Nordea

Annual Report 2016

Nordea Hypotek AB (publ)

Contents

Directors' report

5 year overview

Income statement

SEKm	2016	2015	2014	2013	2012
Net interest income [1]	7,828	6,687	5,393	4,647	4,229
Net fee and commission income [1]	18	23	–76	–83	–77
Net result from items at fair value	–145	–140	–130	–167	–71
Other income	0	–	–	–	0
Total operating income	**7,701**	**6,570**	**5,187**	**4,397**	**4,081**
General administrative expenses:					
– Staff costs	–10	–7	–7	–7	–7
– Other expenses	–521	–511	–490	–492	–480
Total operating expenses	**–531**	**–518**	**–497**	**–499**	**–487**
Profit before loan losses	7,170	6,052	4,690	3,898	3,594
Net loan losses	–9	–22	–52	–14	–22
Operating profit	**7,161**	**6,030**	**4,638**	**3,884**	**3,572**
Appropriations	0	–	–	446	–447
Income tax expense	–1,575	–1,326	–1,020	–953	–822
Net profit for the year	**5,586**	**4,704**	**3,618**	**3,377**	**2,303**

Balance sheet

SEKm	2016	2015	2014	2013	2012
Assets					
Loans to credit institutions	3,274	2,602	91	1,259	2,724
Loans to the public	531,061	500,852	474,904	451,742	430,902
Derivatives	9,642	9,792	13,297	8,824	13,366
Fair value changes of the hedged items in portfolio hedge of interest rate risk	–26	57	563	581	1,302
Tax assets	87	153	358	2	1
Other assets	2,466	2,485	1,476	–	425
Prepaid expenses and accrued income	644	550	437	588	731
Total assets	**547,148**	**516,491**	**491,126**	**462,996**	**449,451**
Liabilities					
Deposits by credit institutions	168,609	157,977	150,702	118,985	102,475
Debt securities in issue	336,900	320,934	301,859	305,233	303,485
Derivatives	686	1,715	1,463	4,418	5,591
Fair value changes of the hedged items in portfolio hedge of interest rate risk	6,936	6,450	9,998	4,867	9,491
Current tax liabilities	0	–	–	477	352
Other liabilities	6,912	6,747	5,847	2,184	1,786
Accrued expenses and prepaid income	39	171	163	6,141	6,824
Deferred tax liabilities	155	139	89	67	88
Provisions	0	–	–	–	–
Subordinated liabilities	3,101	4,702	4,703	4,400	4,300
Untaxed reserves	–	–	–	–	447
Equity	23,810	17,655	16,302	16,224	14,612
Total liabilities and equity	**547,148**	**516,491**	**491,126**	**462,996**	**449,451**

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

Ratios and key figures

SEKm	2016	2015	2014	2013	2012
Return on average shareholders equity, %	24.9	26.2	21.0	21.3	15.5
Return on total capital, %	1.3	1.2	1.0	0.9	0.8
Return on asstes, %	1.0	0.9	0.7	0.7	0.5
Investment margin, %[1]	1.4	1.3	1.1	1.0	0.9
Cost/income ratio, %	7.0	8.2	10.6	11.7	12.5
Risk-weighted amount, before transition rules, SEKm	34,937	34,765	35,234	49,751	47,038
Risk-weighted amount, SEKm	273,761	255,603	237,326	218,588	204,624
Capital base, SEKm	26,176	21,795	20,536	20,199	18,771
Total capital ratio, before transition rules, % [2]	74.9	62.7	58.3	40.6	39.9
Tier 1 capital ratio, before transition rules, % [2]	66.0	49.2	44.9	31.9	31.0
Total capital ratio, % [2]	9.6	8.6	8.7	9.2	9.2
Tier 1 capital ratio, % [2]	8.5	6.7	6.7	7.3	7.1
Average number of employees	5	3	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.

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 2016. The company is a wholly owned subsidiary of Nordea Bank AB (publ) (corp. id no. 516406–0120).

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, agriculture and municipal activities. The key emphasis is on housing financing. Collateral consists mainly of mortgages on residential properties and tenant-owner apartments, or municipal guarantees.

Results

Operating profit amounted to SEK 7,161m (6,030), which is an increase of 18.8% 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 7,828m (6,687); an increase of 17.1%. The main reason for the increase in net interest income is higher lending volumes and lower funding costs. In 2016 the cost of the resolution fee was reclassified from commission expenses to interest expense, which had a negative effect on net interest income in the amount of SEK 155m, and a positive effect on net commission income in the amount of SEK 155m.
- Net earnings from items at fair value declined by SEK 5m. This is chiefly attributable to financial instruments under hedge accounting, which negatively affected the item by SEK 31m, lower premature loan redemption penalties, which had a negative impact on the item in the amount of SEK 23m, and to the repurchase of issued bonds entered at amortised cost, which had a positive effect of SEK 49m on the item.
- Net commission income declined by SEK 5m. This is mainly due to reduced commissions related to lending.
- The volume of loans past due that are not classified as impaired declined to 0.07% (0.08) for household lending, and declined to 0.45% (0.73) for corporate lending.
- Credit losses amounted to SEK –9m (–22) net, and the entire amount is attributable to household lending.
- Return on equity, after standard tax, was 24.9% (26.2).
- Selling expenses increased by SEK 5m compared to 2015. This is primarily due to the fact that a review was performed of remuneration for Nordea Bank AB in 2016, resulting in a higher expense for the company than in 2015.

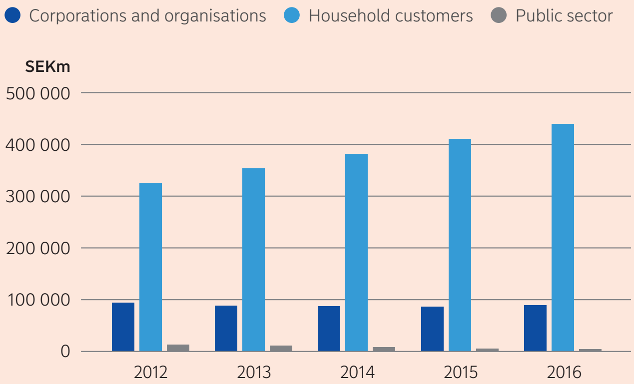
Loans

Lending to the public increased during the year by 6.0% (5.5) to SEK 531,061m (500,852) at year-end.

Lending to companies, organisations and municipalities

Lending to legal entities increased by SEK 1,652m (1.8%) to SEK 92,407m (90,755) at the end of the financial year.

Distribution of the loan portfolio



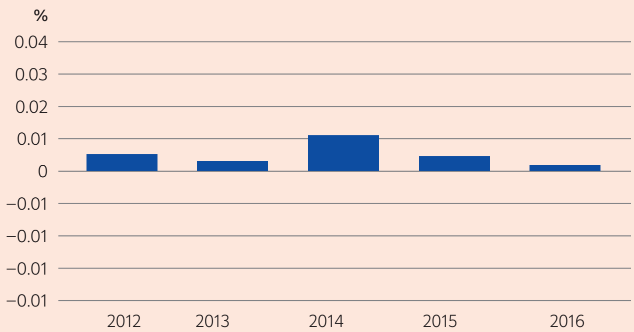
Household lending

Household lending increased by SEK 28,557m (7.0%) to SEK 438,654m (410,097) 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 –9m (–22).

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.

Funding

In 2016, 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 2016 the company issued bonds with maturities exceeding one year to the amount of SEK 87.7bn (86.3), 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 2016 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 325.2bn (309.6). In addition, the company had outstanding subordinated debenture loans of SEK 3.1bn (4.7). In 2016 Nordea Hypotek received an unconditional shareholders' contribution of SEK 4.7bn from the parent company. 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 168.7bn (157.8).

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 3m (10). The risk-weighted assets for other off-balance sheet exposures were SEK 849m (801) 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.

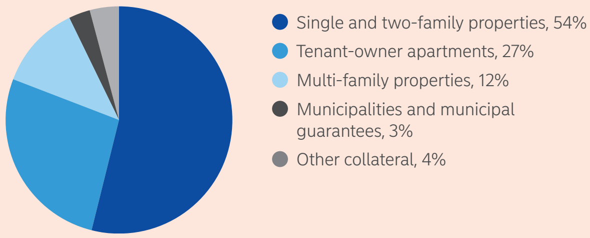
CSR
In accordance with the Nordea Group's Corporate Social Responsibility (CSR), Nordea Hypotek is committed to sustainable development by combining financial activity with responsibility for the environment and society. Further information about how the Nordea Group works with CSR is available at www.nordea.com

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

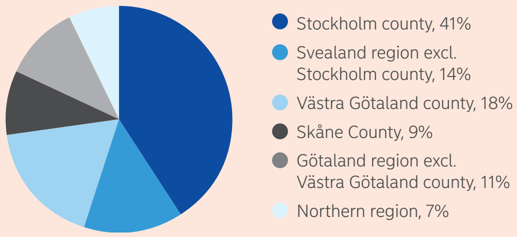
Outlook for 2017
In line with market practice, Nordea has decided not to publish any forecasts for 2017.

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

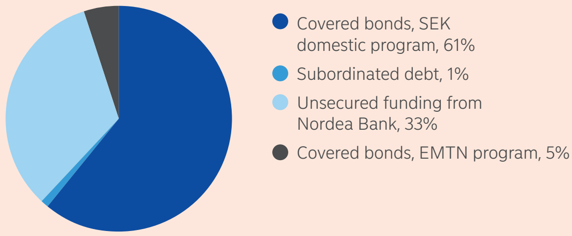
Breakdown of lending by collateral



Geographic distributioan of loans in covered pool



Nordea Hypotek's funding structure



Change in the board of directors
Ulla Hermann and Manuella Hansson left the board at the AGM 2016. 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, and Marie Härdling, Head of Treasury Asset and Liability Management (TALM) Analytics, have been ordinary board members. 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 2016.

Distribution of earnings
After the company paid group contributions of SEK 5,370,180,361 and received a shareholders' contribution of SEK 4,700,000,000, profit for the year of SEK 5,586,110,518 and retained earnings of SEK 17,563,282,871 as well as a cash flow hedge reserve of SEK 550,722,962 are available for distribution by the annual meeting of shareholders. The proposed distribution of earnings is provided on page 54.

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 22 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 has changed since the previous annual report and the composition is now 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), former CFO and Senior Advisor, Pandox AB, holds board assignments in several companies in the Pandox group
- Maria Härdling (born 1972), Head of Treasury Asset and Liability Management 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 – Lena Sjöberg Svensson (born 1964)
- Head of Credit – Lars Andersson (born 1959)
- Chief Risk Officer – Mats Bergström (born 1981)
- Chief Financial Officer – Daniel Oppenheimer (born 1977)

The address of the executive management's office is as follows: Nordea Bank AB (publ), L 740, 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 Pandox AB, Box 5364, 102 49 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
The Swedish Financial Supervisory Authority 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 term of the appointment of the former independent auditor, Sven Höglund, KPMG AB, came to an end on 1 March 2016.

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. 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. Group Risk Management & Control (GRMC) and Group Compliance (GC) constitute the second line of defence and are the Group's control functions. Group Internal Audit (GIA) is the third line of defence, 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 line of defence, which is independent of the first and second line, 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 requisite 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.

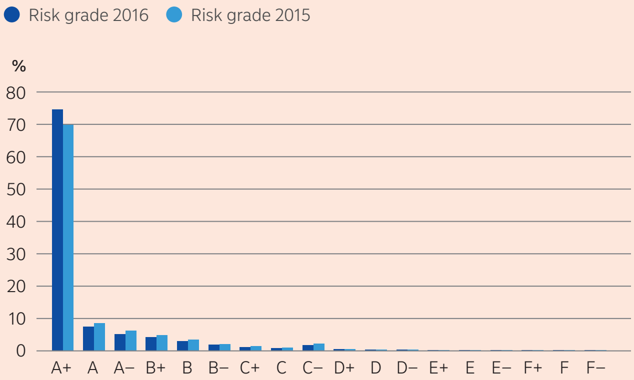
The Company's control of the services rendered by the Bank is regulated by a number of outsourcing agreements.

The Company's risk function is the first line of defence for the business conducted directly in the Company, e.g. product and system development. The risk function and the executive management of the Company also constitute an additional control function of the first line of defence at the Bank. The Company's risk function and the executive management also serve as support for GRMC and GC when devising the control and risk management framework as regards products that are specific to the Company.

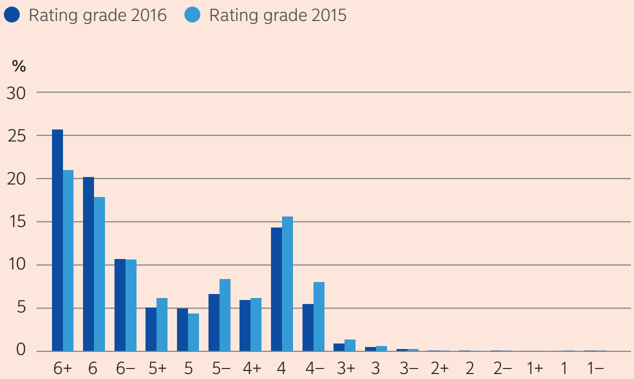
Risks associated with the Company's business
General information about risks to the Company

All companies that conduct business are exposed to various risks. The Company mainly conducts mortgage lending through sales channels in the Bank through outsourcing

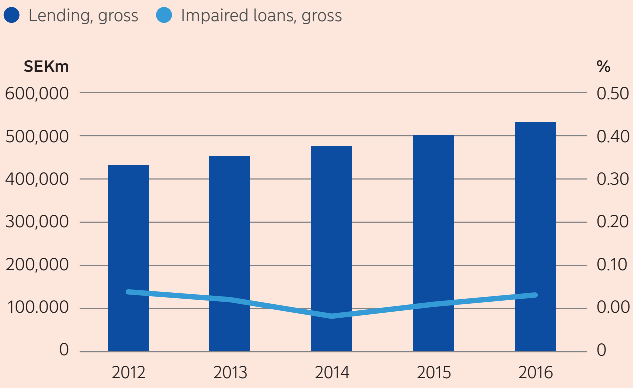
Risk grade distribution for the Retail portfolio



Rating distribution for the Corporate portfolio



Lending to the public and impaired loans



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).

Credit risk

Credit risk – definition

The risks in the Company's business are mainly attributable to credit risk. Credit risk occurs when a counterparty cannot honour its payment obligations, or pledged collateral does not suffice to cover the liability. Risks related to changes in the Company's prospects of getting back invested funds in loans and other receivables from counterparties are risks that are inherent in the business operations. Negative changes to the credit quality of the Company's borrowers and counterparties due to a general economic decline, systemic risks in the financial system, or due to declining collateral values, have a negative impact on the value of the Company's assets. In such a situation, a necessary increase to the Company's provisions for expected credit losses and realised credit losses, beyond provisioning already made, would have a considerable negative impact on the Company's business, financial position and earnings.

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

Each customer area has, together with Group Credit Risk Management, primary responsibility for managing the credit risks in its operations within the established framework and limits, including risk identification, control and reporting. The responsibility is regulated in outsourcing agreements and credit delegation agreements between the Company and the Bank.

GRMC, in consultation with the Company's risk function and executive management, is responsible for the overarching credit process and credit risk management, with e.g. guidelines, instructions and directives for the Company's products. GRMC is also responsible for controlling and monitoring the quality of the credit portfolio and the credit process.

Credit risk – key areas

Credit risk – market share

Because the Company essentially only has one product – loans – rapid growth would entail a rapid increase in the Company's credit risk in the event of a swift increase in market share. The Company has a clear strategy not to grow more than the market on average, and hence to retain its market share. The market share progression is monitored on an ongoing basis and reported to Company management.

Credit risk – impairment testing

Throughout the process of identifying and mitigating credit impairments, the Company continuously reviews the quality of the credit exposures. Weak and impaired exposures are closely and continuously monitored and reviewed at least on a quarterly basis in terms of current performance, business outlook, future debt service capacity and the possible need for provisions. A provision is recognised if there is objective evidence that the customer's future cash flow is weakened to the extent that full repayment is unlikely, realisation of pledged collateral included.

Exposures for which a provision has been made are considered as impaired. The size of the provision is equal to the estimated loss, i.e. the difference of the book value and the discounted value of the future cash flow, including the value of pledged collateral. Impaired exposures can be either performing or non-performing. Exposures that have been past due more than 90 days are automatically regarded as non-performing, and reported as impaired or not impaired depending on the deemed loss potential. Forbearance is negotiated terms or restructuring due to the borrowers' financial stress. The intention with granting forbearance for a limited period of time is to ensure full repayment of the outstanding debt. Examples of negotiated terms are changes in amortisation plan, repayment schedule, customer margin as well as easing financial agreements. Forbearance is undertaken on a selective and individual basis and followed by impairment testing. Loan loss provisions are recognised if necessary. Forborne customers without impairment charges are fully covered by either collateral and/or by the net present value of future cash flows.

In addition to individual impairment testing of claims of substantial value, collective impairment testing is performed for groups of claims 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 transpired loss events. The Group'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 Company's portfolio that are not individually assessed. The collective impairment is based on the migration of rated and scored customers in the credit portfolio as well as management judgement. The assessment of collective impairment reacts to up- and down-ratings of customers as well as new customers and customers leaving the portfolio. Customers going to and from default also affect the calculation. Collective impairment testing is performed 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.

Credit risk – customer classification

Rating and scoring are the main components in the risk management system for credit risk. The common denominator for the rating/scoring models is the ability to rank customers and predict insolvency. While the rating models are used for corporate customers and counterpart banks, scoring models are used for household customers and smaller companies. Ratings are normally assigned in connection with limit/credit proposals or annual reviews and are approved by the credit committees. Scoring models are purely statistical methods used to predict the probability of default among customers. The Group uses three types of scoring models in the credit process – assessment models based on information retrieved from the customer's credit application, from the customer's behaviour in other respects or from credit-rating agencies. The models are used primarily for the household customer segment, and also for small companies.

Credit risk – loan-to-value

A crucial factor in the ability to avoid credit losses in the event of the counterparty failing to honour its payment obligations is that the value of pledged collateral covers the claim of the Company on the counterparty. The risk of loss is measured using "loan-to-value" – the claim divided by the value of the collateral. The maximum loan-to-value ratio depends on the type of collateral, and whether it is a household or corporate customer.

Collateral valuation is performed statistically or, in exceptional cases, by means of external valuation for private credits

Minimum capital requirement and REA

	31 Dec 2016		31 Dec 2015	
KSEK	Minimum Capital requirement	REA	Minimum Capital requirement	REA
Credit risk	**2,137**	**26,707**	**2,208**	**27,602**
- of which counterparty credit risk	0	3	1	10
IRB	2,126	26,571	2,207	27,595
- of which corporate	737	9,215	770	9,621
- of which advanced	737	9,215	770	9,621
- of which foundation	–	–	0	0
- of which institutions	–	–	2	33
- of which retail	1,360	17,002	1,417	17,711
- of which secured by immovable property collateral	1,250	15,628	1,278	15,976
- of which other retail	110	1,374	139	1,735
- of which other	29	354	18	230
Standardised	11	136	1	7
- 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	1	7
- of which corporate	–	–	–	–
- of which retail	–	–	–	–
- of which secured by mortgages on immovable property	0	0	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	**646**	**8,075**	**548**	**6,854**
Standardised	646	8,075	548	6,854
Additional risk exposure amount due to Article 3 CRR	12	155	25	309
Sub total	**2,795**	**34,937**	**2,781**	**34,765**
Adjustment for Basel I floor				
Additional capital requirement according to Basel I floor	19,106	238,824	17,667	220,838
Total	**21,901**	**273,761**	**20,448**	**255,603**

and through authorised valuers for corporate credits. Validation and indexation of these valuations are performed on an ongoing basis by independent external providers to ensure accurate valuations. With the introduction of the amortisation requirement for personal loans collateralised by a home, in future loan-to-value ratios will decline faster than previously, which is positive for the Company's loan-to-value.

Credit risk in figures

Credit risk – credit portfolio/market share
(lending to the public and to credit institutions)
The Company's lending to the public increased by 6% (5.5) in 2016 to SEK 531,061m (500,852). Lending to the corporate sector accounted for 17% (18) of the exposure, of which the public sector (government and municipalities) accounted for 4% (6). The household sector's percentage of exposure was 83% (82) and equalled around 15.1% (15.1) of the total market. The distribution of the lending on collateral and maturities is otherwise shown below in note 10 and note 26. The company only mortgages properties in Sweden. Credit commitments and unutilised credit facilities amounted to SEK 31,543m (27,625). As of 2016, mortgage commitments are also included, which is a new feature compared to the previous year.

As in the previous year, the company did not have any assets in the form of bonds or other interest-bearing securities. The credit risk exposure in derivatives amounted to SEK 686m (1,715). Lending to credit institutions amounted at the end of the year to SEK 3,274m (2,602), all of which was placed in Group companies for terms of less than one year.

Credit risk – impaired loans
Impaired loans, gross, amounted to SEK 621m (604), referring entirely to private individuals in 2016. Following a deduction of SEK 16m (16) for provisioning for individually valued impaired loans, the net amount was SEK 605m (588), equalling 0.114% (0.117) of the outstanding credit volume. For more information, see also Note 10 "Loans and impairment".

Credit risk – customer classification
Out of household customers, 88% (87) had a score of A- or better (on a scale of A+ to F- where A+ is the highest and F- the lowest score). 0.4% (0.5) of household customers had a score of F+ or lower. During the year, a net amount of 4.4 percentage points (5.4) of household customers improved their score.

Out of corporate customers, 94% (93) were rated 4- or better (on a scale of 6+ – 1- where 6+ is highest and 1- is the lowest rating). 0.1% (0.2) of corporate customers were rated 1+ or poorer. During the year, a net amount of 2 percentage points (3.5) of corporate customers improved their rating.

Credit risk – loan-to-value
At year end, the Company's loan-to-value was 49.8% (51), entailing that collateral almost covers the double of claims.

Summary of items included in own funds

SEKm	31 Dec 2016[3]	31 Dec 2015[3]
Calculation of own funds		
Equity	23,810	17,655
Proposed/actual dividend	–	–
Common equity tier 1 (CET1) capital before regulatory adjustments	23,810	17,655
Deferred tax assets	–	–
Intangible assets	–	–
IRB provisions shortfall (–)	–136	–133
Deduction for investments in credit institutions (50%)	–	–
Pensions assets in excess of related liabilities[1]	–	–
Other items, net	–598	–427
Total regulatory adjustments to Common Equity Tier 1 capital	–734	–560
Common Equity Tier 1 capital (net after deduction)	**23,076**	**17,095**
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)	**23,076**	**17,095**
Tier 2 capital before regulatory adjustments	3,100	4,700
IRB provisions excess (+)	–	–
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	–	–
Tier 2 capital	3,100	4,700
Own funds (net after deduction)[2]	**26,176**	**21,795**

1) Based on conditional FSA approval.
2) Own funds adjusted for IRB provision, i.e. adjusted own funds equal SEK 26 312m by 31 Dec 2016.
3) Including profit of the period.

Market risk

Market risk – definition

Market risk is defined as the risk of loss in the Company as a result of changes in market rates and parameters that affect the market value, for example changes to interest rates and credit spreads. Market risk in the Company is mainly linked to funding the operations through borrowings from the Bank and market.

Market risk – the Company's organisation for market risk management

Group Treasury Asset and Liability Management (TALM) is responsible for borrowings on the Company's behalf, within frameworks and limits established by the Group's Risk Committees. The responsibility is regulated through outsourcing agreements. The business is largely integrated into the Group's borrowing so as to attain the most efficient and cheapest borrowing for the Group as a whole. TALM is responsible for identifying, controlling and reporting the progression of, and risks in, borrowings through the Company's Finance Committee, which convenes every two weeks (first line of defence).

GRMC, in consultation with the executive management of the Company, is responsible for the ongoing monitoring of the management of market risks and issues guidelines, instructions and directives applicable to the Company's specific situation. GRMC is also responsible for the evaluation and annual review of the limits in the Group's Risk Committees.

Market risk – key areas

Market 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 one percentage point. SIIR reflects the mismatch in the balance sheet items and the off-balance sheet items when the interest rate re-pricing periods, volumes or the reference rates of assets, liabilities and derivatives do not correspond exactly. 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. TALM has the responsibility for the operational management of SIIR.

Market risk – in figures

Market risk – SIIR

At the end of the year, the SIIR for increasing market rates was SEK 194m (83) and the SIIR for decreasing market rates was SEK –31m (155). These figures imply that net interest income would increase if interest rates rise and decrease if interest rates fall.

Liquidity risk

Liquidity risk – definition

Liquidity risk is the risk of the Company being able to meet liquidity commitments only at increased costs or, ultimately, being unable to meet obligations as they fall due. Liquidity risk in the Company is mainly associated with funding the operations through borrowings from the Bank and market.

Liquidity risk – the Company's organisation for liquidity risk management

According to outsourcing agreements TALM is responsible for managing the Company's liquidity. TALM performs this according to the Group's liquidity risk policy and guidelines. Liquidity risk management at the Company is largely integrated into the Group's liquidity risk management so as to create efficiency for the Group as a whole. Policy statements stipulate that the Company's liquidity management reflects a conservative attitude towards liquidity risk. TALM's mandate includes performing stress tests as an evaluation of potential effects on a Group's liquidity situation under a set of exceptional but plausible events. The risk management is focused on both short-term and long-term structural liquidity risk, and the liquidity risk management includes preparing a contingency plan. GRMC, in consultation with the executive management of the Company, is responsible for the ongoing monitoring of the management of liquidity risks and issues guidelines, instructions and directives applicable to the Company's specific situation. GRMC is also responsible for the evaluation and annual review of the Group's and Company's risk appetite.

Liquidity risk – key areas

Liquidity risk – Survival Horizon Metrics

To ensure funding in situations where the Group is in urgent need of cash and the normal funding sources do not suffice, the Group holds a liquidity reserve. In order to avoid short-term funding shocks, the Group measures the funding gap risk, which expresses the expected maximum accumulated need for raising liquidity in the course of the next 30 days. The measure Survival Horizon Metrics sets a minimum level at 30 days' survival and defines the risk appetite for the short-term liquidity risk.

Liquidity risk – Liquidity Coverage Ratio

The Liquidity Coverage Ratio is a legal requirement. The target for the net balance of stable funding (NBSF) is that it should be positive, which means that stable assets must be funded by stable liabilities. For the Company, liabilities mainly consist of bank borrowing, bonds and equity, while long-term assets mainly consist of lending to the public and loan commitments. The net balance of stable funding defines the risk appetite for the long-term liquidity risk.

Liquidity risk – in figures

Liquidity risk – Survival Horizon Metrics

The Company is part of a common liquidity group together with Nordea Bank (publ) and Nordea Finans Svergie AB (publ) following the approval of the Swedish Financial Supervisory Authority, and the survival horizon metrics are therefore not calculated individually for the Company.

Liquidity risk – liquidity coverage ratio

There are no liquid assets in Nordea Hypotek AB (publ) that require a liquidity coverage ratio that is greater than zero. The Company is part of the Swedish liquidity group in the Nordea Group and all liquid assets are in Nordea Bank AB (publ).

Operational risk

Operational risk – definition

Operational risk is defined as the risk of direct or indirect loss, or damaged reputation, resulting from inadequate or failed internal processes, from people and systems, or from external events. Legal risk and compliance risk, as well as criminal risk and process risk, including IT risk, constitute sub-categories of operational risk. 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.

Operational risk – the Company's organisation for operational risk management

The Bank's business areas are responsible for the management and limitation of the operational risks in its business activity. This is regulated through outsourcing agreements between the Company and the Bank. The Company is responsible for the management and limitation of the operational risks that arise in its own business, and for monitoring the risk management in relevant business areas. GRMC and GC, in consultation with the executive management of the Company, are responsible for the ongoing monitoring of the management of operational risks and issue guidelines, instructions and directives applicable to the Company's specific situation. Risk identification is in accordance with the Group's operational risk policy with an emphasis on three different activities. Group Level Controls are performed annually by the Company and have the purpose of ensuring that the Company follows the directives and policies applicable to the Group as a whole. A Risk and Control Self Assessment is performed quarterly in consultation with the Company, Group Risk Management and Group Compliance. The aim is to identify and prioritise which operational and compliance risks are present in the business, and to establish measures for managing them.

A Business Impact Analysis is conducted once every two years or in the event of major changes to the organisation, and aims to identify the most critical processes for the satisfactory functioning of the business. Because a large part of the Company's processes are conducted by the Bank, this is done in consultation between the Company, the Bank, GRMC and GC. Besides these three primary activities, the following are also performed: Quality and Risk Analysis, Scenario Analysis, and Third Party Risk Assessment.

Operational risk – key areas and measures

Operational risk – external dependence

Because the Company's business is conducted in close integration with the Bank and its branch business in Sweden, and the Company has engaged the Bank to conduct essentially all operating activities, including lending operations and also the Company's borrowings, the greatest operational risk is considered to be this very dependence. If the Bank were to cease to conduct these services or otherwise neglect to fulfil its obligations towards the Company, this would have a negative effect on the Company's business. This risk has been managed through an increase in the risk function in the Company and more rigid control of, and reporting for, the services rendered by the Bank.

Operational risk – critical processes

Through activities during the year, two critical processes have been identified (in the Bank) and these have been managed through Business Continuity Plans for each process. A number of less critical areas have also been identified, and action plans and controls have been implemented.

Operational risk – know your customer

Because the Company is dependent on the Bank conducting, as stipulated by law, requisite customer due diligence, during the year the Company introduced blocks to ensure compliance. With the blocks, no new loans may be arranged for customers without the requisite customer due diligence having been performed. The blocks have been regulated in outsourcing agreements with the Bank.

Operational risk – money laundering

The Company is dependent on the Bank in this respect too. In light of the Company's business, the risk of money laundering is not considered to be of material importance. However, a number of risk areas were identified in 2016 and action plans are in place for management in 2017.

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 2016, 99.5% (99.9) 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 Directive, and identified risks not covered by the Directive. 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 21,901m (20,448). Total own funds at the end of the year were SEK 26,176m (21,795). The total capital adequacy ratio at the end of the year was 9.6% (8.6).

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 2016 Nordea Hypotek held SEK 3.1bn in dated subordinated debenture loans (4.7).

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

On 1 June 2016 the Swedish Financial Supervisory Authority's regulations regarding the amortisation of loans collateralised by a home (the amortisation rules) came into effect. According to the amortisation rules, loans granted after 1 June are subject to compulsory amortisation if the loan-to-value ratio exceeds 50% of the market value. In the Company's view, the amortisation rules will reduce the credit risk in the long term through reduced loan-to-value ratios. In 2016 the Company prepared for the implementation of the Housing Loans-Related Operations Act, coming into force on 1 January 2017. The Act is based on the Directive 2014/17/EU (the "Mortgage Directive") and primarily entails increased consumer protection through more detailed information from the lender. It also means that business operators that provide or mediate mortgages must apply for authorisation and be under supervision. Furthermore, staff who mediate loans must have sufficient competence and knowledge. The Act also entails stricter requirements regarding mortgage-related advice. It affects all staff who work in relation to household customers, and they must have sufficient knowledge and competence to compile, offer, grant or mediate mortgages.

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 in 2014. On 14 March 2016 Finansinspektionen decided to increase the countercyclical capital buffer (CCyB) rate from 1.5% to 2% from 19 March 2017. On 24 May 2016 the Swedish Financial Supervisory Authority published two new methods intended to raise the capital requirements for exposures to corporates for banks that use the Internal Ratings Based (IRB) approach. The new methods require banks to include a financial downturn period every fifth year in the estimation of PD, as well as introducing a maturity floor of 2.5 years under Pillar II for banks that use the advanced IRB approach.

Proposal on amended CRR, CRD IV and BRRD

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

TLAC/MREL

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

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

Pillar II

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

NSFR

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

Leverage ratio

The proposal introduces a binding leverage ratio requirement of 3% of tier 1, harmonised with the international Basel Committee on Banking Supervision (BCBS) standard. A possible higher requirement for G-SII is postponed until a decision is taken by the BCBS.

Market risk

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

SME supporting factor
The EC proposal includes an extended Small and medium-sized enterprises (SME) supporting factor. The current SME supporting factor provides a capital reduction of 23.81% for exposures up to EUR 1.5m towards SMEs. The proposal extends this discount by an additional 15% reduction for the part above the EUR 1.5m threshold, intended to further stimulate lending to SMEs.

Revisions to the Basel III capital framework ("Basel IV")
Basel III is a global, regulatory framework on bank capital adequacy, stress testing, and liquidity risk. It was agreed upon by the members of the BCBS in 2010 and 2011, however some parts are currently under revision.

The revisions include proposals on the IRB approach imposing restrictions to the use of IRB approach for certain exposures, such as exposures towards institutions and large corporates, as well as introducing model-parameter floors. The revisions also include a revised standardised approach (SA) which base the risk weights on risk drivers and external ratings. The BCBS also proposes a revised operational risk framework that will be based on a single non-model-based method. Moreover, the BCBS proposal is to introduce a capital floor that should be based on the revised standardised approaches for credit, market and operational risks. There are also ongoing discussions in the BCBS regarding a potential leverage ratio buffer for G-SIBs. In January 2017, the BCBS announced that it is working to finalise its reforms and expects to complete its work in the near future.

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

Financial statements

Income statement

SEK (000s)	Note	2016	2015
Operating income			
Interest income		8,710,129	9,465,968
Interest expense		–881,852	–2,778,638
Net interest income	3	**7,828,277**	**6,687,330**
Fee and commission income		48,437	53,855
Fee and commission expense		–30,053	–30,771
Net fee and commission income	4	**18,384**	**23,084**
Net result from items at fair value	5	–144,785	–140,069
Total operating income		**7,701,876**	**6,570,345**
Operating expenses			
General administrative expenses:			
Staff costs	6	–10,127	–7,347
Other expenses	7	–521,318	–510,284
Total operating expenses		**–531,445**	**–517,631**
Profit before loan losses		**7,170,431**	**6,052,714**
Net loan losses	8	–9,068	–22,413
Operating profit		**7,161,363**	**6,030,301**
Income tax expense	9	–1,575,252	–1,326,513
Net profit for the year		**5,586,111**	**4,703,788**

Statement of comprehensive income

SEK (000s)	2016	2015
Net profit for the year	**5,586,111**	**4,703,788**
Items that may be reclassified subsequently to the income statement		
Cash flow hedges:		
Valuation gains/losses during the year	830,805	–810,192
Tax on valuation gains/losses during the year	–182,777	178,242
Transferred to profit or loss for the year	–757,268	1,036,621
Tax on transfers to profit or loss for the year	166,599	–228,057
Other comprehensive income, net of tax	**57,359**	**176,614**
Total comprehensive income	**5,643,470**	**4,880,402**

Balance sheet

SEK (000s)	Note	31 Dec 2016	31 Dec 2015
Assets			
Loans to credit institutions	10	3,274,464	2,601,665
Loans to the public	10	531,060,543	500,852,335
Derivatives	11	9,641,545	9,791,505
Fair value changes of the hedged items in portfolio hedge of interest rate risk		–25,860	57,115
Current tax assets		87,466	152,614
Other assets	12	2,466,415	2,485,275
Prepaid expenses and accrued income	13	643,591	550,079
Total assets		**547,148,164**	**516,490,588**
Liabilities			
Deposits by credit institutions	14	168,608,677	157,977,265
Debt securities in issue	15	336,899,512	320,934,176
Derivatives	11	685,702	1,715,465
Fair value changes of the hedged items in portfolio hedge of interest rate risk		6,936,406	6,449,509
Other liabilities	16	6,912,642	6,746,926
Accrued expenses and prepaid income	17	38,510	170,659
Deferred tax liabilities	9	155,332	139,154
Subordinated liabilities	18	3,101,266	4,702,046
Total liabilities		**523,338,047**	**498,835,200**
Equity			
Share capital		110,000	110,000
Other reserves		550,723	493,364
Retained earnings		17,563,283	12,348,236
Net profit for the year		5,586,111	4,703,788
Total equity		**23,810,117**	**17,655,388**
Total liabilities and equity		**547,148,164**	**516,490,588**

Other Notes

Note 1 Accounting policies
Note 2 Segment reporting
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 analyses for assets and liabilities
Note 27 Related-party transactions
Note 28 Credit risk disclosures
Note 29 Proposed distribution of earnings

Statement of changes in equity

	Restricted equity	Unrestricted equity		
SEK (000s)	Share capital[1]	Other 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.

	Restricted equity	Unrestricted equity		
SEK (000s)	Share capital[1]	Other reserves: cash flow hedges	Retained earnings	Total equity
Balance at 1 January 2015	**110,000**	**316,750**	**15,875,557**	**16,302,307**
Net profit for the year	–	–	4,703,788	4,703,788
Cash flow hedges:				
- Valuation gains/losses during the year	–	–810,192	–	–810,192
- Tax on valuation gains/losses during the year	–	178,242	–	178,242
- Transferred to profit or loss for the year	–	1,036,621	–	1,036,621
- Tax on transfers to profit or loss for the year	–	–228,057	–	–228,057
Other comprehensive income, net of tax	**–**	**176,614**	**–**	**176,614**
Total comprehensive income	**–**	**176,614**	**4,703,788**	**4,880,402**
Group contribution paid	–	–	–4,522,206	–4,522,206
Tax effect of group contribution	–	–	994,885	994,885
Balance at 31 December 2015	**110,000**	**493,364**	**17,052,024**	**17,655,388**

1) 100,000 shares.

Cash flow statement

SEK (000s)	2016	2015
Operating activities		
Operating profit	7,161,363	6,030,301
Adjustment for items not included in cash flow	–809,329	–427,602
Income taxes paid	–328,664	–126,263
Cash flow from operating activities before changes in operating assets and liabilities	**6,023,370**	**5,476,436**
Changes in operating assets		
Change in loans to the public	–30,218,120	–25,974,844
Change in derivatives, net	–244,099	952,341
Change in other assets	18,859	–1,009,115
Changes in operating liabilities		
Change in deposits by credit institutions	10,721,801	7,420,660
Change in debt securities in issue	16,475,454	19,267,469
Change in other liabilities	–5,204,466	–3,622,631
Cash flow from operating activities	**–2,427,201**	**2,510,316**
Financing activities		
Amortised subordinated liabilities	–1,600,000	–
Shareholders' contribution received	4,700,000	–
Cash flow from financing activities	**3,100,000**	**–**
Cash flow for the year	**672,799**	**2,510,316**
Cash and cash equivalents at the beginning of year	2,601,665	91,349
Cash and cash equivalents at the end of year	3,274,464	2,601,665
Change	**672,799**	**2,510,316**

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)	2016	2015
Loan losses	9,913	26,157
Unrealised gains/losses	–562,167	3,031,611
Change in accruals and provisions	–810,770	–393,243
Change in fair value of the hedged items assets/liabilities, net	569,873	–3,042,312
Other	–16,178	–49,815
Total	**–809,329**	**–427,602**

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)	2016	2015
Interest payments received	8,742,398	9,570,464
Interest expenses paid	–1,483,137	–2,998,381

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)	2016	2015
Loans to credit institutions, payable on demand	3,274,464	2,601,665

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
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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 23 February 2017 the Board of Directors approved the annual report, subject to final approval of the Annual General Meeting on 14 March 2017.

2. Changed accounting policies and presentation

In all material respects, the accounting policies, basis for calculations and presentation are unchanged in comparison with the 2015 Annual Report. The new accounting requirements implemented in 2016 and their effects on Nordea Hypotek's financial statements are described below.

The following new and amended standards and interpretations were implemented on 1 January 2016, but have not had any significant impact on Nordea Hypotek's reporting:

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

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 2016 but have not had any significant impact on Nordea Hypotek's financial statements.

The Swedish Financial Supervisory Authority's regulations FFFS 2008:25 were amended through the issuance of FFFS 2015:20. Those amendments were implemented by Nordea Hypotek on 1 January 2016 but have not had any significant impact on the financial statements.

The Swedish Financial Reporting Board has amended the accounting recommendation for legal entities by issuing "RFR 2 Accounting for Legal Entities – January 2016". Those amendments were implemented on 1 January 2016 but have not had any significant impact on the financial statements.

Changed presentation of stability fees

In order to follow practice on the local market Nordea Hypotek has reclassified fees to the government guarantee programme from "Net fee and commission income" to "Interest income". The comparative figures have been restated and the impact on the current and prior periods is shown in the table below. The changed presentation has not had any impact on the balance sheet or equity.

	2016			2015		
SEKm	Old policy	Restatement	New policy	Old policy	Restatement	New policy
Net interest income	7,983	–155	7,828	6,805	–118	6,687
Net fee and commission income	–137	155	18	–95	118	23

Changed presentation of "Net fee and commission income"

The presentation in Note 4 "Net fee and commission income" has, in addition to the changes described above, been changed. The main change is that income and expenses have been set off to better reflect the net return from different business activities. Commission expenses have been split more granularly to better match the related commission income. The gross effect on income and expense is shown in Note 4.

3. Changes in IFRSs not yet applied

IFRS 9 "Financial instruments"

IASB has completed the new standard for financial instruments, IFRS 9 "Financial instruments". IFRS 9 covers classification and measurement, impairment and general 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 does not intend to apply the standard early. Nordea Hypotek does not either intend to restate the comparative figures in the annual report 2018 due to 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

Note 1. Accounting policies, cont.

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 2015 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 have not resulted in any significant changes compared to how the financial instruments are measured under IAS 39. No significant impact is thus expected on Nordea Hypotek's financial position, financial performance or equity in the period of initial application. No significant impact on the capital adequacy, large exposures, risk management or alternative performance measures are expected in the period of initial application. These tentative conclusions are naturally dependent on the financial instruments on Nordea Hypotek's balance sheet at transition.

Impairment

The impairment requirements in IFRS 9 are based on an expected loss model as opposed to the current incurred loss model in IAS 39. The scope of IFRS 9 impairment requirements is also broader than IAS 39. IFRS 9 requires all assets measured at amortised cost and fair value through other comprehensive income, as well as off-balance commitments including guarantees and loan commitments, to be included in the impairment test. Currently Nordea 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 in which there has been no significant increase in credit risk, stage 2 includes assets in which there has been a significant increase, and stage 3 includes assets that are impaired. 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. Nordea Hypotek has to decide what parameters to use for identifying the increase in credit risk and how much these parameters need to change in order to constitute a "significant increase". For assets held at transition, Nordea Hypotek has tentatively 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 tentatively decided to use a mix of absolute and relative changes in PD as the transfer criterion. In addition, customers with forbearance measures and customers with payments more than thirty days past due will also be transferred to stage 2. Nordea Hypotek has not yet determined the threshold for the change in rating, scoring and PDs when assessing whether it is significant or not.

Nordea Hypotek's current model for calculating collective provisions is based on a deterioration in rating/scoring. The trigger in the current model is however not expected to equal the trigger event that moves items from stage 1 to stage 2 under IFRS 9.

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

For assets where there has been a significant deterioration in credit risk, Nordea Hypotek currently holds provisions based on the losses estimated to occur during the period between the date when the loss event occurred and the date when the loss event is identified on an individual basis, the so called "Emergence period" while IFRS 9 will require provisions equal to the lifetime expected loss.

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

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

Impairment calculations under IFRS 9 will require more experienced credit judgements by the reporting entities than is required by IAS 39 today and a higher subjectivity is thus introduced. The inclusion of forward-looking information adds complexity and makes provisions more dependent on management's view of the future economic outlook.

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

IFRS 15 "Revenue from Contracts with Customers"

The IASB published the new standard, IFRS 15 "Revenue from Contracts with Customers" in 2014. Clarifications of the standard were published in April 2016. The new standard outlines a

Note 1. Accounting policies, cont.

single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue recognition standards and interpretations within IFRS, such as IAS 18 “Revenue”. The new standard is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. The standard was endorsed by the European Commission in 2016 and the clarifications are expected to be endorsed in 2017. Nordea Hypotek does not currently intend to early adopt the standard. The standard does not apply to financial instruments, insurance contracts or lease contracts. Nordea Hypotek has not finalised the investigation of the impact on the financial statements but the current assessment is that the new standard will not have any significant impact on Nordea Hypotek’s financial statements, capital adequacy or large exposures in the period of initial application.

Other changes in IFRS

The IASB has published the following new or amended standards that are assessed to have no significant impact on Nordea Hypotek’s financial statements, capital adequacy or large exposures in the period of initial application:
- Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealised Losses”
- Amendments to IAS 7”Disclosures Initiative”

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 subsequently, 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.

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 that 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 the decisions are based on professional judgement in accordance with Nordea Hypotek’s accounting and valuation policies. In order to ensure proper governance, Group Valuation Committee in Nordea Bank AB (publ) on an ongoing basis reviews critical judgments that are deemed to have a significant impact on fair value measurements.

See also the separate 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 judgement 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, judgement has to be exercised when identifying the events and/or the observable data that indicate that losses have been incurred in the group of loans. Nordea 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 the separate section 11 “Loans to the public/credit institutions” and Note 10 “Loans and impairment”.

Effectiveness testing of cash flow hedges

One important judgement in connection to cash flow hedges accounting is the choice of method used for effectiveness testing. 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 expenses are calculated and recognised based on the effective interest rate method or, if considered appropriate, based on a method that results in an interest income or interest expense that is a reasonable approximation of using the effective interest rate method as basis for the

Note 1. Accounting policies, cont.

calculation. The effective interest includes fees considered to be an integral part of the effective interest rate of a financial instrument (generally fees received as compensation for risk). The effective interest rate equals the rate that discounts the contractual future cash flows of the 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, are classified as "Net result from items at fair value", apart for derivatives used for hedging, and 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 or obtained.

Net result from items at fair value

Realised and unrealised gains and losses on financial instruments measured at fair value are recognised in the item "Net result from items at fair value".

Realised and unrealised gains and losses derive from:

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

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

Also realised gains and losses from financial instruments measured at amortised cost, such as interest compensation received and realised gains/losses on buy-backs of issued own debt, are classified as "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" in the balance sheet, are reported as "Net loan losses". Losses are reported net of any collateral and other credit enhancements. Accounting policies for the calculation of impairment losses on loans are 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 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, debt securities in issue and foreign exchange spot transactions are recognised and derecognised (reclassified to the items "Other assets" or "Other liabilities" on the balance sheet between trade date and settlement date) 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-date accounting is applied, are derecognised from the balance sheet when the contractual rights to the cash flows from the financial asset expire or are transferred to another party. The rights to the cash flows normally expire or are transferred when the counterpart has performed by e.g. repaying a loan to Nordea Hypotek, i.e. on settlement date. Financial liabilities under trade date accounting are generally reclassified to "Other liabilities" on the balance sheet on trade 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 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 or substantially all risks and rewards include reversed repurchase agreements.

Financial liabilities are derecognised from the balance sheet when the liability is extinguished. Normally this occurs when Nordea Hypotek performs, i.e. on 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" (Reversed repurchase agreements).

7. Translation of assets and liabilities denominated in foreign currencies

The functional and reporting currency in Nordea Hypotek is Swedish kronor (SEK).

Foreign currency is defined as any currency other than the functional currency of the entity. Foreign currency transactions are recorded at the exchange rate on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate on the balance sheet date.

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 hedge accounting relating to hedging core deposits and under-hedging strategies.

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

There are in general mainly three types 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 exist in 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

Note 1. Accounting policies, cont.

of assets and liabilities in Nordea Hypotek's financial statements originates mainly from loans, securities and deposits with a fixed interest rate, causing interest rate risk. Changes in fair value from derivatives as well as changes in fair value of the hedged item attributable to the risks being hedged will be 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 will be close to zero. The changes in fair value of the hedged item attributable to the risks hedged with the derivative instrument are reflected in an adjustment to the carrying amount of the hedged item, which is also recognised in the income statement. The fair value change of the hedged items held at amortised cost in a portfolio hedge of interest rate risks is reported separately from the portfolio in the item "Fair value changes of the hedged items in portfolio hedge of interest rate risk" in the balance sheet.

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

Hedged items

A hedged item in a fair value hedge can be a recognised single asset or liability, an unrecognised firm commitment, or a portion thereof. The hedged item can also be a group of assets, liabilities or firm commitments with similar risk characteristics. Hedged items in Nordea 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 currency interest rate swaps, which are always held at fair value.

Cash flow hedge accounting

Cash flow hedge accounting can be used for the hedging of exposure to variations in future interest payments on instruments with variable interest rates and for 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 other reserves in equity. The ineffective portion of the gain or loss on the hedging instrument is reclassified to the item "Net result from items at fair value" in the income statement.

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

Hedged items

A hedged item in a cash flow hedge can be highly probable floating interest rate cash flows from recognised assets or liabilities or from future assets or liabilities. Nordea 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 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.

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 the life of the hedge it can be expected that changes in fair value of the hedged item as regards the hedged risk can be essentially offset by changes in fair value of the hedging instrument. The result should be within a range of 80–125 per cent.

When assessing hedge effectiveness retrospectively Nordea 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. The effectiveness measurement is made on a cumulative basis. The hypothetical derivative method is used when measuring the effectiveness of cash flow hedges, meaning that the change in a perfect hypothetical swap is used as a proxy for the present value of the cumulative change in expected future cash flows on the hedged transaction (the currency component).

If the hedge relationship does not fulfil the requirements, hedge accounting will be 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 other reserves 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 is still expected to occur, the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income from the period when the hedge was effective remains in other comprehensive income until the transaction occurs or is no longer expected to occur.

9. Determination of fair value of financial instruments

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

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

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

Note 1. Accounting policies, cont.

age limit for the prices used for establishing fair value is higher.

If 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 models are designed to apply observable market prices and rates as input whenever possible, but can also make use of unobservable model parameters. Nordea Hypotek predominantly uses valuation techniques to establish the fair value for derivatives (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 techniques using observable data (level 2), and valuation techniques using non-observable data (level 3) is provided in Note 23 "Assets and liabilities at fair value".

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 a Model Risk Management Committee of Nordea Bank AB (publ) 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 instrument into different categories forms the basis for how each instrument is subsequently measured on the balance sheet and how changes in its value are recognised. In Note 22 "Classification of financial instruments" the classification of the financial instruments in Nordea Hypotek's balance sheet is presented.

Loans and receivables

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

Other financial liabilities

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

Reverse repurchase agreements

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

Cash delivered under reversed repurchase agreement is recognised on the balance sheet as "Loans to credit institutions" or as "Loans 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".

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

Exchanged 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 agreements result in Nordea Hypotek having a present obligation to either deliver cash or another financial assets, or a variable number of equity instruments to the holder of the instrument and classified as equity, net of transaction cost. 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 on "Risk, Liquidity and Capital management". Loans attached to individual customers or groups of customers are identified as impaired if the impairment test indicates objective evidence of impairment.

Impairment test of individually assessed loans

Nordea Hypotek tests all loans for impairment on an individual basis. The purpose of the impairment tests is to find out if the loans have become impaired. As a first step in the identification process for impaired loans, Nordea Hypotek monitors

Note 1. Accounting policies, cont.

whether there are indicators for 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 test of collectively assessed loans

Loans not impaired on an individual basis are collectively assessed for impairment. The 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 a group. A loss event is an event resulting in a deterioration of the expected future cash flow. Only loss events incurred up to the reporting date are included when performing the assessment of the group.

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

For corporate customers and bank counterparts, Nordea Hypotek uses the existing rating system as a basis when assessing the credit risk. Nordea Hypotek uses historical data on probability of default to estimate the risk for a default in a rating class. These loans are rated and grouped mostly based on type of industry and/or sensitivity to certain macro parameters.

Household 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 on Risk, Liquidity and Capital Management.

Impairment loss

If the carrying amount of the loans is higher than the sum of the net present value of estimated cash flows, including the fair value of the collaterals, the difference is the impairment loss.

For significant loans that have been individually identified as impaired the measurements 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 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 will be recorded as changes in the allowance account and as "Net loan losses" in the income statement.

See also section 5 "Recognition of operating income and impairment".

If the impairment loss is regarded as final, it is reported as a realised loss and the value of the loan and the related allowance is 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, deem it unlikely that the claim will be recovered.

Discount rate

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

Restructured loans

In this context a restructured loan is defined as a loan where Nordea 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 loan losses unless Nordea Hypotek retains the possibility to regain the realised loan losses incurred. In the event of a recovery the payment is reported as a recovery of loan losses.

12. Taxes

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

Current tax is the expected tax expense on the taxable income for the year, using tax rates enacted or 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, providing 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 the temporary differences, tax losses carry forward and unused tax credits can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Current tax assets and current tax liabilities are offset when the legal right to offset exists 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 deferred tax liabilities are generally offset if there is a legally enforceable right to offset current tax assets and current tax liabilities.

Note 1. Accounting policies, cont.

13. Employee benefits

All forms of consideration given by Nordea Hypotek 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 salaries are expensed in the period when the employees have performed services to Nordea Hypotek.

Post-employment benefits

During 2016, pension costs comprise premiums and fees to insurance companies and pension funds as well as defined benefit pension costs for other commitments. Defined benefit pension commitments are 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, shareholder’s equity is split into funds 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.

Other reserves

The portion of the gain or loss on hedging instruments, which is determined to be an effective hedge, is recognised in other reserves. For further information see 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 Hypotek defines related parties as:
- Nordea Group Companies
- Key management personnel

Nordea Group Companies

Nordea Group Companies means the parent company Nordea Bank AB (publ) (Corp.reg.no.516406-0120) and its subsidiaries.

Key management personnel

Key management personnel includes the following positions:
- The Board of Directors
- The President of Nordea Hypotek
- The Management

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

Note 2. Segment reporting

Reportable segments

In the fourth quarter of 2016 Retail Banking was split into 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 below. Nordea Hypotek has short-term borrowing from Nordea Bank AB. Because Stibor (3 months) is negative, Nordea Hypotek gains revenue from each such instance of borrowing, while Nordea Bank AB incurs an equivalent expense. This, combined with declining market rates, is the main reason why the interest expenses of Group Treasury, which manages Nordea Hypotek's borrowings, have declined by approx. SEK 1,946m compared with 2015. 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 +749m in 2016.

Operating segments

	Personal Banking		Commercial & Business Banking		Group Treasury		Other operating segments		Total operating segments		Reconciliation		Total	
Income statement, SEKm	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Net interest income	7,282	7,540	1,158	1,519	−733	−2,659	−85	79	7,622	6,479	206	208	7,828	6,687
Net fee and commission income	58	65	4	4	−30	−30	0	0	32	39	−14	−16	18	23
Net result from items at fair value	61	92	13	5	−218	−237	0	0	−144	−140	–	–	−144	−140
Total operating income	**7,401**	**7,697**	**1,175**	**1,528**	**−981**	**−2,926**	**−85**	**79**	**7,510**	**6,377**	**192**	**192**	**7,702**	**6,570**
Other expenses	0	0	0	0	−17	−18	−23	−14	−40	−32	−492	−486	−532	−518
Total operating expenses	**0**	**0**	**0**	**0**	**−17**	**−18**	**−23**	**−14**	**−40**	**−32**	**−492**	**−486**	**−532**	**−518**
Net loan losses	−9	−47	0	25	–	–	–	–	−9	−22	–	0	−9	−22
Operating profit	**7,392**	**7,650**	**1,175**	**1,553**	**−998**	**−2,944**	**−108**	**65**	**7,461**	**6,323**	**−300**	**−294**	**7,161**	**6,030**
Balance sheet, SEKm														
Loans to the public	422,243	392,197	103,423	101,831	–	–	5,395	6,824	531,061	500,852	–	–	531,061	500,852

Reconciliation between total operating segments and financial statements

	2016		2015	
SEKm	Operating profit	Loans to the public	Operating profit	Loans to the public
Total operating segments	7,461	531,061	6,324	500,852
Group functions and unallocated items	−300	–	−294	–
Total	**7,161**	**531,061**	**6,030**	**500,852**

Note 3. Net interest income

SEK (000s)	2016	2015
Interest income		
Loans to credit institutions	0	1,702
Loans to the public	8,704,742	9,459,287
Other interest income	5,387	4,979
Interest income	**8,710,129**	**9,465,968**
Interest expense		
Deposits by credit institutions	701,103	184,109
Debt securities in issue	–5,529,694	–6,806,439
Subordinated liabilities	–123,868	–142,355
Other interest expenses[1]	4,070,607	3,986,047
Interest expense	**–881,852**	**–2,778,637**
Net interest income	**7,828,277**	**6,687,330**

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)	2016	2015
Lending to the public		
Average volume, SEKm	516,366	486,598
Average interest, %	1,69	1.94

Interest income from financial instruments not measured at fair value through profit and loss amounts to SEK 8,710m (9,466). Interest expenses from financial instruments not measured at fair value through profit and loss amounts to SEK 4,952m (6,765).

Note 4. Net fee and commission income

SEK (000s)	2016	2015
Custody and issuer services	–29,963	–30,675
- Of which income	–	–
- Of which expense	–29,963	–30,675
Lending Products	23,235	24,550
- Of which income	23,235	24,550
- Of which expense	–	–
Other	25,112	29,208
- Of which income	25,202	29,305
- Of which expense	–90	–97
Total	**18,384**	**23,083**

Note 5. Net result from items at fair value

SEK (000s)	2016	2015
Interest-bearing securities and other interest-related instruments[1]	–144,785	–140,069

1) Of which SEK 73,899k (96,882) related to financial assets held at amortised cost.

Net result from categories of financial instruments

SEK (000s)	2016	2015
Loans and receivables	73,899	96,882
Financial liabilities measured at amortised cost	–206,112	–255,423
Financial instruments under hedge accounting	–12,572	18,473
- of which net result on hedging instruments	635,947	–2,797,410
- of which net result on hedged items	–648,519	2,815,883
Total	**–144,785**	**–140,069**

Note 6. Staff costs

SEK (000s)	2016	2015
Salaries and remuneration[1] (specification below)	–4,835	–2,811
Pension costs (specification below)	–2,956	–2,886
Social security contributions	–2,219	–1,587
Other staff costs	–117	–63
Total	**–10,127**	**–7,347**

Salaries and remuneration:

President and Vice President:		
- Fixed compensation and benefits	–1,184	–1,136
- Allocation to profit-sharing	–20	–28
To other employees	–3,531	–1,547
Board of Directors	–100	–100
Total	**–4,835**	**–2,811**

Pension costs:

Defined benefit plans	–2,589	– 2,534
Defined contribution plans	–367	–352
Total	**–2,956**	**–2,886**

1) Allocation to profit-sharing foundation 2016 214k (83) consists of a new allocation of 193k (79) and related to prior year 21k (4).

To the Group Board Directors' no directors' fee was paid.

For 2016 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 34,769k (21,572). Interest income on these loans amounts to 480k (328).

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	2016	2015
Pension costs for President	220,395	220,002
Pension commitments for President	6,671,197	5,107,283
Pension costs for previous Presidents	907,464	869,366
Pension commitments for previous Presidents	10,439,945	10,174,184
Pension costs for Vice President	12,642	–
Pension commitments for Vice President	3,997,615	–
Pension costs for previous Vice President	245,784	241,963
Pension commitments for previous Vice President	3,701,980	3,586,039
Pension costs for external member of the board	221,412	221,412
Pension commitments for external member of the board	2,966,756	2,887,891

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

	2016	2015
Full-time equivalents		
Men	4	3
Women	1	–
Total average	**5**	**3**

At year-end the total number of employees was 22 (3).

Gender distribution

In the Board of Directors of Nordea Hypotek AB 57% (67%) were men and 43% (33%) were women.

Note 7. Other expenses

SEK (000s)	2016	2015[2]
Postage, telephone and office expenses	−828	−1,455
Compensation to Nordea	−509,180	−503,980
Other[1]	−11,310	−4,849
Total	**−521,318**	**−510,284**

1) Including fees and remuneration to auditors distributed as follows.
2) The comparative figures for 2015 have been restated.

Auditors' fee

SEK (000s)	2016	2015
KPMG		
Auditing assignments	–	27
Audit-related services	–	−717
Other assignments	–	0
Öhrlings PricewaterhouseCoopers		
Auditing assignments	−621	−402
Non audit services	−100	–
Total	**−721**	**−1,092**

Note 8. Net loan losses

SEK (000s)	2016	2015
Loan losses divided by class		
Loans to the public[1]		
Realised loan losses	−13,932	−60,710
Allowances to cover realised loan losses	–	35,072
Recoveries on previous loan losses	845	3,744
Provisions	−3,790	−32,962
Reversals of previous provisions	7,809	32,443
Net loan losses	**−9,068**	**−22,413**

1) Included in Note 10 Loans and impairment.

Note 9. Taxes

Income tax expenses

SEK (000s)	2016	2015
Current tax[1]	−1,575,252	−1,326,514

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

SEK (000s)	2016	2015
Profit before tax	7,161,363	6,030,301
Tax calculated at a tax rate 22.0 per cent (22.0)	−1,575,500	−1,326,666
Tax-exempt income	249	182
Non-deductible expenses	−3	−29
Tax charge	**−1,575,252**	**−1,326,513**
Average effective tax rate %	22,0	22.0

Deferred tax

SEK (000s)	2016	2015
Movements in deferred tax liabilities		
Amount at beginning of year	139,154	89,340
Deferred tax relating to items in Other comprehensive income	16,178	49,814
Amount at end of year	**155,332**	**139,154**
Deferred tax liabilities		
Deferred tax relating to cash flow hedges	155,332	139,154

Note 10. Loans and impairment

	Credit institutions		The public		Total	
SEK (000s)	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Loans, not impaired	3,274,464	2,601,665	530,504,624	500,317,008	533,779,088	502,918,673
Impaired loans	–	–	620,547	603,974	620,547	603,974
- of which performing	–	–	43,253	148,515	43,253	148,515
- of which non-performing	–	–	577,294	455,459	577,294	455,459
Loans before allowances	**3,274,464**	**2,601,665**	**531,125,171**	**500,920,982**	**534,399,635**	**503,522,647**
Allowances for individually assessed impaired loans	–	–	–16,200	–16,200	–16,200	–16,200
- of which performing	–	–	–5,109	–1,106	–5,109	–1,106
- of which non-performing	–	–	–11,091	–15,094	–11,091	–15,094
Allowances for collectively assessed impaired loans	–	–	–48,428	–52,447	–48,429	–52,477
Allowances	**–**	**–**	**–64,628**	**–68,647**	**–64,628**	**–68,647**
Loans, carrying amount	**3,274,464**	**2,601,665**	**531,060,543**	**500,852,335**	**534,335,007**	**503,454,000**

Reconciliation of allowance accounts for impaired loans[1]

	The public		
SEK (000s)	Individually assessed	Collectively assessed	Total
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**
Opening balance at 1 January 2015	**–77,000**	**–27,000**	**–104,000**
Provisions	–	–32,962	–32,962
Reversals of previous provisions	25,728	7,515	33,243
Changes through the income statement	**25,728**	**–25,447**	**281**
Allowances used to cover write-offs	35,072	–	35,072
Closing balance at 31 December 2015	**–16,200**	**–52,447**	**–68,647**

1) See Note 8 Net loan losses.

Key ratios

	31 Dec 2016	31 Dec 2015
Impairment rate, gross[1], basis points	11.6	12.0
Impairment rate, net[2], basis points	11.3	11.7
Total allowance rate[3], basis points	1.2	1.4
Allowance in relation to impaired loans[4], %	2.6	2.7
Total allowances in relation to impaired loans[5], %	10.4	11.4

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 2016	31 Dec 2015
Single and two-family properties	286,340,775	270,648,309
Tenant-owner apartments	147,164,749	133,023,283
Multi-housing property	64,493,303	58,077,920
Public sector incl. surety/guarantee	13,882,484	17,236,746
Other collateral	19,243,861	21,934,724
Total	**531,125,171**	**500,920,982**

Note 11. Derivatives and Hedge accounting

31 Dec 2016, SEKm	Fair value Positive	Fair value 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

31 Dec 2015, SEKm	Fair value Positive	Fair value Negative	Total nom. amount
Derivatives used for hedge accounting			
Interest rate derivatives			
Interest rate swaps	8,489	881	228,079
Options	196	192	76,896
Total	**8,687**	**1,073**	**304,975**
Foreign exchange derivatives			
Currency and interest rate swaps	1,105	642	29,211
Total	**1,105**	**642**	**29,211**
Total derivatives used for hedge accounting	**9,792**	**1,715**	**334,186**
- of which fair value hedges	9,792	1,073	314,385
- of which cash flow hedges	–	642	29,211

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 2016	31 Dec 2015
Claims on securities settlement proceeds	–	111,094
Other assets[1]	2,466,415	2,374,181
Total	**2,466,415**	**2,485,275**

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 2016	31 Dec 2015
Accrued interest income	289,835	320,159
Prepaid expenses	353,756	229,920
Total	**643,591**	**550,079**

Note 14. Deposits by credit institutions

SEK (000s)	31 Dec 2016	31 Dec 2015
Swedish banks	168,608,677	157,977,265

Note 15. Debt securities in issue[1]

SEK (000s)	31 Dec 2016	31 Dec 2015
Swedish bonds	310,952,257	294,122,176
Foreign securities	25,947,255	26,812,000
Total	**336,899,512**	**320,934,176**

1) See Specification to Notes, page 55.

Note 16. Other liabilities

SEK (000s)	31 Dec 2016	31 Dec 2015
Accounts payable	940	43
Liabilities, group contributions	5,370,180	4,522,206
Other liabilities[1]	1,541,522	2,224,677
Total	**6,912,642**	**6,746,926**

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 2016	31 Dec 2015
Other accrued expenses	22,640	139,848
Prepaid income	15,870	30,811
Total	**38,510**	**170,659**

Note 18. Subordinated liabilities[1]

SEK (000s)	31 Dec 2016	31 Dec 2015
Dated subordinated debenture loans	3,101,266	4,702,046

1) See Specification to Notes, page 55.

These debenture loans are subordinated to other liabilities.

Note 19. Asset pledged as security for own liabilities

SEK (000s)	31 Dec 2016	31 Dec 2015
Assets pledge for own liabilities		
Loans to the public	510,532,022	478,807,936
The above pledges pertain to the following liability and commitment items		
Debt securities in issues	332,636,358	316,160,905

Assets pledge 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 2016	31 Dec 2015
Credit commitments	31,542,506	27,625,482

Due to a changed accounting assessment, credit commitments from Nordea Bank AB (publ) to household customers will be reported in “Commitments” in the 2016 annual report. Because the common objective of Nordea Bank AB (publ) and Nordea Hypotek AB (publ) (according to outsourcing agreements) is for any result from a credit commitment to end up in the balance sheet of Nordea Hypotek AB (publ), a decision has been made that accounting of such commitments shall also be done in the annual report of Nordea Hypotek AB (publ). The item thus increases from SEK 120m to SEK 31,543m.

For more information about derivative instruments, please see Note 11.

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/CRR require higher capitalisation levels and better quality of capital, better risk coverage, the introduction of a leverage ratio as a backstop to the risk based requirement, measures to promote the build-up of capital that can be drawn in periods of stress and the introduction of liquidity standards. 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 2016, 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 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 additional Tier 1 capital is restricted and repurchase can normally not take place until five years after original issuance of the instrument. Undated subordinated loans may be repaid only upon decision by the Board of Directors in Nordea 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. Additional Tier 1 instruments issued that fulfil the CRD IV requirements are fully included whereas remaining instruments are phased out according to transitional rules. For the additional Tier 1 instruments, conditions specify appropriation in order to avoid being obliged to enter into liquidation. To the extent that may be required to avoid liquidation, the principal amounts of additional Tier 1 instruments (together with accrued interest) would be written down and converting such amount into a conditional capital contribution.

Tier 2 capital

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

Tier 2 instruments

Tier 2 instruments consists mainly of subordinated debt. Tier 2 instruments includes 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 loans and the principles for time-reductions follow Swedish legislation. 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

	2016	2015	2014	2013	2012
Risk-weighted exposure amount, excl. Basel I floor, SEKm	34,937	34,765	35,234	49,751	47,038
Risk-weighted exposure amount, incl. Basel I floor, SEKm	273,761	255,603	237,326	218,588	204,624
Own funds, SEKm	26,176	21,795	20,536	20,199	18,771
Total capital ratio, excl. Basel I floor, %[1]	74.9	62.7	58.3	40.6	39.9
Tier 1 capital ratio, excl. Basel I floor, %[1]	66.0	49.2	44.9	31.9	31
Total capital ratio, incl. Basel I floor, %[1]	9.6	8.6	8.7	9.2	9.2
Tier 1 capital ratio, incl. Basel I floor, %[1]	8.5	6.7	6.7	7.3	7.1

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	17,563	–
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	551	–
5	Minority Interests (amount allowed in consolidated CET1)	-	
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	5,586	–
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**23,810**	**–**
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	–12	–
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	–551	–
12	Negative amounts resulting from the calculation of expected loss amounts	–136	–
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	–36	–
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)	–735	–
29	Common Equity Tier 1 (CET1) capital	23,076	–
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)	23,076	–
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	3,100	–
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	0	–
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		–
49	of which: instruments issued by subsidiaries subject to phase out	–	–
50	Credit risk adjustments	–	–
51	Tier 2 (T2) capital before regulatory adjustments	3,100	–

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
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	3,100	–
59	Total capital (TC = T1 + T2)	26,176	–
60	Total risk weighted assets	34,937	–
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	66.0%	–
62	Tier 1 (as a percentage of risk exposure amount)	66.0%	–
63	Total capital (as a percentage of risk exposure amount)	74.9%	–
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)	4.0%	–
65	of which: capital conservation buffer requirement	2.5%	–
66	of which: countercyclical buffer requirement	1.5%	–
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)	60.0%	–
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)	26,571	–
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	159	–
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	935	–
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	–	–

Note 21. Capital adequacy, cont.

Leverage ratio

	31 Dec 2016	31 Dec 2015
Tier 1 capital, transitional definition, SEKm[1]	23,076	17,095
Leverage ratio exposure, SEKm	564,105	530,675
Leverage ratio, percentage	4.1	3.2

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	1.5	–	–	4.0	8.5
Tier 1 capital	6	2.5	1.5	–	–	4.0	10.0
Own funds	8	2.5	1.5	–	–	4.0	12.0
SEKm							
Common Equity Tier 1 capital	1,572	873	524	–	–	1,397	2,970
Tier 1 capital	2,096	873	524	–	–	1,397	3,494
Own funds	2,795	873	524	–	–	1,397	4,192

Common Equity Tier 1 available to meet Capital Buffers

Percentage points of REA	31 Dec 2016[1]	31 Dec 2015[1]
Common Equity Tier 1 capital	60.0	43.2

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)	Nordea Hypotek AB (publ)
3	Governing law(s) of the instrument	Swedish	Swedish	Swedish
Regulatory treatment				
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2	Tier 2
6	Eligible at solo/(sub-) consolidate d/solo & (sub-)consolidated	Solo	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	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 1,300m	SEK 1,000m	SEK 800m
9	Nominal amount of instrument	SEK 1,300m	SEK 1,000m	SEK 800m
9a	Issue price	100 per cent	100 per cent	100 per cent
9b	Redemption price	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount
10	Accounting classification	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost
11	Original date of issuance	18 Dec 2012	28 Jun 2013	30 Dec 2014
12	Perpetual or dated	Dated	Dated	Dated
13	Original maturity date	18 Dec 2022	28 Jun 2023	30 Dec 2024
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	18 Dec 2017 In addition regulatory call 100 per cent of Nominal 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	18 Mar, 18 Jun, 18 Sep and 18 Dec each year after first call date	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	Floating
18	Coupon rate and any related index	Floating 3-month STIBOR +2.85 per cent per annum	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	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No
22	Noncumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior debt	Senior debt	Senior debt
36	Non-compliant transitioned features	No	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:
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:	84,194	–	78,114	–	12
- of which rating grades 6	47,201	–	43,972	–	6
- of which rating grades 5	14,818	–	12,855	–	12
- of which rating grades 4	20,770	–	19,946	–	24
- of which rating grades 3	1,173	–	1,157	–	36
- of which rating grades 2	40	–	40	–	60
- of which rating grades 1	10	–	11	–	73
- of which unrated	182	–	133	–	50
- of which defaulted	–	–	–	–	–
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:	425,234	31,543	456,776	31,543	3
- of which scoring grades A	369,215	28,691	397,906	28,691	2
- of which scoring grades B	36,450	2,852	39,301	2,852	6
- of which scoring grades C	14,689	–	14,689	–	13
- of which scoring grades D	3,719	–	3,719	–	22
- of which scoring grades E	–	–	–	–	–
- of which scoring grades F	437	–	437	–	64
- of which not scored	84	–	84	–	21
- of which defaulted	640	–	640	–	120
Retail, of which other retail:	14,353	–	14,333	–	10
- of which scoring grades A	10,462	–	10,462	–	4
- of which scoring grades B	1,290	–	1,283	–	10
- of which scoring grades C	680	–	670	–	19
- of which scoring grades D	333	–	331	–	26
- of which scoring grades E	1,049	–	1,048	–	29
- of which scoring grades F	457	–	457	–	40
- of which not scored	50	–	50	–	25
- of which defaulted	32	–	32	–	220
Other non credit-obligation assets:	354	–	354	–	100

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, central governments and central banks, qualifying revolving retail.

Note 22. Classification of financial instruments

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
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**

Assets

31 Dec 2015, SEKm	Loans and receivables	Derivatives used for hedging	Non-financial assets	Total
Loans to credit institutions	2,602	–	–	2,602
Loans to the public	500,852	–	–	500,852
Derivatives	–	9,792	–	9,792
Fair value changes of the hedged items in portfolio hedge of interest rate risk	57	–	–	57
Tax assets	–	–	153	153
Other assets	2,485	–	–	2,485
Prepaid expenses and accrued income	550	–	–	550
Total	**506,546**	**9,792**	**153**	**516,491**

Liabilities

31 Dec 2015, SEKm	Derivatives used for hedging	Other financial liabilities	Non-financial liabilities	Total
Deposits by credit institutions	–	157,977	–	157,977
Debt securities in issue	–	320,934	–	320,934
Derivatives	1,715	–	–	1,715
Fair value changes of the hedged items in portfolio hedge of interest rate risk	–	6,450	–	6,450
Other liabilities	–	6,747	0	6,747
Accrued expenses and prepaid income	–	31	140	171
Deferred tax liabilities	–	–	139	139
Subordinated liabilities	–	4,702	–	4,702
Total	**1,715**	**496,840**	**279**	**498,835**

Note 23. Assets and liabilities at fair value

Fair value of financial assets and liabilities

SEKm	31 Dec 2016 Carrying amount	31 Dec 2016 Fair value	31 Dec 2015 Carrying amount	31 Dec 2015 Fair value
Financial assets				
Loans	534,309	536,547	503,511	513,074
Derivatives	9,642	9,642	9,792	9,792
Other assets	2,466	2,466	2,485	2,485
Prepaid expenses and accrued income	644	644	550	550
Total financial assets	**547,061**	**549,299**	**516,338**	**525,901**
Financial liabilities				
Deposits and debt instruments	515,546	517,631	490,063	489,727
Derivatives	686	686	1,715	1,715
Other liabilities	6,911	6,911	6,747	6,747
Accrued expenses and prepaid income	16	16	31	31
Total financial liabilities	**523,159**	**525,244**	**498,556**	**498,220**

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 48-49.

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

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.

31 Dec 2015, 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	–	9,596	196	9,792
Liabilities at fair value on the balance sheet[1]				
Derivatives	–	1,524	191	1,715

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

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

2015, SEKm	1 Jan 2015	Transfers into level 3	31 Dec 2016
Derivatives (net)	–	5	5

During the year, Nordea Hypotek transferred SEK 5m (net) from Level 3 to Level 2. The transfer was made following a change in the classification approach. It means that the maturities of the individual products are verified in the classification of derivative instruments. Where Nordea Hypotek is concerned, this means that fixed-income options in Scandinavian currencies have been considered to have sufficiently high liquidity. Observable prices are thus considered to exist, and consequently the aforementioned fixed-income options shall be classified into Level 2 instead of Level 3. Transfers between levels are considered to have occurred at the end of the year. Assets and liabilities regarding derivative instruments are netted. 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.

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

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 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 2016.

Valuation techniques and inputs used in the fair value measurements in level 3

31 Dec 2015, SEKm	Fair value	Valuation techniques	Unobservable input	Range for fair value
Derivatives, net				
Interest rate derivatives	5	Option model	Correlations, Volatilities	–7/+7

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

	31 Dec 2016		31 Dec 2015		
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	534,309	536,547	503,511	513,074	3
Other assets	2,466	2,466	2,485	2,485	3
Prepaid expenses and accrued income	644	644	550	550	3
Total	**537,419**	**539,657**	**506,546**	**516,109**	
Liabilities not held at fair value on the balance sheet					
Deposits and debt instruments	515,546	517,631	490,063	489,727	3
Other liabilities	6,911	6,911	6,747	6,747	3
Accrued expenses and prepaid income	16	16	31	31	3
Total	**522,473**	**524,558**	**496,841**	**496,505**	

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 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.

31 Dec 2015, 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	9,792	–	9,792	–1,524	8,268
Liabilities					
Derivatives	1,715	–	1,715	–1,524	191

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 "Obligations" section of the director's report, the size of counterparty risk at 31 December 2016 is set out.

Note 25. Assets and liabilities in foreign currencies

31 Dec 2016 SEKm	EUR	NOK	Other	Total
Assets				
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**

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

31 Dec 2015, SEKm	EUR	NOK	Other	Total
Assets				
Other assets	4,224	–	52	4,276
Total assets	**4,224**	**–**	**52**	**4,276**
Liabilities				
Debt securities in issue	24,425	970	2,143	27,538
Other liabilities	3,456	–10	29	3,475
Total liabilities	**27,881**	**960**	**2,172**	**31,013**

Note 26. Maturity analysis for assets and liabilities

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**

Expected maturity 31 Dec 2015, SEKm	Note	Expected to be recovered or settled		
		Within 12 months	After 12 months	Total
Loans to credit institutions	10	2,602	–	2,602
Loans to the public	10	75,887	424,965	500,852
Derivatives	11	1,747	8,044	9,791
Fair value changes of the hedged items in portfolio hedge of interest rate risk		10	47	57
Current tax assets		153	–	153
Other assets	12	2,485	–	2,485
Prepaid expenses and accrued income	13	375	175	550
Total assets		**83,259**	**433,231**	**516,490**
Deposits by credit institutions	14	157,977	–	157,977
Debt securities in issue	15	78,346	242,588	320,934
Derivatives	11	226	1,490	1,715
Fair value changes of the hedged items in portfolio hedge of interest rate risk		848	5,601	6,450
Other liabilities	16	6,747	–	6,747
Accrued expenses and prepaid income	17	158	13	171
Deferred tax liabilities	9	–	139	139
Subordinated liabilities	18	2	4,700	4,702
Total liabilities		**244,304**	**254,531**	**498,835**

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

Contractual undiscounted cash flows

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**	**–**

31 Dec 2015, SEKm	Payable on demand	Maximum 3 months	3–12 months	1–5 years	More than 5 years	Total
Loans to credit institutions	2,602	–	–	–	–	2,602
Loans to the public	–	32,057	48,165	101,171	589,680	771,073
Other	–	4,770	–	8,267	–	13,037
Total financial assets	**2,602**	**36,827**	**48,165**	**109,438**	**589,680**	**786,712**
Deposits by credit institutions	268	134,973	22,826	27	–	157,094
Debt securities in issue	–	5,678	71,424	241,030	35,363	353,495
- of which Debt securities in issue	–	5,639	69,704	237,629	35,363	348,335
- of which Other	–	39	1,720	3,401	–	5,160
Other	–	7,979	–	7,243	–	15,222
Total financial liabilities	**268**	**148,630**	**94,250**	**248,300**	**35,363**	**526,811**
Derivatives, cash inflow	–	947	6,519	26,052	10,936	44,454
Derivatives, cash outflow	–	182	2,578	17,996	9,924	30,680
Net exposure	**–**	**765**	**3,941**	**8,056**	**1,012**	**13,774**
Exposure	**2,334**	**–111,038**	**–42,144**	**–130,806**	**555,329**	**273,675**
Cumulative exposure	**2,334**	**–108,704**	**–150,848**	**–281,654**	**273,675**	**–**

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 31,543m (27,625).

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 2016**	**31 Dec 2015**	**31 Dec 2016**	**31 Dec 2015**
Assets				
Loans to credit institutions	–	–	3,274,464	2,601,665
Loans to the public	34,769	21,572[1]	–	–
Derivatives	–	–	9,706,041	9,791,505
Other assets	–	–	2,466,415	2,374,181
Prepaid expenses and accrued income	–	–	18,458	17,865
Total assets	**34,769**	**21,572**	**15,465,378**	**14,785,216**
Liabilities				
Deposits by credit institutions	–	–	168,608,677	157,977,265
Debt securities in issue	–	–	1,639,254	2,276,649
Derivatives	–	–	630,307	1,524,024
Other liabilities	–	–	6,911,222	6,746,692
Subordinated liabilities	–	–	3,101,266	4,702,046
Total liabilities	**–**	**–**	**180,890,726**	**173,226,676**
Off balance[2]	–	–	324,256,425	295,737,933

1) Lending divided by collateral type: Single family properties 20,245k; Tenant-owner apartments 14,524k.
2) Including nominal values on derivatives.

Income statement

	Key management personnel		Nordea Group companies	
SEK (000s)	**2016**	**2015**	**2016**	**2015**
Interest income	480	328	206,773	210,246
Interest expense	–	–	4,744,235	3,823,834
Net fee and commission income	–	–	–1,874	–2,660
Net result from items at fair value	–	–	564,575	–2,630,440
General administrative expenses:				
- Staff costs	–	–	–	–
- Other expenses	–	–	-509,180	–503,980
Total	**480**	**328**	**5,004,529**	**897,000**

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 2016	%	31 Dec 2015	%
0–10	9,111	10	8,733	10
10–50	32,957	38	28,312	34
50–100	13,749	16	12,436	15
100–250	10,426	12	13,368	16
250–500	11,212	13	9,543	11
500–	9,357	11	11,812	14
Total	86,812	100	84,204	100

Past due loans, excl. impaired loans

	31 Dec 2016		31 Dec 2015	
SEKm	Corporate customers	Household customers	Corporate customers	Household customers
6–30 days	378	27	573	45
31–60 days	39	233	79	250
61–90 days	–	44	7	51
Total	417	304	659	346
Past due not impaired/loans and receivables in %.	0.45	0.07	0.73	0.08

Loan-to-value ratio

A common way to analyse the value of the collateral is to measure the loan value (LTV) ratio i.e the credit extended divided by the market value of the collateral pledged. In the tabel below, the mortgage exposures are broken down into different LTV ratio ranges. In 2016, mortgage increased in all ranges, due to increased lending volumes. The relative share of mortgages of each range changed slightly in 2016 compared to 2015.

Mortgage exposure to loans to the public[1]

	31 Dec 2016		31 Dec 2015	
	SEKbn	%	SEKbn	%
<50%	404.0	81	372.6	80
50–60%	47.1	10	44.3	10
60–70%	35.0	7	33.5	7
70–75%	12.3	2	12.2	3
>75%	–	–	–	–
Total	498.4	100	462.6	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 5,370,180,361 and received shareholders' contribution of SEK 4,700,000,000 the following amount is available for distribution by the Annual General Meeting of Shareholders:

Cash flow hedge reserve	SEK 550,722,962
Retained profit	SEK 17,563,282,871
Net profit for the year	SEK 5,586,110,518
Total	SEK 23,700,116,351
The Board of Directors and the President propose that	
To be carried forward	SEK 23,700,116,351

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.

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 2016
5521[1]	SE0001542341	19/10/2005	3.25	17 Jun	17/6/2020	SEK	61,791,500
5528[1]	SE0004547032	2/4/2012	3.00	21 Jun	21/6/2017	SEK	24,220,000
5529[1]	SE0005033669	1/2/2013	2.00	20 Jun	20/6/2018	SEK	69,750,000
5530[1]	SE0005676723	19/6/2013	2.25	19 Jun	19/6/2019	SEK	58,700,000
5531[1]	SE0006991246	21/4/2015	1.00	8 Apr	8/4/2022	SEK	32,975,000
5532[1]	SE0007897186	14/1/2016	1,25	19 May	19/5/2021	SEK	36,400,000
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	5/2/2016	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	500,000
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	5,800,000
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 5520–5531, 5703–5705, 5716: No interest rate adjustment.

EMTN (bonds issued in foreign currency)

ISIN code	Issue day	Final payment day	Interest rate, %[1]	Currency	Outstanding nominalamount in currency, (000s)[1] 2016
XS0478492415	18/1/2010	18/1/2017	3.5	EUR	1,500,000
XS0307133974	3/10/2007	3/10/2017	5.69	NOK	1,000,000
Total other bonds issued under the EMTN programme (converted into SEK):					**1,051,308**

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

Registered Covered Bond (Loans issued in foreign currency)

Currency	Outstanding nominal amount in currency, (000s) 2016[1]
Total other bonds issued (converted into SEK):	**9,788,924**

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 2016
Loan 9	18/12/2012	SEK	3 months stibor +2.85	18/12/2017	18/12/2022	1,300,000
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, 23 February 2017

Anna Storåkers
Chairman

Nicklas Ilebrand

Maria Härdling

Nils Lindberg

Peter Dalmalm

Elisabet Olin

Michael Skytt
CEO

Our audit report was submitted on 24 February 2017

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 2016.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act of Credit Institutions and Security Companies and present fairly, in all material respects, the financial position of the company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act of Credit Institutions and Security Companies. The statutory administration report is consistent with the other parts of the annual accounts.

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

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.

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 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 matters 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.

The procedures applied generally include an assessment and testing of controls over key business processes, like the process for impairment of loans to the public. Furthermore, we perform analytical procedures in combination with tests of accounting records.

Our audit is carried out continuously during the year. At year end, we report our final observations to the Board Audit Committee as well to the full Board of Directors.

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 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 management underlying the calculation of individual and collective impairment allowances. Examples of these relate to the probability to default and loss given default calculations. Refer to the Annual Report Note 1 – Accounting policies (Critical judgements and estimation uncertainty), Note 8 – Net loan losses and Note 10 – Loans and impairment .	Our audit included a combination of testing of internal controls over financial reporting and substantive testing. We assessed and tested the design and operating effectiveness of the controls over: • Rating and scoring of customers • Collectively assessed loan impairment calculations We performed detailed 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.

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 of Credit Institutions and Security Companies. 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 Board 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 is available on Revisorsnämnden's website: 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, we have also audited the administration of the Board of Directors and the Managing Director of Nordea Hypotek AB (publ) for the year 2016 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit to 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 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. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfil the company's accounting in accordance with law and handle the management of assets 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 Banking and Financing Business Act, the Annual Accounts Act of Credit Institutions and Security Companies 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 Banking and Financing Business 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 Banking and Financing Business Act.

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

Stockholm, 24 February 2017

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, f 1974
Nordea Bank AB (publ)
Head of Personal Banking, Sweden

Members

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

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

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

Nils Lindberg, f 1947
Senior Partner, Ekonans AB

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

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

Auditor

Öhrlings PricewaterhouseCoopers AB

Catarina Ericsson
Authorised Public Accountant

Helena Kaiser de Carolis
Authorised Public Accountant

Management

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

Lena Sjöberg Svensson, f 1964
Deputy CEO, Nordea Hypotek AB (publ)

Lars Andersson, f 1959
Head of Credit, Nordea Hypotek AB (publ)

Mats Bergström, f 1981
Chief Risk Officer, Nordea Hypotek AB (publ)

Daniel Oppenheimer, f 1977
Chief Financial Officer, Nordea Hypotek AB (publ)

Addresses

Nordea Hypotek AB (publ)

Visiting address:	Lindhagensgatan 112, 7 tr
Postal address:	L740, SE–105 71 Stockholm
Telephone:	+46 8 614 70 00
Internet:	www.nordea.se