derivative instruments for hedge accounting.

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 measured on the balance sheet and how the change in its value is recognised. In Note 22 "Classification of financial instruments" the classification of the financial instruments on Nordea Hypotek's balance sheet into different categories is presented.

Loans and receivables

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

Other financial liabilities

Other financial liabilities are measured at amortised cost. Interest on Other financial liabilities is recognised in the item "Interest expense" in the income statement.

Reverse repurchase agreements

Securities received under reverse repurchase agreement are not recognised in the balance sheet. In the cases where the counterpart has the right to resell or repledge the securities, the securities are recognised in the balance sheet as "Financial instruments pledged as collateral".

Cash delivered under reverse repurchase agreements is recognised on the balance sheet as "Loans and receivables to credit institutions" or as "Loans and receivables to the public".

Derivatives

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

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

Offsetting of financial assets and liabilities

Nordea Hypotek 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, if the intent is to settle the items net or realise the asset and settle the liability simultaneously. This is generally achieved through the central counterparty clearing houses that Nordea Hypotek has agreements with.

Exchange-traded derivatives are generally accounted for as settled on a daily basis when cash is paid or received and the instrument is reset to market terms.

Issued debt and equity instruments

A financial instrument issued by Nordea Hypotek is either classified as a financial liability or equity. Issued financial instruments are classified as a financial liability if the contractual arrangement results in Nordea Hypotek having a present obligation to either deliver cash or another financial asset, or a variable number of equity instruments to the holder of the instrument. If this is not the case, the instrument is generally an equity instrument and classified as equity, net of transaction costs. Where issued financial instruments contain both liability and equity components, these are accounted for separately.

11. Loans to the public/credit institutions

Financial instruments classified as "Loans to the public/credit institutions" on the balance sheet and into the category Loans and receivables are measured at amortised cost (see also the separate section 6 "Recognition and derecognition of financial instruments on the balance sheet" as well as Note 22 "Classification of financial instruments").

Nordea Hypotek monitors loans as described in the separate section "Risk, liquidity and capital management". Loans attached to individual customers or groups of customers are identified as impaired if the impairment tests indicate objective evidence of an impairment.

Impairment testing of individually assessed loans

Nordea Hypotek tests all exposures for impairment on an individual basis. The purpose of the impairment tests is to find out if the loans have become impaired. As a first step in the identification process for impaired loans, Nordea Hypotek monitors whether there are indicators of impairment (loss event) and whether these represent objective evidence of impairment. More information on the identification of loss events can be found in the Risk, Liquidity and Capital management section.

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

Impairment testing of collectively assessed loans

Loans not impaired on an individual basis are collectively tested for impairment. These loans are grouped on the basis of similar credit risk characteristics that are indicative of the debtors´ ability to pay all amounts due according to the contractual terms. Nordea Hypotek monitors its portfolio through rating migrations, the credit decision and annual review process supplemented by quarterly risk reviews. Through these processes Nordea Hypotek identifies loss events indicating incurred losses in the group of loans. A loss event is an event resulting in a deterioration of the expected future cash flows. Only loss events incurred up to the reporting date are included when performing the assessment of the group.

Note 1. Accounting policies, cont.

The objective for the group assessment process is to evaluate if there is a need to make a provision due to the fact that a loss event has occurred, which has not yet been identified on an individual basis. This period between the date when the loss event occurred and the date when it is identified on an individual basis is called "Emergence period". The impairment remains related to the group of loans until the losses have been identified on an individual basis. The identification of the loss is made through a default of the engagement or by other indicators.

For corporate customer counterparts, Nordea Hypotek uses the existing rating system as a basis when assessing the credit risk. The risk of customers defaulting in a rating grade is calculated using historical data of this probability. These loans are rated and grouped mostly based on type of industry and/or sensitivity to certain macro parameters.

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

Net loan losses

If the carrying amount of the loan is higher than the sum of the net present value of estimated cash flows (discounted by the original effective interest rate), including the fair value of the collateral, the difference is the impairment loss. For significant exposures that have been individually identified as credit impaired, the measurement of the impairment loss is made on an individual basis.

For insignificant loans that have been individually identified as impaired and for loans not identified as impaired on an individual basis the measurement of the impairment loss is measured using a portfolio based expectation of the future cash flows.

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

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

Discount rate

The discount rate used to measure impairment is the original effective interest rate for loans attached to an individual customer and, if applicable, to a group of loans.

If considered appropriate, the discount rate can be based on a method that results in an impairment that is a reasonable approximation of using the effective interest rate method as basis for the calculation.

Restructured loans

In this context a restructured loan is defined as a loan where Nordea Hypotek has granted concessions to the obligor due to its deteriorated financial situation and where this concession has resulted in an impairment loss for Nordea Hypotek. After a reconstruction the loan is normally regarded as not impaired if it performs according to the new conditions. Concessions made in reconstructions are regarded as final losses unless Nordea Hypotek retains the possibility to regain the loan losses incurred. In the event of a recovery the payment is reported as a recovery of loan losses.

12. Taxes

Income tax consists of current tax and deferred tax. Income tax expense is recognised in the income statement, unless it relates to items recognised in other comprehensive income or directly in equity, in which case the tax effect is also 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 substantively 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 amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognised for the carry forward of unused tax losses and unused tax credits. 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 to the extent that it is probable that future taxable profits will be available against which 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 tax liabilities are offset when the statutory right to offset exists and Nordea Hypotek intends to either settle the tax asset and the tax liability net or to recover the asset and settle the liability simultaneously. Deferred tax assets and tax liabilities are generally offset if there is a legally enforceable right to offset current tax assets and tax liabilities.

Note 1. Accounting policies, cont.

13. Employee benefits
All forms of consideration given by Nordea to its employees as compensation for services performed are employee benefits.

Short-term benefits are to be settled within twelve months after the reporting period when the services have been performed. Post-employment benefits are benefits payable after the termination of the employment. Post-employment benefits in Nordea Hypotek consist only of pensions.

Termination benefits normally arise if an employment is terminated before the normal retirement date, or if an employee accepts an offer of voluntary redundancy.

Short-term benefits
Short term benefits consist mainly of fixed salary. Fixed salary is expensed in the period when the employees have performed services for Nordea Hypotek.

Post-employment benefits
In 2017, pension costs comprise premiums and fees to insurance companies and pension funds as well as defined benefit pension costs for other commitments. The actuarial pension costs refer to commitments guaranteed by a pension foundation. The costs are reported in the item “Staff costs”. Contributions received from the pension foundation and reported changes in pension provisions are also recognised in “Staff costs”. Special payroll tax and tax on returns referring to the Swedish pension system are also recognised in “Staff costs”.

For more information about benefits, please refer to Note 6 “Staff costs”.

14. Equity
In accordance with Swedish law, shareholders’ equity is split into funds potentially available for distribution (unrestricted equity), and non-distributable funds (restricted equity).

The distribution of amounts of Nordea Hypotek's equity into restricted equity and unrestricted equity is described in the Statement of changes in equity.

Fair value reserve
The portion of the gain or loss on hedging instruments, which is determined to be an effective hedge, is recognised in the fair value reserve. Read more in section 8, “Hedge accounting, cash flow hedge accounting.”

Retained earnings
Retained earnings comprise undistributed profits from previous years.

Reporting of group contributions
Group contributions paid or received are recognised as a reduction or an increase in unrestricted equity, adjusted for tax.

15. Related party transactions
Nordea defines related parties as:
- Group undertakings
- Key management personnel

Group undertakings
“Group undertakings” means Nordea Bank AB (publ) (corp. id no. 516406–0120) and its subsidiaries.

Key management personnel
Key management personnel comprises the following:
- The Board of Directors
- Chief Executive Officer
- Executive management

For information about compensation, pensions and loans to key management personnel, see Note 6 “Staff costs”. Information concerning other transactions between Nordea Hypotek and key management personnel is found in Note 27 “Related-party transactions”.

Note 2. Segment reporting

Reportable segments
Retail Banking consists of two business areas, Personal Banking and Commercial & Business Banking. The Personal Banking business area includes household customers who were formerly included in Retail Banking, and Commercial & Business banking includes corporate customers that were formerly included in Retail Banking. Other business segments mainly refer to Wholesale Banking and the Products support function within the banking business. Group functions and earnings that are not entirely allocated to any of the operating segments are shown separately as reconciliation items in the table above. Nordea Hypotek has short-term borrowing from Nordea Bank AB. Because Stibor (3m) is negative, Nordea Hypotek gains revenue from each such instance of borrowing, while Nordea Bank AB incurs an equivalent expense. In 2017 the proportion of long-term bond financing was reduced and replaced by short-term deposit borrowings with the Parent Company, which mainly explains why interest expense at Group Treasury, which takes care of borrowings for Nordea Hyptoek, decreased by approx. SEK 1,029m compared with 2016. The P&L effect of the short-term borrowing, which is linked to three-month Stibor, which Nordea Hypotek has with the Parent Company was approx. SEK +962.5 m in 2017.

Note 2. Segment reporting, cont.

Operating segments

	Personal Banking		Commercial & Business Banking		Group Treasury		Other operating segments		Total operating segments		Reconciliation		Total	
Income statement, SEKm	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Net interest income	7,535	7,282	1,080	1,158	296	−733	−353	−85	8,558	7,622	228	206	8,786	7,828
Net fee and commission income	52	58	4	4	−30	−30	−22	0	4	32	0	−14	4	18
Net result from items at fair value	47	61	7	13	−337	−218	0	0	−283	−144	0	–	−283	−144
Total operating income	**7,634**	**7,401**	**1,091**	**1,175**	**−71**	**−981**	**−375**	**−85**	**8,279**	**7,510**	**228**	**192**	**8,507**	**7,702**
Other expenses	0	0	0	0	−17	−17	−75	−23	−92	−40	−1,411	−492	−1,503	−532
Total operating expenses	**0**	**0**	**0**	**0**	**−17**	**−17**	**−75**	**−23**	**−92**	**−40**	**−1,411**	**−492**	**−1,503**	**−532**
Net loan losses	−8	−9	−3	–	–	–	–	–	−11	−9	–	–	−11	−9
Operating profit	**7,626**	**7,392**	**1,088**	**1,175**	**−88**	**−998**	**−450**	**−108**	**8,176**	**7,461**	**−1,183**	**−300**	**6,993**	**7,161**
Balance sheet, SEKm														
Loans to the public	429,021	422,243	105,013	103,423	–	–	2,899	5,395	536,933	531,061	–	–	536,933	531,061
Other assets	147	153	98	99	14,962	15,712	346	107	15,553	16,071	20	16	15,573	16,087
Total assets	**429,168**	**422,396**	**105,111**	**103,522**	**14,962**	**15,712**	**3,245**	**5,502**	**552,486**	**547,132**	**20**	**16**	**552,506**	**547,148**
Total liabilities	**0**	**0**	**0**	**0**	**522,193**	**517,923**	**7**	**44**	**522,200**	**517,967**	**7,051**	**5,371**	**529,251**	**523,338**
Equity	429,168	422,393	105,111	103,522	−507,231	−502,211	3,238	5,458	30,286	29,162	−7,031	−5,352	23,255	23,810
Total liabilities and equity	**429,168**	**422,393**	**105,111**	**103,522**	**14,962**	**15,712**	**3,245**	**5,502**	**552,486**	**547,129**	**20**	**19**	**552,506**	**547,148**

Reconciliation between total operating segments and financial statements

	2017		2016	
SEKm	**Operating profit**	**Loans to the public**	**Operating profit**	**Loans to the public**
Total operating segments	8 ,176	552,486	7,461	531,061
Group functions and unallocated items	−1,183	20	−300	–
Total	**6,993**	**552,506**	**7,161**	**531,061**

Total operating income distribution between product groups

In Nordea Hypotek, all operating income, in all reportable segments, is attributable to Banking products.

Banking products is a product group consisting of three product types: account products, transaction products and financing products.

Account products, including mortgages, comprise the entire product portfolio in the company.

Lending volume distribution in reportable segments by borrower domicile

Borrower domicile	Personal Banking	Commercial and Business Banking	Wholesale Banking
Sweden	98.10%	99.64%	100.00%
Other Nordic countries	0.69%	0.26%	–
Other European countries	0.63%	0.05%	–
Rest of World	0.58%	0.05%	–
Total	**100%**	**100%**	**100%**

Chief Operating Decision maker per segment

Segment	Chief Operating Decision Maker
Personal Banking	Topi Manner, Head of Personal Banking
Commercial and Business Banking	Erik Ekman, Head of Commercial and Business Banking
Wholesale Banking	Martin Persson, Head of Wholesale Banking
Group Finance and Treasury	Heikki Ilkka, Group Chief Financial Officer

Note 3. Net interest income

SEK (000s)	2017	2016
Interest income		
Loans to credit institutions	0	0
Loans to the public	8,869,582	8,704,742
Other interest income	4,647	5,387
Interest income	**8,874,229**	**8,710,129**
Interest expense		
Deposits by credit institutions	924,155	701,103
Debt securities in issue	–4,009,525	–5,529,694
Subordinated liabilities	–55,891	–123,868
Other interest expenses[1]	3,053,471	4,070,607
Interest expense	**–87,790**	**–881,852**
Net interest income	**8,786,439**	**7,828,277**

1) The net interest income from derivatives, measured at fair value and related to Nordea Hypotek´s funding can have both a positive and negative impact on other interest expense, for further information see Note 1.

Average interest rate, lending

SEK (000s)	2017	2016
Lending to the public		
Average volume, SEKm	537,064	516,366
Average interest, %	1.65	1.69

Interest income from financial instruments not measured at fair value through profit and loss amounts to SEK 8,874m (8,710). Interest expenses from financial instruments not measured at fair value through profit and loss amounts to SEK 3,141m (4,952).

Note 4. Net fee and commission income

SEK (000s)	2017	2016
Custody and issuer services	–27,363	–29,963
- Of which income	–	–
- Of which expense	–27,363	–29,963
Lending Products	13,235	23,235
- Of which income	35,151	23,235
- Of which expense	–21,916	–
Other	17,613	25,112
- Of which income	20,355	25,202
- Of which expense	–2,742	–90
Total	**3,485**	**18,384**

Note 5. Net result from items at fair value

SEK (000s)	2017	2016
Interest-bearing securities and other interest-related instruments[1]	–283,049	–144,785

1) Of which SEK 52,425k (73,899) related to financial assets held at amortised cost.

Net result from categories of financial instruments

SEK (000s)	2017	2016
Loans and receivables	52,425	73,899
Financial liabilities measured at amortised cost	–367,875	–206,112
Financial instruments under hedge accounting	32,401	–12,572
- of which net result on hedging instruments	2,739,928	635,947
- of which net result on hedged items	– 2,707,527	–648,519
Total	**–283,049**	**–144,785**

Note 6. Staff costs

SEK (000s)	2017	2016
Salaries and remuneration[1] (specification below)	–15,377	–4,835
Pension costs (specification below)	–3,748	–2,956
Social security contributions	–5,823	–2,219
Other staff costs	–741	–117
Total	**–25,689**	**–10,127**

Salaries and remuneration:		
President:		
- Fixed compensation and benefits	–1,136	–1,103
- Allocation to profit-sharing	–11	–10
Vice President:		
- Fixed compensation and benefits	–974	–81[2]
- Allocation to profit-sharing	–11	–10
To other employees	–13,108	–3,531
Board of Directors	–137	–100
Total	**–15,377**	**–4,835**

Pension costs:		
Defined benefit plans	–2,545	–2,589
Defined contribution plans	–1,203	–367
Total	**–3,748**	**–2,956**

1) Allocation to profit-sharing foundation 2017: 241k (214) consists of a new allocation of 205k (193) and related to prior year 36k (21).

2) Vice President was employed in December 2016.

To the Group Board Directors' no directors' fee was paid. For 2017 Nordea Hypotek had no incentive system or any performance-related compensation to employees.

The President's contract of employment may be terminated by either the President with three (3) months notice or the company with six (6) months notice. In accordance with his employment contract the President is entitled to six months salary during the period of notice. For the President the notice pay and severance pay may not exceed 24 months salary. The total amount will be reduced by any salary the President receives as a result of other employment during the payment period.

Loans to key management personnel

Loans to key management personnel amounts to 37,448k (34,769). Interest income on these loans amounts to 351k (480).

For key management personnel who are employed by Nordea Hypotek the same credit terms apply as for employees in Nordea. In Sweden the employee interest rate on fixed- and variable interest rate loans is 2.15 basis points lower than the corresponding interest rate for external customers (with a lower limit of 0.50 basis points for both variable interest rate loans and fixed interest rate loans). There is currently a cap of 57 Swedish price base amounts both on fixed- and variable interest rate loans. Interest on loans above the defined caps is set on market terms. Loans to family members of key management personnel are granted on normal market terms, as well as loans to key management personnel who are not employed by Nordea.

Pension commitments to the President and executives

SEK	2017	2016
Pension costs for President	253,203	220,395
Pension commitments for President	7,338,364	6,671,197
Pension costs for previous Presidents	872,143	907,464
Pension commitments for previous Presidents	10,023,051	10,439,945
Pension costs for Vice President	197,581	12,642
Pension commitments for Vice President	4,732,457	3,997,615
Pension costs for previous Vice President	242,624	245,784
Pension commitments for previous Vice President	3,564,084	3,701,980
Pension costs for external member of the board	218,824	221,412
Pension commitments for external member of the board	2,821,086	2,966,756

The pension age for the President is 65 years. At the pensionable age, pension is paid according to collective agreement. Fixed salary is pensionable income. All pensions are defined benefit plans.

Defined benefit obigations are guaranteed by a pension foundation The pension cost is classified as "Staff cost" in the income statement, consists of pension benefits paid, contributions made to or received from the pension foundation and related special wage tax.

The company's pension commitments are covered partly by allocation to Nordea Bank Sveriges Pensionsstiftelse, partly by insurance policies.

Average number of employees

	2017	2016
Full-time equivalents		
Men	7	4
Women	15	1
Total average	**22**	**5**

At year-end the total number of employees was 22 (22).

Gender distribution

In the Board of Directors of Nordea Hypotek AB 57% (57%) were men and 43% (43%) were women.

Note 7. Other expenses

SEK (000s)	2017	2016
Postage, telephone and office expenses	−404	−828
Distribution costs to Nordea	−1,427,925	−509,180
Other[1]	−48,821	−11,310
Total	**−1,477,150**	**−521,318**

1) Including fees and remuneration to auditors distributed as follows.

Auditors' fee

SEK (000s)	2017	2016
Öhrlings PricewaterhouseCoopers		
Auditing assignments	−493	−621
Audit-related services	−103	−100
Total	**−596**	**−721**

Note 8. Net loan losses

SEK (000s)	2017	2016
Loan losses divided by class		
Loans to the public[1]		
Realised loan losses	−10,891	−13,932
Allowances to cover realised loan losses	–	–
Recoveries on previous loan losses	2,077	845
Provisions	−10,423	−3,790
Reversals of previous provisions	8,186	7,809
Net loan losses	**−11,051**	**−9,068**

1) Included in Note 10 Loans and impairment.

Note 9. Taxes

Income tax expenses

SEK (000s)	2017	2016
Current tax[1]	−1,550,771	−1,575,252

1) Related to tax on group contributions and booked directly to equity..

SEK (000s)	2017	2016
Profit before tax	6,992,985	7,161,363
Tax calculated at a tax rate 22.0 per cent (22.0)	−1,538,457	−1,575,500
Tax-exempt income	0	249
Non-deductible expenses	−12,314	−3
Tax charge	**−1,550,771**	**−1,575,252**
Average effective tax rate %	22.0	22.0

Deferred tax

SEK (000s)	2017	2016
Movements in deferred tax liabilities		
Amount at beginning of year	155,332	139,154
Deferred tax relating to items in Other comprehensive income	−140,689	16,178
Amount at end of year	**14,643**	**155,332**
Deferred tax liabilities		
Deferred tax relating to cash flow hedges	14,643	155,332

Note 10. Loans and impairment

	Credit institutions		The public		Total	
SEK (000s)	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Loans, not impaired	7,273,948	3,274,464	536,421,526	530,504,624	543,695,474	533,779,088
Impaired loans	–	–	578,694	620,547	578,694	620,547
- of which performing	–	–	47,426	43,253	47,426	43,253
- of which non-performing	–	–	531,268	577,294	531,268	577,294
Loans before allowances	**7,273,948**	**3,274,464**	**537,000,220**	**531,125,171**	**544,274,168**	**534,399,635**
Allowances for individually assessed impaired loans	–	–	−16,200	−16,200	−16,200	−16,200
- of which performing	–	–	−4,663	−5,109	−4,663	−5,109
- of which non-performing	–	–	−11,537	−11,091	−11,537	−11,091
Allowances for collectively assessed impaired loans	–	–	−50,665	−48,428	−50,665	−48,429
Allowances	**–**	**–**	**−66,865**	**−64,628**	**−66,865**	**−64,628**
Loans, carrying amount	**7,273,948**	**3,274,464**	**536,933,355**	**531,060,543**	**544,207,303**	**534,335,007**

Note 10. Loans and impairment, cont.

Reconciliation of allowance accounts for impaired loans[1]

	The public		
SEK (000s)	Individually assessed	Collectively assessed	Total
Opening balance at 1 January 2017	**–16,200**	**–48,428**	**–64,628**
Provisions	–	–10,423	–10,423
Reversals of previous provisions	–	8,186	8,186
Changes through the income statement	–	**–2,237**	**–2,237**
Allowances used to cover write-offs	–	–	–
Closing balance at 31 December 2017	**–16,200**	**–50,665**	**–66,865**
Opening balance at 1 January 2016	**–16,200**	**–52,447**	**–68,647**
Provisions	–	–3,790	–3,790
Reversals of previous provisions	–	7,809	7,809
Changes through the income statement	–	**4,019**	**4,019**
Allowances used to cover write-offs	–	0	0
Closing balance at 31 December 2016	**–16,200**	**–48,428**	**–64,628**

1) See Note 8 Net loan losses.

Key ratios

	31 Dec 2017	31 Dec 2016
Impairment rate, gross[1], basis points	10.6	11.6
Impairment rate, net[2], basis points	10.3	11.3
Total allowance rate[3], basis points	1.2	1.2
Allowance in relation to impaired loans[4], %	2.8	2.6
Total allowances in relation to impaired loans[5], %	11.6	10.4

1) Individually assessed impaired loans before allowances divided by total loans before allowances.
2) Individually assessed impaired loans after allowances divided by total loans before allowances.
3) Total allowances divided by total loans before allowances.
4) Allowances for individually assessed impaired loans divided by individually assessed impaired loans before allowances.
5) Total allowances divided by impaired loans before allowances.

Lending, gross, divided by collateral type

SEK (000s)	31 Dec 2017	31 Dec 2016
Single and two-family properties	288,722,027	286,340,775
Tenant-owner apartments	152,032,641	147,164,749
Multi-housing property	68,790,980	64,493,303
Public sector incl. surety/guarantee	10,716,918	13,882,484
Other collateral	16,737,654	19,243,860
Total	**537,000,220**	**531,125,171**

Note 11. Derivatives and Hedge accounting

	Fair value		
31 Dec 2017, SEKm	Positive	Negative	Total nom. amount
Derivatives used for hedge accounting			
Interest rate derivatives			
Interest rate swaps	5,185	248	273,761
Options	84	84	114,600
Total	**5,269**	**332**	**388,361**
Foreign exchange derivatives			
Currency and interest rate swaps	907	166	10,879
Total	**907**	**166**	**10,879**
Total derivatives used for hedge accounting	**6,176**	**498**	**399,240**
- of which fair value hedges	5,269	332	388,361
- of which cash flow hedges	907	166	10,879

	Fair value		
31 Dec 2016, SEKm	Positive	Negative	Total nom. amount
Derivatives used for hedge accounting			
Interest rate derivatives			
Interest rate swaps	8,083	280	254,627
Options	103	101	85,096
Total	**8,186**	**381**	**339,723**
Foreign exchange derivatives			
Currency and interest rate swaps	1,456	305	27,081
Total	**1,456**	**305**	**27,081**
Total derivatives used for hedge accounting	**9,642**	**686**	**366,804**
- of which fair value hedges	8,186	381	339,723
- of which cash flow hedges	1,456	305	27,081

Some cross currency swaps are used both as fair value hedges and cash flow hedges and the nominal amounts are then reported on both lines.

Note 12. Other assets

SEK (000s)	31 Dec 2017	31 Dec 2016
Other assets[1]	1,154,598	2,466,415

1) Refers to a settlement account at the parent company regarding transactions not yet entered.

Note 13. Prepaid expenses and accrued income

SEK (000s)	31 Dec 2017	31 Dec 2016
Accrued interest income	269,658	289,835
Prepaid expenses	428,070	353,756
Total	**697,728**	**643,591**

Note 14. Deposits by credit institutions

SEK (000s)	31 Dec 2017	31 Dec 2016
Swedish banks	194,468,518	168,608,677

Note 15. Debt securities in issue[1]

SEK (000s)	31 Dec 2017	31 Dec 2016
Swedish bonds	309,418,780	310,952,257
Foreign securities	10,382,561	25,947,255
Total	**319,801,341**	**336,899,512**

1) See Specification to Notes, page 61.

Note 16. Other liabilities

SEK (000s)	31 Dec 2017	31 Dec 2016
Accounts payable	1,514	940
Liabilities, group contributions	7,048,959	5,370,180
Other liabilities[1]	782,375	1,541,522
Total	**7,832,848**	**6,912,642**

1) Largely refers to a settlement account at the parent company regarding transactions not yet entered.

Note 17. Accrued expenses and prepaid income

SEK (000s)	31 Dec 2017	31 Dec 2016
Other accrued expenses	25,537	22,640
Prepaid income	13,729	15,870
Total	**39,266**	**38,510**

Note 18. Subordinated liabilities[1]

SEK (000s)	31 Dec 2017	31 Dec 2016
Dated subordinated debenture loans	1,800,248	3,101,266

1) See Specification to Notes, page 61.

These debenture loans are subordinated to other liabilities.

Note 19. Assets pledged as security for own liabilities

SEK (000s)	31 Dec 2017	31 Dec 2016
Assets pledged for own liabilities:		
Loans to the public	517,551,217	510,532,022
The above pledges pertain to the following liability and commitment items:		
Debt securities in issues	316,260,333	332,636,358

Assets pledged for own liabilities contain loans to credit institutions and loans to the public that have been registered as collateral for issued covered bonds. In the event of the company`s insolvency, the holders of these bonds have priority to the assets registered as collateral.

Note 20. Commitments

SEK (000s) (nom. amount)	31 Dec 2017	31 Dec 2016
Credit commitments	42,382,247	31,542,506

Note 21. Capital adequacy

Capital adequacy is a measure of the financial strength of a bank, usually expressed as a ratio of capital to assets. There is a worldwide capital adequacy standard (Basel III) drawn up by the Basel Committee on Banking Supervision. Within the EU, the capital adequacy requirements are outlined in the Capital Requirements Directive IV (CRD IV) and Capital Requirements Regulation (CRR).

CRD IV was implemented through national law within all EU countries during 2014, while the CRR entered into force in all EU countries the first of January 2014.

- The Basel III framework is built on three Pillars:
- Pillar I – requirements for the calculation of RWA and Capital
- Pillar II – rules for the Supervisory Review Process (SRP) Including the Internal Capital Adequacy Assessment Process (ICAAP)
- Pillar III – rules for the disclosure on risk and capital management, including capital adequacy

Nordea 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 requirements 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's capital levels continue to be adequate to support the risks taken, both from an internal perspective as well as from the perspective of supervisors. Heading into 2018, Nordea will continue to closely follow the development of the new capital requirement regime as well as maintain its open dialogue with the supervisory authorities.

Common Equity Tier 1 capital and Tier 1 capital

The capital recognised as Common Equity Tier 1 (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 which are fully compliant with CRD IV and those that meet the transitional regulatory criteria and not included in the CET1 net after AT1 deductions. All Tier 1 capital instruments are undated subordinated capital loans.

Additional Tier 1 instruments

The inclusion of undated subordinated loans in AT1 capital is restricted and repurchase can normally not take place until five years after original issuance of the instrument. AT1 instruments may be repaid only upon decision by the Board of Directors in Nordea and with the permission of the Swedish FSA. Further, there are restrictions related to step-up conditions, order of priority, and interest payments under constraint conditions. AT1 instruments issued that fulfil the CRD IV requirements are fully included whereas remaining instruments are phased out according to transitional rules. For the AT1 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 AT1 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. According to the regulation, Tier 2 instruments issued that fulfil the CRD IV 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.

The table below shows the carrying outstanding amounts of undated and dated loans included in own funds. Call date is where the issuer has the legal right to redeem outstanding loan amounts according the terms of agreement. The carrying amounts in the table may deviate from capital amounts used in own funds due to swap arrangements and adjustments for maturities.

Ratios and key figures

	2017	2016	2015	2014	2013
Risk-weighted exposure amount, excl. Basel I floor, SEKm	37,362	34,937	34,765	35,234	49,751
Risk-weighted exposure amount, incl. Basel I floor, SEKm	279,149	273,761	255,603	237,326	218,588
Own funds, SEKm	24,899	26,176	21,795	20,536	20,199
Total capital ratio, excl. Basel I floor, %[1]	66.6	74.9	62.7	58.3	40.6
Tier 1 capital ratio, excl. Basel I floor, %[1]	61.8	66.0	49.2	44.9	31.9
Total capital ratio, incl. Basel I floor, %[1]	8.9	9.6	8.6	8.7	9.2
Tier 1 capital ratio, incl. Basel I floor, %[1]	8.3	8.5	6.7	6.7	7.3

1) Including profit for the period.

Note 21. Capital adequacy, cont.

Table A2 Transitional own funds

SEKm		A) Amount at disclosure date, SEKm	C) Amounts subject to pre-regulation (eu) no 575/2013 treatment or prescribed residual amount of regulation (eu) no 575/2013
Common Equity Tier 1 capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	110	–
	of which: Share capital	110	–
2	Retained earnings	17,651	–
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	52	–
5	Minority Interests (amount allowed in consolidated CET1)	–	–
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	5,442	–
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**23,255**	**–**
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-10	–
8	Intangible assets (net of related tax liability) (negative amount)	–	–
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	–	–
11	Fair value reserves related to gains or losses on cash flow hedges	-52	–
12	Negative amounts resulting from the calculation of expected loss amounts	-108	–
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-11	–
15	Defined-benefit pension fund assets (negative amount)	–	–
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	–	–
25	of which: deferred tax assets arising from temporary differences	–	–
25b	Foreseeable tax charges relating to CET1 items (negative amount)	–	–
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	–	–
28	Total regulatory adjustments to Common equity Tier 1 (CET1)	-180	–
29	Common Equity Tier 1 (CET1) capital	23,075	–
Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	–	–
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	–	–
36	Additional Tier 1 (AT1) capital before regulatory adjustments	–	–
Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct and indirect holdings by an institution of own AT1 Instruments (negative amount)	–	–
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	–	–
	Of which shortfall		
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	–	–
44	Additional Tier 1 (AT1) capital	–	–
45	Tier 1 capital (T1 = CET1 + AT1)	23,075	–
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	1,800	–
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	–	–
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	–	–

Note 21. Capital adequacy, cont.

Table A2 Transitional own funds, cont.

SEKm		A) Amount at disclosure date, SEKm	C) Amounts subject to pre-regulation (eu) no 575/2013 treatment or prescribed residual amount of regulation (eu) no 575/2013
49	of which: instruments issued by subsidiaries subject to phase out	–	–
50	Credit risk adjustments	24	-
51	Tier 2 (T2) capital before regulatory adjustments	1,824	-
Tier 2 (T2) capital: regulatory adjustments			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	–	–
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	–	–
56a	Residual amounts deducted from Tier 2capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	–	–
57	Total regulatory adjustments to Tier 2 (T2) capital	–	–
58	Tier 2 (T2) capital	1,824	–
59	Total capital (TC = T1 + T2)	24,899	–
60	Total risk weighted assets	37,362	–
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	61.8%	–
62	Tier 1 (as a percentage of risk exposure amount)	61.8%	–
63	Total capital (as a percentage of risk exposure amount)	66.6%	–
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	4.5%	–
65	of which: capital conservation buffer requirement	2.5%	–
66	of which: countercyclical buffer requirement	2.0%	–
67	of which: systemic risk buffer requirement	-	–
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	-	–
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	55.8%	–
Amounts below the thresholds for deduction (before risk weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	–	–
73	Direct and indirect holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	–	–
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	–	–
Applicable caps on the inclusion of provisions in Tier 2			
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	24	–
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	166	–
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)			
82	Current cap on AT1 instruments subject to phase out arrangements	–	–
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	–	–
84	Current cap on T2 instruments subject to phase out arrangements	642	–
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	–	–

Note 21. Capital adequacy, cont.

Leverage ratio

	31 Dec 2017	31 Dec 2016
Tier 1 capital, transitional definition, SEKm[1]	23,075	23,076
Leverage ratio exposure, SEKm	596,424	564,105
Leverage ratio, percentage	3.9	4.1

1) Including profit for the period

Minimum capital requirement and REA

		Capital Buffers					
Percentage	Minimum Capital requirement	CCoB	CCyB	SII	SRB	Capital Buffers total	Total
Common Equity Tier 1 capital	4.5	2.5	2.0	-	-	4.5	9.0
Tier 1 capital	6	2.5	2.0	-	-	4.5	10.5
Own funds	8	2.5	2.0	-	-	4.5	12.5
SEKm							
Common Equity Tier 1 capital	1,681	934	740	-	-	1,674	3,356
Tier 1 capital	2,242	934	740	-	-	1,674	3,916
Own funds	2,989	934	740	-	-	1,674	4,663

Common Equity Tier 1 available to meet Capital Buffers

Percentage points of REA	31 Dec 2017	31 Dec 2016[1]
Common Equity Tier 1 capital	55.8	60.0

1) Including profit of the period.

Table A3-A4 includes disclosure of capital instruments' main features in accordance with §6.4 in FFFS 2014:18 and using the template in Annex II in article 3 in Commission implementing regulation (EU) No 1423/2013. Template items are excluded if not applicable.

Table A3 Capital instruments' main features template – CET1

Common Equity Tier 1 instrument		
1	Issuer	Nordea Hypotek AB (publ)
3	Governing law(s) of the instrument	Swedish
Regulatory treatment		
4	Transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo
7	Instrument type (types to be specified by each jurisdiction)	Share capital as published in Regulation (EU) No 575/2013 article 28
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	SEK 110m
9	Nominal amount of instrument	SEK 110m
10	Accounting classification	Shareholders' equity
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
Coupons / dividends		
20a	Fully discretionary, partially discretionary, or mandatory (in terms of timing)	Fully discretionary
20b	Fully discretionary, partially discretionary, or mandatory (in terms of amount)	Fully discretionary
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Tier 2
36	Non-compliant transitioned features	No

Note 21. Capital adequacy, cont.

Table A4 Capital instruments' main features template – T2

	Tier 2 instruments		
1	Issuer	Nordea Hypotek AB (publ)	Nordea Hypotek AB (publ)
3	Governing law(s) of the instrument	Swedish	Swedish
	Regulatory treatment		
4	Transitional CRR rules	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2
6	Eligible at solo/(sub-) consolidated/solo & (sub-)consolidated	Solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	SEK 1,000m	SEK 800m
9	Nominal amount of instrument	SEK 1,000m	SEK 800m
9a	Issue price	100 per cent	100 per cent
9b	Redemption price	100 per cent of Nominal amount	100 per cent of Nominal amount
10	Accounting classification	Liability – amortised cost	Liability – amortised cost
11	Original date of issuance	28 Jun 2013	30 Dec 2014
12	Perpetual or dated	Dated	Dated
13	Original maturity date	28 Jun 2023	30 Dec 2024
14	Issuer call subject to prior supervisory approval	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	28 Jun 2018 In addition regulatory call 100 per cent of Nominal amount	30 Dec 2019 In addition regulatory call 100 per cent of Nominal amount
16	Subsequent call dates, if applicable	28 Mar, 28 Jun, 28 Sep and 28-Dec each year after first call date	30 Mar, 30 Jun, 30 Sep and 30-Dec each year after first call date
	Coupons / dividends		
17	Fixed or floating dividend /coupon	Floating	Floating
18	Coupon rate and any related index	Floating 3-month STIBOR +2.13 per cent per annum	Floating 3-month STIBOR +1.70 per cent per annum
19	Existence of a dividend stopper	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No
22	Noncumulative or cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior debt	Senior debt
36	Non-compliant transitioned features	No	No

Note 21. Capital adequacy, cont.

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

	On-balance exposure, SEKm	Off-balance exposure, SEKm	Exposure value (EAD), SEKm[1]	of which EAD for off-balance, SEKm	Exposure-weighted average risk weight:
Sovereign, foundation IRB	**6,844**	–	**10,951**	**–**	**3.3**
- of which rating grades 7	6,844	–	10,951	–	3.3
- of which rating grades 6	–	–	–	–	–
- of which rating grades 5	–	–	–	–	–
- of which rating grades 4	–	–	–	–	–
- of which rating grades 3	–	–	–	–	–
- of which rating grades 2	–	–	–	–	–
- of which rating grades 1	–	–	–	–	–
- of which unrated	–	–	–	–	–
- of which defaulted	–	–	–	–	–
Corporate, foundation IRB:	**–**	**–**	**–**	**–**	**–**
- of which rating grades 6	–	–	–	–	–
- of which rating grades 5	–	–	–	–	–
- of which rating grades 4	–	–	–	–	–
- of which rating grades 3	–	–	–	–	–
- of which rating grades 2	–	–	–	–	–
- of which rating grades 1	–	–	–	–	–
- of which unrated	–	–	–	–	–
- of which defaulted	–	–	–	–	–
Corporate, advanced IRB:	**85,476**	**–**	**81 369**	**–**	**12.7**
- of which rating grades 6	50,416	–	49,479	–	6.1
- of which rating grades 5	14,135	–	11,767	–	13.3
- of which rating grades 4	19,049	–	18,376	–	26.8
- of which rating grades 3	1,539	–	1,473	–	42.9
- of which rating grades 2	115	–	114	–	83.9
- of which rating grades 1	67	–	67	–	94.1
- of which unrated	154	–	92	–	49.0
- of which defaulted	1	–	1	–	165.9
Institutions, foundation IRB:	**–**	**–**	**–**	**–**	**–**
- of which rating grades 6	–	–	–	–	–
- of which rating grades 5	–	–	–	–	–
- of which rating grades 4	–	–	–	–	–
- of which rating grades 3	–	–	–	–	–
- of which rating grades 2	–	–	–	–	–
- of which rating grades 1	–	–	–	–	–
- of which unrated	–	–	–	–	–
- of which defaulted	–	–	–	–	–
Retail, of which secured by real estate:	**433,951**	**42,382**	**476,333**	**42 382**	**3.3**
- of which scoring grades A	381,477	37,271	418,747	37,271	2.2
- of which scoring grades B	33,187	3,262	36,449	3,262	5.5
- of which scoring grades C	13,165	1,309	14,474	1,309	12.2
- of which scoring grades D	3,480	345	3,825	345	22.1
- of which scoring grades E	949	98	1,048	98	37.0
- of which scoring grades F	953	97	1,050	97	58.8
- of which not scored	134	–	134	–	22.8
- of which defaulted	606	–	606	–	105.1

Note 21. Capital adequacy, cont.

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

	On-balance exposure, SEKm	Off-balance exposure, SEKm	Exposure value (EAD), SEKm[1]	of which EAD for off-balance, SEKm	Exposure-weighted average risk weight:
Retail, of which other retail:	**11,319**	**–**	**11,319**	**–**	**6.8**
- of which scoring grades A	9,413	–	9,413	–	4.3
- of which scoring grades B	1,022	–	1,022	–	10.2
- of which scoring grades C	563	–	563	–	19.4
- of which scoring grades D	138	–	138	–	27.3
- of which scoring grades E	84	–	84	–	29.0
- of which scoring grades F	69	–	69	–	42.8
- of which not scored	3	–	3	–	24.1
- of which defaulted	27	–	27	–	207.5
Other non credit-obligation assets:	**428**	**–**	**428**	**–**	**100.0**

1) Includes EAD for on-balance, off-balance, derivatives and securities financing. Nordea does not have the following IRB exposure classes: equity exposures, items representing securitisation positions, qualifying revolving retail.

Note 22. Classification of financial instruments

Assets

31 Dec 2017, SEKm	Loans and receivables	Derivatives used for hedging	Non-financial assets	Total
Loans to credit institutions	7,274	–	–	7,274
Loans to the public	536,933	–	–	536,933
Derivatives	–	6,176	–	6,176
Fair value changes of the hedged items in portfolio hedge of interest rate risk	–71	–	–	–71
Current tax assets	–	–	342	342
Other assets	1,154	–	–	1,154
Prepaid expenses and accrued income	698	–	–	698
Total	**545,988**	**6,176**	**342**	**552,506**

Liabilities

31 Dec 2017, SEKm	Derivatives used for hedging	Other financial liabilities	Non-financial liabilities	Total
Deposits by credit institutions	–	194,469	–	194,469
Debt securities in issue	–	319,801	–	319,801
Derivatives	498	–	–	498
Fair value changes of the hedged items in portfolio hedge of interest rate risk	–	4,796	–	4,796
Other liabilities	–	7,832	1	7,833
Accrued expenses and prepaid income	–	39	–	39
Deferred tax liabilities	–	–	15	15
Subordinated liabilities	–	1,800	–	1,800
Total	**498**	**528,737**	**16**	**529,251**

Assets

31 Dec 2016, SEKm	Loans and receivables	Derivatives used for hedging	Non-financial assets	Total
Loans to credit institutions	3,274	–	–	3,274
Loans to the public	531,061	–	–	531,061
Derivatives	–	9,642	–	9,642
Fair value changes of the hedged items in portfolio hedge of interest rate risk	–26	–	–	–26
Current tax assets	–	–	87	87
Other assets	2,466	–	–	2,466
Prepaid expenses and accrued income	644	–	–	644
Total	**537,419**	**9,642**	**87**	**547,148**

Liabilities

31 Dec 2016, SEKm	Derivatives used for hedging	Other financial liabilities	Non-financial liabilities	Total
Deposits by credit institutions	–	168,609	–	168,609
Debt securities in issue	–	336,900	–	336,900
Derivatives	686	–	–	686
Fair value changes of the hedged items in portfolio hedge of interest rate risk	–	6,936	–	6,936
Other liabilities	–	6,911	1	6,912
Accrued expenses and prepaid income	–	16	23	39
Deferred tax liabilities	–	–	155	155
Subordinated liabilities	–	3,101	–	3,101
Total	**686**	**522,473**	**179**	**523,338**

Note 23. Assets and liabilities at fair value

Fair value of financial assets and liabilities

SEKm	31 Dec 2017 Carrying amount	31 Dec 2017 Fair value	31 Dec 2016 Carrying amount	31 Dec 2016 Fair value
Financial assets				
Loans	544,136	545,752	534,309	536,547
Derivatives	6,176	6,176	9,642	9,642
Other assets	1,154	1,154	2,466	2,466
Prepaid expenses and accrued income	698	698	644	644
Total financial assets	**552,164**	**553,780**	**547,061**	**549,299**
Financial liabilities				
Deposits and debt instruments	520,866	525,853	515,546	517,631
Derivatives	498	498	686	686
Other liabilities	7,832	7,832	6,911	6,911
Accrued expenses and prepaid income	39	39	16	16
Total financial liabilities	**529,235**	**534,222**	**523,159**	**525,244**

For information about valuation of items measured at fair value on the balance sheet, see Note 1 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" on page 50.

Assets and liabilities held at fair value on the balance sheet (Categorisation into fair value hierarchy)

31 Dec 2017, SEKm	Quoted prices in active markets for the same instrument (Level 1)	Valuation technique using observable data (Level 2)	Valuation technique using non-observable data (Level 3)	Total
Assets at fair value on the balance sheet[1]				
Derivatives	–	6,176	–	6,176
Liabilities at fair value on the balance sheet[1]				
Derivatives	–	498	–	498

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

31 Dec 2016, SEKm	Quoted prices in active markets for the same instrument (Level 1)	Valuation technique using observable data (Level 2)	Valuation technique using non-observable data (Level 3)	Total
Assets at fair value on the balance sheet[1]				
Derivatives	–	9,642	–	9,642
Liabilities at fair value on the balance sheet[1]				
Derivatives	–	686	–	686

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

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

Fair value 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 Hypotek does not have any Level 1 instruments.

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

Note 23. Assets and liabilities at fair value, cont.

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 shorter-term interest rate caps in liquid currencies.

Level 3 in the fair value hierarchy consists of those types of assets and liabilities for 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. This is the case for longer-term interest rate caps and interest caps in less liquid currencies.

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 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. Volatilities and correlations are also observable for the most liquid equity instruments in the short end. For less liquid equity instruments the option market is fairly illiquid, and hence the volatilities and correlations are unobservable. 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 OTC derivatives valuation models are used for establishing fair value. For vanilla derivatives standard models such as Black-Scholes are used for valuation. For more exotic OTC derivatives more complex valuation models are used. The models are usually in-house developed, and based on assumptions about the behaviour of the underlying asset and statistical scenario analysis. Most OTC derivatives are categorised as level 2 in the fair value hierarchy implying that all significant model parameters are observable in active markets.

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

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

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

The impact of funding costs and funding benefits on valuation of uncollateralised and imperfectly collateralised derivatives is recognised as a funding fair value adjustment (FFVA). When calculating FFVA, Nordea Hypotek uses an estimated funding curve which reflects the market cost of funding.

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

Movements in level 3

2017, SEKm	1 Jan 2017	Transfers in/out from level 3	31 Dec 2017
Derivatives (net)	–	–	–

2016, SEKm	1 Jan 2016	Transfers in/out from level 3	31 Dec 2016
Derivatives (net)	5	–5	–

During the year there have been no changes in level 3. At the end of the year, Nordea Hypotek had no financial instruments classified into level 3.

The valuation processes for fair value measurements in Level 3

Financial instruments

Nordea Hypotek is fully integrated in Nordeas valuation process for fair value adjustments in its applicable parts why the following description refers to how the area is dealt within Nordea.

Nordea has an independent valuation control unit, Group Valuation Control (GVC), which forms part of the CRO organisation. GVC has the responsibility of overseeing and independently assessing valuations of financial instruments held at fair value on Nordea's balance sheet. Nordea also has a Group Valuation Committee (GVaC), which is chaired by the Group CFO. GVaC is responsible for setting the group valuation policy, governing valuation matters and serves as escalation point for valuation issues.

The valuation process in Nordea consists of several steps. The first step is the initial end of day (EOD) marking of mid-prices. The mid-prices are either fixed by front office or received from external sources. The second step is the control part, which is performed by independent control units. The cornerstone in the control is the independent price verification (IPV). The IPV test comprises verification of the correctness of prices and other parameters used in the net present value (NPV) calculation, the adequacy of the valuation models, including an assessment of whether to use quoted prices or valuation models, and the reliability of the assumptions and parameters used in the valuation adjustments at portfolio level covering mainly liquidity (bid/offer spread) and credit risk adjustments.

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

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

The tables below show, for each class of assets and liabilties categorised in Level 3, the fair value, the valuation techniques used to estimate the fair value, significant unobservable inputs used in the valuation techniques and for financial assets and liabilites the fair value sensitivity to changes in key assumptions.

The column "range of fair value" in the tables above shows

Note 23. Assets and liabilities at fair value, cont.

the sensitivity of the fair values of Level 3 financial instruments to changes in key assumptions. Where the exposure to an unobservable parameter is offset across different instruments then only the net impact is disclosed in the table. The range disclosed are likely to be greater than the true uncertainty in fair value of these instruments, as it is unlikely in practice that all unobservable parameters would be simultaneously at the extremes of their ranges of reasonably possible alternatives. The disclosure is neither predictive nor indicative of future movements in fair value.

In order to calculate the sensitivity (range) in fair value of derivatives a range of different modelling approaches are applied to determine an uncertainty interval around the reported fair value. The different approaches applied target various aspects of derivatives pricing. Two common components of derivative valuation models are volatility of underlying risk factors and correlation between the relevant risk factors. Each of these is addressed by applying different assumptions to input and/or the choice of modelling approach. Besides these common factors a number of asset class specific factors are addressed. These include equity dividend expectations, recovery assumptions for credit derivatives and inflation expectations. The fair values of derivatives are presented as the net of assets and liabilities. Nordea Hypotek did not have any financial instruments classified in level 3 during 2017. Neither at the end of 2016 Nordea Hypotek had any financial instruments classified in level 3.

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

	31 Dec 2017		31 Dec 2016		
SEKm	Carrying amount	Fair value	Carrying amount	Fair value	Level in fair value hierarchy
Assets not held at fair value on the balance sheet					
Loans	544,136	545,752	534,309	536,547	3
Other assets	1,154	1,154	2,466	2,466	3
Prepaid expenses and accrued income	698	698	644	644	3
Total	**545,988**	**547,604**	**537,419**	**539,657**	
Liabilities not held at fair value on the balance sheet					
Deposits and debt instruments	520,866	525,853	515,546	517,631	3
Other liabilities	7,832	7,832	6,911	6,911	3
Accrued expenses and prepaid income	39	39	16	16	3
Total	**528,737**	**533,724**	**522,473**	**524,558**	

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, Commercial & Business Banking and Wholesale Banking respectively. 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 transactions not yet entered in a settlement account at the parent company and accrued interest income. The fair value is therefore considered to equal the carrying amount and is categorised into Level 3 in the fair value hierarchy.

Note 23. Assets and liabilities at fair value, cont.

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 issuances 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 Nordea Hypotek´s own credit risk related to these items is assumed not to be significant. This is also the case for short term issuances recognised in the balance sheet items "Debt securities in issue" and "Subordinated liabilities".

Other liabilities and accrued expenses and prepaid income

The balance sheet items "Other liabilties" and "Accrued expenses and prepaid income" consist of short-term liabilities, mainly group contribution paid and transactions not yet entered in a settlement account at the parent company and prepaid income. 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 24. Financial instruments set off on balance or subject to netting agreements

31 Dec 2017, SEKm	Gross recognised financial assets[1]	Gross recognised financial liabilities set off on the balance sheet	Net carrying amount on the balance sheet	Amounts not set off but subject to master netting agreements and similar agreements[2] Financial instruments	Net amount
Assets					
Derivatives	6,176	–	6,176	–516	5,660
Liabilities					
Derivatives	498	–	498	–516	–18

1) All amounts have been measured at fair value.
2) There are no items related to financial collateral (including cash collateral) in the company.

31 Dec 2016, SEKm	Gross recognised financial assets[1]	Gross recognised financial liabilities set off on the balance sheet	Net carrying amount on the balance sheet	Amounts not set off but subject to master netting agreements and similar agreements[2] Financial instruments	Net amount
Assets					
Derivatives	9,642	–	9,642	–730	8,912
Liabilities					
Derivatives	686	–	686	–730	–44

1) All amounts have been measured at fair value.
2) There are no items related to financial collateral (including cash collateral) in the company.

Enforceable master netting agreements and similar arrangements

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 and repos), would be subject to master netting agreements, and as a consequence Nordea Hypotek would be allowed to benefit from netting both in the ordinary course of business and in the case of default towards its counter parties, in any calculations involving counterparty credit risk.

In the section "Counter Party risk and exposures" of the director's report, the size of counterparty risk at 31 December 2017 is set out.

Note 25. Assets and liabilities in foreign currencies

31 Dec 2017 SEKm	EUR	NOK	Total
Assets			
Derivatives and other assets	2,908	–	2,908
Total assets	**2,908**	**–**	**2,908**
Liabilities			
Debt securities in issue	10,383	–	10,383
Other liabilities	2,587	–	2,587
Total liabilities	**12,970**	**–**	**12,970**

Currency exposure in other currency is driven by issuance in foreign currency, fully hedged by derivatives.

31 Dec 2016 SEKm	EUR	NOK	Total
Assets			
Derivatives and other assets	4,033	–	4,033
Total assets	**4,033**	**–**	**4,033**
Liabilities			
Debt securities in issue	24,881	1,066	25,947
Other liabilities	3,249	–29	3,220
Total liabilities	**28,130**	**1,037**	**29,167**

Note 26. Maturity analysis for assets and liabilities

Expected maturity 31 Dec 2017, SEKm	Note	Expected to be recovered or settled		
		Within 12 months	After 12 months	Total
Loans to credit institutions	10	7,274	–	7,274
Loans to the public	10	53,499	483,434	536,933
Derivatives	11	961	5,215	6,176
Fair value changes of the hedged items in portfolio hedge of interest rate risk		–11	–60	–71
Current tax assets	9	342	–	342
Other assets	12	1,154	–	1,154
Prepaid expenses and accrued income	13	272	426	698
Total assets		**63,491**	**489,015**	**552,506**
Deposits by credit institutions	14	194,329	140	194,469
Debt securities in issue	15	72,609	247,192	319,801
Derivatives	11	21	477	498
Fair value changes of the hedged items in portfolio hedge of interest rate risk		205	4,591	4,796
Other liabilities	16	7,833	–	7,833
Accrued expenses and prepaid income	17	28	11	39
Deferred tax liabilities	9	–	15	15
Subordinated liabilities	18	1,799	1	1,800
Total liabilities		**276,824**	**252,427**	**529,251**

Expected maturity 31 Dec 2016, SEKm	Note	Expected to be recovered or settled		
		Within 12 months	After 12 months	Total
Loans to credit institutions	10	3,274	–	3,274
Loans to the public	10	56,004	475,057	531,061
Derivatives	11	1,254	8,388	9,642
Fair value changes of the hedged items in portfolio hedge of interest rate risk		–73	47	–26
Current tax assets		87	–	87
Other assets	12	2,466	–	2,466
Prepaid expenses and accrued income	13	469	175	644
Total assets		**63,481**	**483,667**	**547,148**
Deposits by credit institutions	14	168,469	140	168,609
Debt securities in issue	15	43,953	292,947	336,900
Derivatives	11	137	549	686
Fair value changes of the hedged items in portfolio hedge of interest rate risk		1,335	5,601	6,936
Other liabilities	16	6,913	–	6,913
Accrued expenses and prepaid income	17	26	13	39
Deferred tax liabilities	9	–	155	155
Subordinated liabilities	18	1	3,100	3,101
Total liabilities		**220,834**	**302,505**	**523,339**

Note 26. Maturity analysis for assets and liabilities, cont.

Contractual undiscounted cash flows

31 Dec 2017, SEKm	Payable on demand	Maximum 3 months	3–12 months	1–5 years	More than 5 years	Total
Loans to credit institutions	7,274	–	–	–	–	7,274
Loans to the public	–	19,867	35,877	127,548	711,995	895,287
Other	–	178	–	37	–	215
Total financial assets	**7,274**	**20,045**	**35,877**	**127,585**	**711,995**	**902,776**
Deposits by credit institutions	–	194,035	–	139	–	194,174
Debt securities in issue	–	7,518	72,506	238,242	23,320	341,586
- of which Debt securities in issue	–	7,518	71,493	237,428	23,320	339,759
- of which Other	–	–	1,013	819	–	1,827
Other	–	820	–	469	–	1,289
Total financial liabilities	**–**	**202,373**	**73,519**	**239,664**	**23,320**	**538,876**
Derivatives, cash inflow	–	495	2,511	5,963	10,114	19,083
Derivatives, cash outflow	–	–85	–109	–3,635	–10,389	–13,830
Net exposure	**–**	**410**	**2,402**	**2,328**	**–275**	**5,252**
Exposure	**7,274**	**–181,748**	**–34,009**	**–108,504**	**688,399**	**371,412**
Cumulative exposure	**7,274**	**–174,474**	**–208,483**	**–316,987**	**371,412**	**–**

31 Dec 2016, SEKm	Payable on demand	Maximum 3 months	3–12 months	1–5 years	More than 5 years	Total
Loans to credit institutions	3,274	–	–	–	–	3,274
Loans to the public	–	30,895	49,658	115,156	699,595	895,304
Other	–	2,863	–	222	–	3,085
Total financial assets	**3,274**	**33,758**	**49,658**	**115,378**	**699,595**	**901,663**
Deposits by credit institutions	–	168,127	200	140	–	168,467
Debt securities in issue	–	15,656	34,186	264,348	51,387	365,577
- of which Debt securities in issue	–	15,641	32,841	262,511	51,387	362,380
- of which Other	–	15	1,345	1,837	–	3,197
Other	–	8,313	–	5,550	–	13,863
Total financial liabilities	**–**	**192,096**	**34,386**	**270,038**	**51,387**	**547,907**
Derivatives, cash inflow	–	15,447	5,594	10,260	10,531	41,832
Derivatives, cash outflow	–	–13,990	–2,503	–1,971	–9,509	–27,973
Net exposure	**–**	**1,457**	**3,091**	**8,289**	**1,022**	**13,859**
Exposure	**3,274**	**–156,881**	**18,363**	**–146,371**	**649,230**	**367,615**
Cumulative exposure	**3,274**	**–153,607**	**–135,244**	**–281,615**	**367,615**	**–**

The table is based on contractual maturities for on balance sheet financial instruments. For derivatives, the expected cash inflows and outflows are disclosed for both derivative assets and derivative liabilities, as derivatives are managed on a net basis. In addition to the on balance sheet and derivative instruments, Nordea Hypotek has credit commitments amounting to SEK 42,382m (31,543).
For further information see Note 20 "Commitments".

Note 27. Related-party transactions

The information below is presented from a Nordea Hypotek perspective, meaning that the information show the effect from related party transactions on the Nordea Hypotek figures.

Balance sheet

	Key management personnel		Nordea Group companies	
SEK (000s)	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Assets				
Loans to credit institutions	–	–	7,273,948	3,274,464
Loans to the public	37,448	34,769	–	–
Derivatives	–	–	6,181,074	9,706,041
Other assets	–	–	1,154,607	2,466,415
Prepaid expenses and accrued income	–	–	21,555	18,458
Total assets	**37,448**	**34,769**	**14,631,185**	**15,465,378**
Liabilities				
Deposits by credit institutions	–	–	194,468,518	168,608,677
Debt securities in issue	–	–	6,469,513	1,639,254
Derivatives	–	–	432,761	630,307
Other liabilities	–	–	7,830,381	6,911,222
Subordinated liabilities	–	–	1,800,248	3,101,266
Total liabilities	**–**	**–**	**211,001,422**	**180,890,726**
Off balance[2]	–	–	341,939,851	324,256,425

1) Lending divided by collateral type: Single family properties 7,184k; Tenant-owner apartments 30,264k.
2) Including nominal values on derivatives.

Income statement

	Key management personnel		Nordea Group companies	
SEK (000s)	2017	2016	2017	2016
Interest income	351	480	228,263	206,773
Interest expense	–	–	4,131,918	4,744,235
Net fee and commission income	–	–	–15,577	–1,874
Net result from items at fair value	–	–	–2,738,477	564,575
General administrative expenses:				
- Staff costs	–	–	–23	–
- Other expenses	–	–	–1,438,781	–509,180
Total	**351**	**480**	**167,324**	**5,004,529**

Compensations to key management personnel

Compensations to key management personnel are specified in Note 6 "Staff costs".

Note 28. Credit risk disclosures

Loans and receivables to corporate customers, by size of loan

SEKm	31 Dec 2017	%	31 Dec 2016	%
0–10	9,187	10	9,111	10
10–50	36,303	41	32,957	38
50–100	16,241	18	13,749	16
100–250	11,194	13	10,426	12
250–500	9,822	11	11,212	13
500–	5,704	6	9,357	11
Total	**88,451**	**100**	**86,812**	**100**

Past due loans, excl. impaired loans

	31 Dec 2017		31 Dec 2016	
SEKm	Corporate customers	Household customers	Corporate customers	Household customers
6–30 days	408	32	378	27
31–60 days	70	226	39	233
61–90 days	–	58	–	44
91-180 days	–	14	–	–
Total	**478**	**330**	**417**	**304**
Past due not impaired/loans and receivables, in %	0.52	0.07	0.45	0.07

Loan-to-value ratio

A common way to analyse the quality of collateral in the portfolio is to measure the Loan-to-Value (LtV), i.e. the current exposure divided by the market value of the collateral pledged. In the table below the mortgage exposures are broken down into different LtV ranges. In 2017, the mortgage exposure increased in the lower range (below 50 % LtV), while it decreased in the higher ranges due to an increase in market value of collaterals.

Mortgage exposure to loans to the public[1]

	31 Dec 2017		31 Dec 2016	
	SEKbn	%	SEKbn	%
<50%	416.8	82	404.0	81
50–60%	46.5	9	47.1	10
60–70%	33.7	7	35.0	7
70–75%	11.4	2	12.3	2
>75%	–	–	–	–
Total	**508.4**	**100**	**498.4**	**100**

1) Lending to the public sector customer segment is not included in the table above.

Note 29. Proposed distribution of earnings

After the company paid group contributions amounting to SEK 7,048,958,560 the following amount is available for distribution by the Annual General Meeting of Shareholders:

Cash flow hedge reserve	SEK 51,915,820
Retained profit	SEK 17,651,205,712
Net profit for the year	SEK 5,442,214,197
Total	**SEK 23,145,335,729**
The Board of Directors and the President propose that	
To be carried forward	**SEK 23,145,335,729**

It is the assessment of the Board of Directors that the proposed group contribution is justifiable considering the demands with respect to the size of the Company's equity, which are imposed by the nature, scope and risks, associated with the business, and the Company's need for consolidation, liquidity and financial position in general.

Note 30. IFRS 9

Classification of assets and liabilities under IFRS 9

Assets

1 Jan 2018, SEKm	Amortised cost (AC)	Fair value through profit or loss (FVPL) Mandatorily	Fair value through profit or loss (FVPL) Designated at fair value through profit or loss (Fair value option)	Fair value through profit or loss (FVPL) Derivatives used for hedging	Fair value through other comprehensive income	Non-financial assets	Total
Loans	544,221	–	–	–	–	–	544,221
Derivatives	–	–	–	6,176	–	–	6,176
Fair value changes of the hedged item in portfolio hedge of interest rate risk	–71	–	–	–	–	–	–71
Current tax assets	–	–	–	–	–	342	342
Other assets	1,154	–	–	–	–	–	1,154
Prepaid expenses and accrued income	698	–	–	–	–	–	698
Total assets	**546,002**	**–**	**–**	**6,176**	**–**	**342**	**552,520**

Liabilities

1 Jan 2018, SEKm	Amortised cost (AC)	Fair value through profit or loss (FVPL) Mandatorily	Fair value through profit or loss (FVPL) Designated at fair value through profit or loss (Fair value option)	Fair value through profit or loss (FVPL) Derivatives used for hedging	Fair value through other comprehensive income	Non-financial liabilities	Total
Deposit by credit institutions	194,469	–	–	–	–	–	194,469
Debt securities in issue	319,801	–	–	–	–	–	319,801
Derivatives	–	–	–	498	–	–	498
Fair value changes of the hedged items in portfolio hedge of interest rate risk	4,796	–	–	–	–	–	4,796
Other liabilities	7,832	–	–	–	–	1	7,833
Accrued expenses and prepaid income	39	–	–	–	–	–	39
Deferred tax liabilities[1]	–	–	–	–	–	18	18
Subordinated liabilities	1,800	–	–	–	–	–	1,800
Total liabilities	**528,737**	**–**	**–**	**498**	**–**	**19**	**529,254**

1) Increase in the net tax liability, SEK 3m. The classification of the increase in net tax liabilities on assets and liabilities remains to be determined.

Reclassification of assets and liabilities at transition

Assets, SEKm	Amortised cost (AC)	Fair value through profit or loss (FVPL) Mandatorily	Fair value through profit or loss (FVPL) Designated at fair value through profit or loss (Fair value option)	Fair value through profit or loss (FVPL) Derivatives used for hedging	Fair value through other comprehensive income	Non-financial assets	Total
Balance at 31 Dec 2017 under IAS 39	545,988	–	–	6,176	–	342	552,506
Remeasurement	14	–	–	–	–	–	14
Balance at 1 Jan 2018 under IFRS 9	546,002	–	–	6,176	–	342	552,520

Liabilities, SEKm	Amortised cost (AC)	Fair value through profit or loss (FVPL) Mandatorily	Fair value through profit or loss (FVPL) Designated at fair value through profit or loss (Fair value option)	Fair value through profit or loss (FVPL) Derivatives used for hedging	Non-financial assets	Total
Balance at 31 Dec 2017 under IAS 39	528,737	–	–	498	16	529,251
Remeasurement[1]	–	–	–		3	3
Balance at 1 Jan 2018 under IFRS 9	528,737	–	–	498	19	529,254

1) Increase in the net tax liability, SEK 3m. The classification of the increase in net tax liabilities on assets and liabilities remains to be determined.

Note 30. IFRS 9, cont.

The effect on equity (retained earnings) at transition
The total positive impact on equity from IFRS 9 at transition amounts to SEK 11m after tax.

Reclassification of provisions at transition

SEKm	Held to maturity	Loans and receivables	Amortised cost (AC)	Available for sale	Fair value through other comprehensive income	Off balance	Total
Balance at 31 Dec 2017 under IAS 39	**–**	**67**	–	**–**	–	–	**67**
Reclassification to AC	–	–67	67	–	–	–	–
Reclassification to FVPL	–	–	–	–	–	–	–
Remeasurement under IFRS 9, collective provisions	–	–	–14	–	–	–	–14
Remeasurement under IFRS 9, individually provisions	–	–	–	–	–	–	–
Balance at 1 Jan 2018 under IFRS 9	–	–	**53**	–	–	–	**53**

The main reason for Nordea Hypotek's low collective provisions is the company's historically low credit losses. The latter have, in the IFRS9 model, had a greater impact than before, and this, together with a bright future outlook for the value of collateral pledged for the company's loans, explains the change in collective provisions.

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

Stage 1	98.6%
Stage 2	1.3%
Stage 3	0.1%
Total	**100%**

Allowances for credit losses

SEKm	Stage 1	Stage 2	Stage 3	Total
Loans	**17**	**25**	**11**	**53**
Interest-bearing securities	–	–	–	–
Off balance	–	–	–	–
Total	**17**	**25**	**11**	**53**

Note 30. IFRS 9, cont.

Classification of financial instruments under IFRS 9

Each financial instrument has been classified into one of the following categories:
Financial assets:

- Amortised cost
- Financial assets at fair value through profit or loss:
  - Mandatorily measured at fair value through profit or loss
  - Designated at fair value through profit or loss (fair value option)
  - Derivative instruments for hedging
- Financial assets at fair value through other comprehensive income

Financial Liabilities:

- Amortised cost
- Financial liabilities at fair value through profit or loss:
  - Mandatorily measured at fair value through profit or loss
  - Designated at fair value through profit or loss (fair value option)
  - Derivative instruments for hedging

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

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

In order to assess the business model, Nordea Hypotek has divided its financial assets into portfolios and/or sub-portfolios based on how groups of financial assets are managed together to achieve a particular business objective. To derive the right level on which portfolios are determined, the current business area structure has been considered. When judging the business model for the portfolio concerned, Nordea Hypotek has analysed the purpose of the financial assets.

All financial assets and liabilities are initially measured at fair value. The classification of financial instruments into different categories forms the basis for how each instrument is subsequently measured on the balance sheet and how changes in its value are recognised. In the table "Classification of financial instruments under IFRS 9" on pages 57–58 the classification of the financial instruments on Nordea Hypotek's balance sheet into the different categories under IFRS 9 is presented.

The category Financial assets/liabilities at fair value through other comprehensive income does not occur at Nordea Hypotek.

Amortised cost

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

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

This category mainly consists of all lending to and deposits from credit institutions and the public, with the exception of reverse repurchase agreements.

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

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

This category has three subcategories: Mandatorily measured at fair value through profit and loss, Designated at fair value through profit or loss (fair value option) and Derivative instruments for hedging. The first two categories do not occur at Nordea Hypotek.

The subcategory Derivative instruments for hedging includes all derivative instruments at Nordea Hypotek as they are used for hedge accounting.

Impairment of financial instruments under IFRS 9

Scope

Financial instruments classified as "Amortised cost" or "Fair value through other comprehensive income" are in scope for recognising impairment due to credit risk. This includes assets recognised on the balance sheet as "Loans to credit institutions" and "Loans to the public". See Classification section above for further information on the classification of financial instruments.

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

Recognition and presentation

Amortised cost assets are recognised gross with an offsetting allowance for the expected credit losses if the loss is not regarded as final. The allowances are disclosed net on the face of the balance sheet, but are disclosed separately in the notes. Changes in allowances are recognised in the income statement and classified as "Net loan losses".

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

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

Note 30. IFRS 9, cont.

Impairment testing of individually assessed loans

Nordea Hypotek tests all exposures for impairment on an individual basis. The purpose of the impairment tests is to find out if the exposures have become credit impaired (stage 3). Nordea Hypotek monitors whether there are indicators of exposures being credit impaired by identifying events that have a detrimental impact on the estimated future cash flows (loss event). Nordea Hypotek applies the same definition of default as the Capital Requirements Regulation.

More information on the identification of loss events can be found in the Risk, Liquidity and Capital management section. Exposures that are not individually assessed as credit impaired will be part of the collective impairment calculation. For significant exposures that have been individually identified as credit impaired, the measurement of the impairment loss is made on an individual basis. The carrying amount of the exposures is compared with the sum of the net present value of expected future cash flows. If the carrying amount is higher, the difference is recognised as an impairment loss. The expected cash flows are discounted with the original effective interest rate and include the fair value of the collaterals and other credit enhancements. The estimate is based on three different 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 collective model described below, but based on the fact the exposures are already in default.

Impairment testing of collectively assessed loans

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

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

Nordea Hypotek 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 Hypotek has concluded it is not possible to calculate the lifetime PDs at origination without the use of hindsight for assets already recognised on the balance sheet at transition.

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

Nordea Hypotek does not use the exception "low credit risk" in the banking business.

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

Discount rate

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

Restructured loans and modifications

In this context a restructured loan is defined as a loan where Nordea Hypotek has granted concessions to the obligor due to its deteriorated financial situation and where this concession has resulted in an impairment loss for Nordea Hypotek. After a reconstruction the loan is normally regarded as not impaired if it performs according to the new conditions. In the event of a recovery the payment is reported as a recovery of loan losses.

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

Specifications to the Notes

Specification to Note 15: Swedish bonds, SEK 000s

Number	ISIN code	First sales day	Interest rate in %	Due dates for interest	Final payment day	Currency	Outstanding nominal amount 2017
5521[1]	SE0001542341	19/10/2005	3.25	17 Jun	17/6/2020	SEK	65,241,500
5529[1]	SE0005033669	1/2/2013	2.00	20 Jun	20/6/2018	SEK	59,800,900
5530[1]	SE0005676723	14/2/2014	2.25	19 Jun	19/6/2019	SEK	56,584,000
5531[1]	SE0006991246	8/4/2015	1.00	8 Apr	8/4/2022	SEK	51,113,000
5532[1]	SE0007897186	11/1/2016	1,25	19 May	19/5/2021	SEK	45,050,000
5533[1]	SE0010442731	11/10/2017	1,25	20 Sep	20/9/2023	SEK	6,681,000
5703	SE0004269363	19/10/2011	3.46	19 Oct	19/10/2026	SEK	3,000,000
5704	SE0004297125	9/11/2011	3.535	9 Nov	9/11/2021	SEK	1,000,000
5705	SE0004329506	2/12/2011	3.125	2 Dec	2/12/2026	SEK	1,000,000
5716	SE0007158597	1/6/2015	1.8375	1 Jun	1/6/2027	SEK	500,000
5717	SE0008015358	15/2/2016	1.56	15 Feb	15/2/2023	SEK	1,300,000
5718	SE0009414584	15/12/2016	1.69	15 Dec	15/12/2026	SEK	300,000
5711	SE0005506219	12/11/2013	3 months stibor +0.28	12 Jan[2]	12/1/2018	SEK	496,000
5712	SE0005651007	22/1/2014	3 months stibor +0.18	22 Apr[2]	22/1/2018	SEK	500,000
5713	SE0005757945	26/2/2014	3 months stibor +0.31	26 May[2]	26/2/2019	SEK	1,100,000
5714	SE0005797602	12/3/2014	3 months stibor +0.24	12 Jun[2]	12/3/2018	SEK	5,543,000
5715	SE0006913265	19/3/2015	3 months stibor +0.09	19 Jan[2]	19/7/2018	SEK	1,200,000

1) Tap issues.
2) Quarterly payment of interest, first payment date in the table.

Loan 5521–5533, 5703–5705, 5716-5718: No interest rate adjustment.

Registered Covered Bond (Loans issued in foreign currency)

Currency	Outstanding nominal amount in currency, (000s) 2017[1]
Total other bonds issued (converted into SEK):	10 087 434

1) The currency exposure and interest rate have been changed by using currency and interest rate swaps.

Specification to Note 18: Subordinated liabilities, SEK 000s

Number	Start date	Currency	Interest rate, %	Call date	Due date	Outstanding nominal amount 2017
Loan 10	28/6/2013	SEK	3 months stibor +2.13	28/6/2018	28/6/2023	1,000,000
Loan 11	30/12/2014	SEK	3 months stibor +1.70	30/12/2019	30/12/2024	800,000

Signing of the Annual Report

It is hereby certified that, to the best of our knowledge, the annual report has been prepared in accordance with sound accounting principles. The information provided gives a true and fair account of the development of the operations, financial position and result, and nothing of material significance has been omitted that would affect the presentation of the company created by the annual report.

Stockholm, 22 February 2018

Anna Storåkers
Chairman

Nicklas Ilebrand

Maria Härdling

Nils Lindberg

Peter Dalmalm

Elisabet Olin

Michael Skytt
CEO

Our audit report was submitted on 26 February 2018

Öhrlings PricewaterhouseCoopers AB

Catarina Ericsson
Authorised Public Accountant

Helena Kaiser de Carolis
Authorised Public Accountant

Auditor's Report

To the Annual general meeting of the shareholders of Nordea Hypotek AB (publ), corporate identity number 556091-5448

Report on the annual accounts

Opinions

We have audited the annual accounts of Nordea Hypotek AB (publ) for the year 2017.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Credit institutions and Securities Companies and present fairly, in all material respects, the financial position of Nordea Hypotek AB (publ) as of 31 December 2017 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act for Credit institutions and Securities Companies. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet.

Our opinions in this report on the the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of Nordea Hypotek AB (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Our audit approach

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They 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 the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Key audit matters

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

In the table below we set out how we tailored our audit for these key audit matters.

Key audit matter	How our audit addressed the Key audit matter
Impairment of loans to customers	
Accounting for impairment of loans to customers require management's judgment over timing of recognition of impairment and the size of any such impairment allowance. Nordea Hypotek AB (publ) makes allowances for incurred credit losses both on an individual and on a collective basis. Important areas of impairment of loans to customers relate to: • Identification of impaired loans including completeness of the customer accounts that are included in the impairment calculation • Assumptions and estimates made by managementsupporting the calculation of individual and collective impairment allowances. Examples of these relate to the probability of default and loss given default calculations. Nordea Hypotek AB (publ) applies IFRS 9 Financial Instruments from 1 January 2018. To estimate the recoverable amounts for loan receivables in accordance with IFRS 9 requires further judgments compared to IAS 39. Refer to the Annual Report Note 1 – Accounting policies (Critical judgements and estimation uncertainty), Note 8 – Net loan losses, Note 10 – Loans and impairment and Note 30 – IFRS 9.	We assessed and tested the design and operating effectiveness of the controls over: • rating and scoring of customers • individually assessed loan impairment calculations • collectively assessed loan impairment calculations We performed testing on a sample of loans to ascertain whether we concur with the risk assessment as expressed by the internal rating or scoring. We also assessed the appropriateness of relevant parameters in the collective impairment models. Furthermore, we have performed sample based audit activities of the effect of the transition to IFRS 9, which has included: • evaluation of Nordea Hypotek AB (publ)'s documentation of critical judgement; • validation that these critical judgements has been applied in models; and • recalculations of provisioning amounts.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director] (are) responsible for the preparation of the annual accounts and that they give a fair presentation in accordance with the Annual Accounts Act. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

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

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsinspektionen's website:

http://www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor´s report.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Nordea Hypotek AB (publ) for the year 2017 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of Nordea Hypotek AB (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our 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 opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's type of operations, size and risks place on the size of the company's and equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibility for the audit of the administration is available on Revisorsinspektionen's website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor´s report.

Öhrlings PricewaterhouseCoopers AB, 113 97 Stockholm, was appointed auditor of Nordea Hypotek AB (publ) by the general meeting of the shareholders on the 14 March 2017 and has been the company's auditor since the 12 March 2015.

Stockholm, 26 February 2018

Öhrlings PricewaterhouseCoopers AB

Catarina Ericsson
Authorised Public Accountant
Auditor in charge

Helena Kaiser de Carolis
Authorised Public Accountant

Board of Directors, Auditor and Management

Board of Directors

Chairman

Anna Storåkers, b 1974
Nordea Bank AB (publ)
Head of Personal Banking, Sweden

Members

Nicklas Ilebrand, b 1980
Nordea Bank AB (publ)
Head of Products, Sweden

Maria Härdling, b 1972
Nordea Bank AB (publ)
Head of TALM Analytics, Sweden

Peter Dalmalm b 1968
Nordea Bank AB (publ)
Head of Commercial Banking, Sweden

Nils Lindberg, b 1947
Senior Partner, Ekonans AB

Michael Skytt, b 1959
CEO, Nordea Hypotek AB (publ)

Elisabet Olin, b 1961
Nordea Bank AB (publ)
Business Risk Manager, Personal Banking SE och Commercial & Business Banking SE

Auditor

Öhrlings Pricewaterhouse Coopers AB

Catarina Ericsson
Authorised Public Accountant

Helena Kaiser de Carolis
Authorised Public Accountant

Management

Michael Skytt, b 1959
CEO, Nordea Hypotek AB (publ)

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