Nordea

Half-year financial report January-June 2017

Nordea Mortgage Bank Plc

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Introduction

Nordea Mortgage Bank was established 1 October 2016. Nordea Mortgage Bank operates as an issuer of covered bonds. The bonds are covered by a pool of loans consisting of Finnish loans, mainly household mortgages.

Throughout this report, “Nordea Mortgage Bank” and “NMB” refer to Nordea Mortgage Bank Plc, business identity code 2743219-6. The registered office of the company is in Helsinki. Nordea Mortgage Bank Plc is a wholly-owned subsidiary of Nordea Bank AB (publ), the listed parent company of the whole Nordea Group.The Nordea Group is referred to as “Group”.

This report is unaudited.

Result summary January-June 2017

Income in the first half of 2017 amounted to EUR 81.5m. Total expenses were EUR 24.3m. Net loan losses continued to be on a low level and amounted to EUR 0.3m.

NMB’s operating profit was EUR 56.9m. Return on equity was 8.3% and the cost/income ratio 30%. Net profit totalled EUR 45.5m.

No income statement comparison figures are available as Nordea Mortgage Bank Plc started operating on 1 October 2016.

Macroeconomic trend

The second quarter of 2017 saw continued resilience in the global economy. European sentiment data continued to surprise on the upside. The ECB revised their staff forecast higher at its June meeting, seeing risks to inflation and the economy as more balanced. Euro area inflation came down slightly during the second quarter but was still at elevated levels compared to 2016. In the US, the Federal Reserve saw through the somewhat disappointing inflation figures in the lead-up to the June meeting and hiked interest rates, as widely expected. Employment data and financial conditions were deemed to be strong enough to motivate a tightening of monetary policy. In China, export growth and retail sales picked up during Q2. Economic growth remained steady but was still trending slower. In the Middle East, geopolitical tensions rose dramatically as Saudi Arabia and neighbouring allies imposed a blockade on Qatar. Despite the increased tension, oil prices declined 10.9 %. European equity markets performed strongly in April following the French election before edging lower and ended the quarter down 1.7%. Meanwhile, US equities ended the quarter on a positive note.

Market performance in Finland in January–June 2017

The Finnish economy was stronger than believed in the second half of 2016 and it was especially strong in Q1 of 2017. The starting point for Q2 and the rest of 2017 is now fundamentally more robust than expected only some months ago, suggesting that a GDP growth below 2% in 2017 is no longer in the cards. The consensus growth forecast is likely to edge higher towards the end of this year. More importantly, the broader economic picture has become a lot brighter. Economic sentiment has almost reached the euro area average and consumer confidence is booming at a record level. Economic activity now finally finds support from foreign trade as well. Export demand has picked up in the key markets and the export recovery appears to be rather broad-based. At the same time, domestic demand is still strong. Investment expansion has been driven by a rapid increase in both residential and non-residential construction. Somewhat slower growth lies ahead, but that may be partly compensated by higher machinery investment. Private consumption has remained surprisingly robust. Going forward, however, despite somewhat higher employment more moderate improvements in household sector purchasing power are expected to cast a shadow on consumption growth potential. The housing market is clearly divided geographically. Demand for new housing production is generally brisk. Both the sales and prices of existing homes boom in some areas and are quite depressed in others. New mortgages increased moderately in January to May from the year earlier although March to May 2017 recorded a small decline.

Comments on the income statement

Income

Net interest income in January-June 2017 was EUR 91.1m. The January-June net interest income includes the resolution fee of EUR 5.1m for the whole year 2017.

Net fee and commission income was EUR -5.3m. Commission income amounted to EUR 1.4m while commission expenses were EUR 6.7m.

Net result from items at fair value was EUR -4.3m.

Expenses

Total operating expenses amounted to EUR 24.3m.

Staff costs amounted to EUR 0.9m. The number of employees has increased from 12 in December 2016 to 19 in June 2017.

Other operating expenses totalled EUR 23.4m. Other operating expenses consist mostly of payments for the intra-group outsourced services.

The cost/income ratio was 30% in the first half of 2017.

Loan losses

Net loan losses totalled EUR 0.3m corresponding to a loan loss ratio of 0.3 basis points.

Taxes

The effective tax rate for the first half of 2017 was 20%.

Net profit

Net profit amounted to EUR 45.5m, corresponding to a return on equity of 8.3% in the first half of the year.

Comments on the balance sheet

(Comparison figures in brackets refer to December 2016 figures.)

The total assets of NMB amounted to EUR 26.6bn (25.6).

Total loans to the public decreased 3% compared to the end of 2016.

Lending to households was 92% (92) of the total lending and totalled EUR 21.3bn (21.9). Corporate lending totalled EUR 1.9bn (2.0).

Positive market values of derivatives decreased to EUR 0.6bn (0.8). Derivatives liabilities were nearly on the same level as at year-end 2016.

Total liabilities amounted to EUR 25.5bn (24.5) and equity to EUR 1.1bn (1.1).

Deposits by credit institutions and central banks decreased to EUR 6.8bn (7.2).

Debt securities in issue, consisting of covered bonds, amounted to EUR 17.8bn (16.3). A new covered bond of EUR 1.5bn was successfully issued in January 2017. The size of the cover pool was EUR 20.7bn and the overcollateralisation was 17%.

Capital position and capital management

At the end of June 2017, NMB's risk exposure amount (REA) was EUR 10.5bn including Basel I rules, compared to 10.9bn at year-end 2016. Excluding Basel I rules, REA amounted to EUR 3.1bn at the end of June 2017 (2.8).

Excluding profit and including Basel I rules the Common Equity Tier 1 ratio was 10.2% and total capital ratio 12.1%. Excluding profit and excluding Basel I rules, the Common Equity Tier 1 capital ratio stood at 33.6% and total capital ratio at 40.0% at the end of June 2017.

NMB has not included the interim profits net of any foreseeable charges or dividend in Common Equity Tier 1 as no permission from the supervising authority has been asked for.

Credit portfolio

Total lending was EUR 23.2bn (23.9) at the end of June 2017, showing a decrease of 0.7bn from December 2016.

Impaired loans gross increased to EUR 116.4m from EUR 66.9m at the end of December 2016 but are still on a low level. Allowances for impaired loans amounted to EUR 12.1m (11.8), representing 0.05% of total loans before allowances. At year-end 2016 the allowance ratio was 0.05%.

Off-balance sheet commitments

The total amount of off-balance sheet commitments was EUR 89.5m compared to EUR 5.2m at year-end 2016.

Risks and uncertainties

Nordea Mortgage Bank's main risk exposure is credit risk. The company also assumes liquidity risk and operational risk. For further information on risk composition, see the Annual report.

None of the above exposures and risks is expected to have any significant adverse effect on the company or its financial position in the next six months.

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

Changes in the management

Tomi Ylöstalo acted as the deputy of CEO Thomas Miller until 15 May 2017. Tarja Ikonen was appointed as the deputy of the CEO in the Board meeting held on 15 May 2017.

Helsinki, 20 July 2017
Board of Directors

Income statement

EURm	Jan-Jun 2017
Net interest income	**91.1**
Net fee and commission income	**-5.3**
Net result from items at fair value	**-4.3**
Total operating income	**81.5**
Staff costs	**-0.9**
Other expenses	**-23.4**
Total operating expenses	**-24.3**
Profit before loan losses	**57.2**
Net loan losses	**-0.3**
Operating profit	**56.9**
Income tax expense	**-11.4**
Net profit for the period	**45.5**

Business volumes, key items[1]

EURm	30 Jun 2017	31 Dec 2016	Change %
Loans to the public	**23,160.4**	23,912.4	-3
Debt securities in issue	**17,780.5**	16,299.9	9
Equity	**1,123.6**	1,078.5	4
Total assets	**26,589.2**	25,586.2	4

[1] End of period

Ratios and key figures

	Jan-Jun 2017	31 Dec 2016
Return on equity[1] %	**8.3**	-
Cost/income ratio[1], %	**30**	-
Loan loss ratio, basis points[1]	**0.3**	-
Common Equity Tier 1 capital ratio, excl. Basel I floor[2,3], %	**33.6**	37.9
Tier 1 capital ratio, excl. Basel I floor[2,3], %	**33.6**	37.9
Total capital ratio, excl. Basel I floor[2,3], %	**40.0**	45.2
Common Equity Tier 1 capital ratio, incl. Basel I floor[2,3], %	**10.2**	9.8
Tier 1 capital ratio, incl. Basel I floor[2,3], %	**10.2**	9.8
Total capital ratio, incl. Basel I floor[2,3], %	**12.1**	11.7
Tier 1 capital[2,3], EURm	**1,052.6**	1,049.0
Risk exposure amount, excl. Basel I floor[2], EURm	**3,135.8**	2,770.3
Risk exposure amount, incl. Basel I floor[2], EURm	**10,521.0**	10,928.8
Number of employees (full-time equivalents)[2]	**19**	12

[1] No corresponding comparison period available
[2] End of period
[3] Excluding profit, except Dec 2016 figures

Income statement

EURm	Note	Jan-Jun 2017
Operating income		
Interest income		*127.3*
Interest expense		*-36.2*
Net interest income		91.1
Fee and commission income		*1.4*
Fee and commission expense		*-6.7*
Net fee and commission income	3	-5.3
Net result from items at fair value	4	-4.3
Total operating income		**81.5**
Operating expenses		
General administrative expenses:		
Staff costs		-0.9
Other expenses		-23.4
Total operating expenses		**-24.3**
Profit before loan losses		**57.2**
Net loan losses	6	-0.3
Operating profit		**56.9**
Income tax expense		-11.4
Net profit for the period		**45.5**
Attributable to:		
Shareholders of Nordea Mortgage Bank Plc		45.5
Non-controlling interests		-
Total		**45.5**

Statement of comprehensive income

EURm	Jan-Jun 2017
Net profit for the period	**45.5**
Items that may be reclassified subsequently to the income statement	
Cash flow hedges:	
-Valuation gains/losses during the period, net of recycling	-0.5
-Tax on valuation gains/losses during the period	0.1
Items that may not be reclassified subsequently to the income statement	
Defined benefit plans:	
-Remeasurement of defined benefit plans	0.0
-Tax on remeasurement of defined benefit plans	0.0
Other comprehensive income, net of tax	**-0.4**
Total comprehensive income	**45.1**
Attributable to:	
Shareholders of Nordea Mortgage Bank Plc	45.1
Non-controlling interests	-
Total	**45.1**

Balance sheet

EURm	Note	30 Jun 2017	31 Dec 2016
Assets			
Cash and balances with central banks		2,449.1	200.0
Loans to credit institutions	7	228.5	494.2
Loans to the public	7	23,160.4	23,912.4
Derivatives		623.2	789.8
Fair value changes of the hedged items in portfolio hedge of interest rate risk		74.4	99.1
Deferred tax assets		13.3	13.9
Prepaid expenses and accrued income		40.3	76.8
Total assets		**26,589.2**	**25,586.2**
Liabilities			
Deposits by credit institutions		6,847.2	7,200.0
Debt securities in issue		17,780.5	16,299.9
Derivatives		158.2	127.4
Fair value changes of the hedged items in portfolio hedge of interest rate risk		387.5	583.8
Current tax liabilities		2.8	6.6
Other liabilities		0.2	0.2
Accrued expenses and prepaid income		88.7	89.2
Retirement benefit obligations		0.0	0.0
Subordinated liabilities		200.5	200.6
Total liabilities		**25,465.6**	**24,507.7**
Equity			
Share capital		250.0	250.0
Other reserves		799.8	800.2
Retained earnings		73.8	28.3
Total equity		**1,123.6**	**1,078.5**
Total liabilities and equity		**26,589.2**	**25,586.2**
Assets pledged as security for own liabilities		21,276.4	21,978.1
Credit commitments		89.5	5.2

Statement of changes in equity

EURm	Share capital[1]	Other reserves: Cash flow hedges	Other reserves: Other reserves	Other reserves: Defined benefit plans	Retained earnings	Total equity
	Attributable to the shareholders of Nordea Mortgage Bank Plc					
Balance at 1 Jan 2017	**250.0**	**0.2**	**800.0**	**0.0**	**28.3**	**1,078.5**
Net profit for the period	-	-	-	-	45.5	45.5
Other comprehensive income, net of tax	-	-0.4	-	0.0	-	-0.4
Total comprehensive income	-	*-0.4*	*0.0*	*0.0*	*45.5*	*45.1*
Balance at 30 Jun 2017	**250.0**	**-0.2**	**800.0**	**0.0**	**73.8**	**1,123.6**

EURm	Share capital[1]	Other reserves: Cash flow hedges	Other reserves: Other reserves	Other reserves: Defined benefit plans	Retained earnings	Total equity
	Attributable to the shareholders of Nordea Mortgage Bank Plc					
Balance at 1 Oct 2016	**250.0**	**1.8**	**800.0**	**-**	**-**	**1,051.8**
Net profit for the period	-	-	-	-	28.3	28.3
Other comprehensive income, net of tax	-	**-1.6**	-	0.0	-	-1.6
Total comprehensive income	-	*-1.6*	-	*0.0*	*28.3*	*26.7*
Balance at 31 Dec 2016	**250.0**	**0.2**	**800.0**	**0.0**	**28.3**	**1,078.5**

[1] Total shares registered were 257.7 million (31 Dec 2016: 257.7 million).

Cash flow statement, condensed

EURm	Jan-Jun 2017
Operating activities	
Operating profit	54.1
Adjustments for items not included in cash flow	66.2
Income taxes paid	-14.5
Cash flow from operating activities before changes in operating assets and liabilities	105.8
Changes in operating assets and liabilities	1,878.1
Cash flow from operating activities	**1,983.9**
Financing activities	
Other changes	-0.5
Cash flow from financing activities	-0.5
Cash flow for the period	**1,983.4**

Cash and cash equivalents EURm	30 Jun 2017	31 Dec 2016
Cash and cash equivalents at beginning of the period	694.2	390.9
Translation difference	-	-
Cash and cash equivalents at end of the period	2,677.6	694.2
Change	**1,983.4**	**303.3**
The following items are included in cash and cash equivalents :		
Cash and balances with central banks	2,449.1	200,0
Loans to credit institutions	228.5	494,2
Total cash and cash equivalents	**2,677.6**	**694,2**

Cash comprises legal tender and bank notes in foreign currencies. Balances with central banks consist of deposits in accounts with central banks and postal giro systems under government authority, where the following conditions are fulfilled:
- the central bank or the postal giro system is domiciled in the country where the institution is established
- the balance on the account is readily available at any time.

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

Notes to the financial statements

Note 1 Accounting policies

Nordea Mortgage Bank's (referred as to NMB) interim financial statements are presented in accordance with IAS 34 "Interim Financial Reporting". In addition, certain rules in the Finnish Accounting Act, the Finnish Credit Institutions Act, the Finnish Mortgage Credit Banks Act, the Financial Supervisory Authority's regulations and guidelines and the Decree of the Ministry of Finance on the financial statements and consolidated financial statements of credit institutions, have also been applied.

The interim report is unaudited.

The same accounting policies and methods of computation are followed as compared to the Annual Report 2016, for more information see Note 1 in the Annual Report 2016. For changes implemented during 2017, see "Changed accounting policies" below.

Nordea Mortgage Bank follows the same accounting principles as Nordea Group, when applicable. Changes in IFRS standards are monitored on Nordea Group level and same changes in accounting principles are implemented throughout the Nordea Group, including Nordea Mortgage Bank.

Changes in IFRSs not yet applied

IFRS 9 "Financial instruments"

IASB has completed the new standard for financial instruments, IFRS 9 "Financial instruments". IFRS 9 covers classification and measurement, impairment and general hedge accounting and replaces the current requirements covering these areas in IAS 39. IFRS 9 is effective as from annual periods beginning on or after 1 January 2018. The standard is endorsed by the EU-commission. Earlier application is permitted, but Nordea Group does not intend to early adopt the standard. The Group does not either intend to restate the comparative figures for 2017 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 Group has divided its financial assets into portfolios and/or sub-portfolios based on how groups of financial assets are managed together to achieve a particular business objective. To derive the right level on which portfolios are determined, the Group has taken the current business area structure into account. When determining the business model for each portfolio the Group has analysed the objective with the financial assets as well as for instance past sales behaviour and management compensation.

Nordea Group has analysed whether the cash flows from the financial assets held as of 31 December 2015 are SPPI compliant. This has been performed by grouping contracts which are homogenous from a cash flow perspective and conclusions have been drawn for all contracts within that group.

The analysis of the business model and the SPPI review described above have not resulted in any significant changes compared to how the financial instruments are measured under IAS 39. No significant impact is thus expected on Nordea Group'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 the Group'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 NMB does not calculate collective provisions for off-balance sheet exposures or the financial instruments classified into the measurement category available for sale (AFS).

The assets to test for impairment will be divided into three groups depending on the stage of credit deterioration. Stage 1 includes assets where there has been no significant increase in credit risk, stage 2 includes assets where there has been a significant increase in credit risk and stage 3 includes defaulted assets. Significant assets in stage 3 are tested for impairment on an individual basis, while for insignificant assets a collective assessment is performed. In stage 1, the provisions should equal the 12 month expected loss. In stage 2 and 3, the provisions should equal the lifetime expected losses.

One important driver for the size of provisions under IFRS 9 is the trigger for transferring an asset from stage 1 to stage 2. Nordea Group has yet to decide how much relevant parameters used for identifying the increase in credit risk need to change in order to constitute a “significant increase”. For assets held at transition, Nordea Group has tentatively decided to use the change in internal rating and scoring data to determine whether there has been a significant increase in credit risk or not. For assets to be recognised going forward, changes to the lifetime Probability of Default (PD) will be used as the trigger. The Group has concluded it is not possible to calculate the lifetime PDs without undue cost or effort and without the use of hindsight for assets already recognised on the balance sheet at transition. For assets evaluated based on lifetime PDs, the Group 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 Group has not yet determined the threshold for the change in rating, scoring and PDs when assessing whether it is significant or not.

Nordea Group’s current model for calculating collective provisions defines a loss event as a deterioration in rating/scoring, but it is not expected that the loss event in the current model will equal the triggering event for moving 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 it for assets in stage 2 will be based on the expected lifetime of the asset.

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

When calculating lifetime losses under IFRS 9, including the staging assessment, the calculation should be based on probability weighted forward looking information. Nordea Group has tentatively decided to apply three macro-economic 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 decrease 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 that the European Parliament and the Council 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 the full increase in provisions will decrease CET 1 capital as there are offsetting effects, for instance the current shortfall deduction that is expected to 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. It is expected that the impairment calculations under IFRS 9 will be more volatile and pro-cyclical than under IAS 39, mainly due to the significant subjectivity applied in the forward looking scenarios.

Hedge accounting
The main change to the general hedge accounting requirements is that the standard aligns hedge accounting more closely with the risk management activities. As Nordea Group generally uses macro (portfolio) hedge accounting Nordea Group’s assessment is that the new requirements will not have any significant impact on Nordea Group’s or NMB’s financial statements, capital adequacy, large exposures, risk management or alternative performance measures in the period of initial application.

Nordea Group’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 to the standard were published in April 2016. The new standard outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue recognition standards and interpretations within IFRS, such as IAS 18 “Revenue”. The new standard is effective for annual periods beginning on or after 1 January 2018, with

earlier application permitted. The standard was endorsed by the EU-commission in 2016 and the clarifications are expected to be endorsed in 2017.

The standard does not apply to financial instruments, insurance contracts or lease contracts. The current assessment is that the new standard will not have any significant impact on Nordea Group's or NMB's financial statements, capital adequacy, or large exposures in the period of initial application.

IFRS 16 "Leases"
The IASB published the new standard, IFRS 16 "Leases" in 2016. The new standard changes the accounting requirements for lessees. All leases (except for short term- and small ticket leases) should be accounted for on the balance sheet of the lessee as a right to use the asset and a corresponding liability, and the lease payments should be recognised as amortisation and interest expense. The accounting requirements for lessors are unchanged. Additional disclosures are also required. The new standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted. The standard is expected to be endorsed by the EU in 2017 and Nordea Group does not intend to early adopt the standard.

The main impact on Nordea's financial statements is expected to come from the accounting of property leases. Such leasing contracts will be accounted for on the balance sheet to a larger extent than today. No significant impact is currently expected on the income statement or equity, although the presentation is expected to change in the income statement.

It is too early to comment on the impact on large exposures and capital adequacy as the relevant requirements are not yet final.

Other amendments to IFRS
Other amendments to IFRS are not assessed to have any significant impact on Nordea Group's or NMB's financial statements, capital adequacy or large exposures in the period of initial application.

Note 2 Segment reporting

Operating segments

The financial results of Nordea Mortgage Bank are presented as a single entity. All the operations of Nordea Mortgage Bank relate to the issuance of covered bonds. All the material operative decisions of Nordea Mortgage Bank are prepared by the Chief Executive Officer and decided by the Board of Directors. Due to the business model of Nordea Mortgage Bank, the nature of its operations and its governance structure, the entity as a whole is the relevant operating segment to be reported.

	Mortgage Banking
Income statement	Jan-Jun
EURm	2017
Total operating income	81.5
Operating profit	56.9

Balance sheet	30 Jun	31 Dec
EURm	2017	2016
Loans to the public	23.2	23.9
Debt securities in issue	17.8	16.3

Measurement of operating segments' performance

The measurement principles and allocation between operating segments follow the information reported to the Chief Operating Decision Maker (CODM) as required by IFRS 8. In NMB the CODM has been defined as Group Executive Management.

Note 3 Net fee and commission income

	Jan-Jun
EURm	2017
Brokerage, securities issues and corporate finance	-0.3
Lending products	3.8
Guarantees	-6.5
Other	-2.3
Total	**-5.3**

Note 4 Net result from items at fair value

EURm	Jan-Jun 2017
Interest related instruments and foreign exchange gains/losses	-4.3
Total	**-4.3**

Note 5 Other expenses

EURm	Jan-Jun 2017
Information technology	-0.1
Marketing and representation	0.0
Postage, transportation, telephone and office expenses	0.0
Rents, premises and real estate	0.0
Other	-23.3
Total	**-23.4**

Note 6 Net loan losses

EURm	Jan-Jun 2017
Loan losses divided by class	
Provisions	-2.7
Reversal of previous provisions	2.4
Loans to the public	**-0.3**
Net loan losses	**-0.3**

Key ratios

	Jan-Jun 2017
Loan loss ratio, basis points[1]	0.3
- of which individual	1.7
- of which collective	-1.5

[1] Net loan losses (annualised) divided by closing balance of loans to the public (lending).

Note 7 Loans and impairment

EURm	Total 30 Jun 2017	Total 31 Dec 2016
Loans, not impaired	23,284.6	24,351.5
Impaired loans	116.4	66.9
- of which servicing	2.0	3.6
- of which non-servicing	114.4	63.3
Loans before allowances	**23,401.0**	**24,418.4**
Allowances for individually assessed impaired loans	-2.0	-
- of which servicing	-0.2	-
- of which non-servicing	-1.8	-
Allowances for collectively assessed impaired loans	-10.1	-11.8
Allowances	**-12.1**	**-11.8**
Loans, carrying amount	**23,388.9**	**24,406.6**

EURm	Central banks and credit institutions 30 Jun 2017	Central banks and credit institutions 31 Dec 2016	The public 30 Jun 2017	The public 31 Dec 2016
Loans, not impaired	228.5	494.2	23,056.1	23,857.3
Impaired loans	-	-	116.4	66.9
- of which servicing	-	-	2.0	3.6
- of which non-servicing	-	-	114.4	63.3
Loans before allowances	**228.5**	**494.2**	**23,172.5**	**23,924.2**
Allowances for individually assessed impaired loans	-	-	-2.0	-
- of which servicing	-	-	-0.2	-
- of which non-servicing	-	-	-1.8	-
Allowances for collectively assessed impaired loans	-	-	-10.1	-11.8
Allowances	**-**	**-**	**-12.1**	**-11.8**
Loans, carrying amount	**228.5**	**494.2**	**23,160.4**	**23,912.4**

Allowances and provisions

EURm	30 Jun 2017	31 Dec 2016
Allowances for items on the balance sheet	-12.1	-11.8
Provisions for off balance sheet items	-	-
Total allowances and provisions	**-12.1**	**-11.8**

Key ratios	30 Jun 2017	31 Dec 2016
Impairment rate, gross[1], basis points	50	27
Impairment rate, net[2], basis points	49	27
Total allowance rate[3], basis points	5	5
Allowances in relation to impaired loans[4], %	2	-
Total allowances in relation to impaired loans[5], %	10	18
Non-servicing, not impaired[6], EURm	11.1	8.1

[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 total impaired loans before allowances.
[6] Past due loans, not impaired due to future cash flows (included in Loans, not impaired).

Note 8 Classification of financial instruments

EURm	Loans and receivables	Held for trading	Derivatives used for hedging	Total
Financial assets				
Cash and balances with central banks	2,449.1	-	-	2,449.1
Loans to credit institutions	228.5	-	-	228.5
Loans to the public	23,160.4	-	-	23,160.4
Derivatives		13.5	609.7	623.2
Fair value changes of the hedged items in portfolio hedge of interest rate risk	74.4	-	-	74.4
Prepaid expenses and accrued income	12.6	-	-	12.6
Total 30 Jun 2017	**25,925.1**	**13.5**	**609.7**	**26,548.3**
Total 31 Dec 2016	24,722.2	2.7	787.1	25,512.0

EURm	Held for trading	Derivatives used for hedging	Other financial liabilities	Total
Financial liabilities				
Deposits by credit institutions	-	-	6,847.2	6,847.2
Debt securities in issue	-	-	17,780.5	17,780.5
Derivatives	16.5	141.6	-	158.2
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	387.5	387.5
Other liabilities	-	-	0.1	0.1
Accrued expenses and prepaid income	-	-	53.8	53.8
Subordinated liabilities	-	-	200.5	200.5
Total 30 Jun 2017	**16.5**	**141.6**	**25,269.6**	**25,427.8**
Total 31 Dec 2016	1.9	125.5	24,343.3	24,470.7

Note 9 Fair value of financial assets and liabilities

EURm	30 Jun 2017 Carrying amount	30 Jun 2017 Fair value	31 Dec 2016 Carrying Amount	31 Dec 2016 Fair value
Financial assets				
Cash and balances with central banks	2,449.1	2,449.1	200.0	200.0
Loans	23,463.3	23,656.3	24,505.7	24,608.2
Derivatives	623.2	623.2	789.8	789.8
Prepaid expenses and accrued income	12.6	12.6	16.5	16.5
Total	**26,548.3**	**26,741.2**	**25,512.0**	**25,614.5**
Financial liabilities				
Deposits and debt instruments	25,215.7	25,461.5	24,284.3	24,385.6
Derivatives	158.2	158,2	127.4	127.4
Other liabilities	0.1	0,1	-	-
Accrued expenses and prepaid income	53.8	53,8	59.0	59.0
Total	**25,427.8**	**25,673.6**	**24,470.7**	**24,572.0**

The determination of fair value is described in the Annual Report 2016. Note 23 "Assets and liabilities at fair value". The fair value for loans has 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.

Note 10 Financial assets and liabilities held at fair value on the balance sheet

Categorisation into the fair value hierarchy

EURm	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	-	623.2	-	623.2
Total 30 Jun 2017	**-**	**623.2**	**-**	**623.2**
Total 31 Dec 2016	-	789.8	-	789.8
Liabilities at fair value on the balance sheet[1]				
Derivatives	-	158.2	-	158.2
Total 30 Jun 2017	**-**	**158.2**	**-**	**158.2**
Total 31 Dec 2016	-	127.4	-	127.4

[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

For more information about valuation techniques and inputs in the fair value measurement. see the Annual Report 2016. Note 23 “Assets and liabilities at fair value”.

Note 11 Capital adequacy

Summary of items included in own funds

EURm	30 Jun 2017	31 Dec 2016[3]
Calculation of own funds		
Equity	1,078.0	1,078.5
Proposed/actual dividend		
Common Equity Tier 1 capital before regulatory adjustments	1,078.0	1,078.5
Deferred tax assets		
Intangible assets		
IRB provisions shortfall (-)	-23.4	-27.2
Deductions for investments in credit institutions (50%)		
Pension assets in excess of related liabilities[1]		
Other items. Net	-2.0	-2.3
Total regulatory adjustments to Common Equity Tier 1 capital	-25.4	-29.4
Common Equity Tier 1 capital (net after deduction)	**1,052.6**	**1,049.0**
Additional Tier 1 capital before regulatory adjustments		
Total regulatory adjustments to Additional Tier 1 capital		
Additional Tier 1 capital		
Tier 1 capital (net after deductions)	**1,052.6**	**1,049.0**
Tier 2 capital before regulatory adjustments	200.0	200.0
IRB provisions excess (+)	1.2	2.6
Deductions 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	1.2	2.6
Tier 2 capital	201.2	202.6
Own funds (net after deductions)[2]	**1,253.8**	**1,251.7**

[1] Based on conditional FSA approval
[2] Own funds adjusted for IRB provision. i.e. adjusted own funds equal EUR 1,276m at 30 Jun 2017
[3] Including profit of the period

Own funds including profit

EURm	30 Jun 2017	31 Dec 2016
Common Equity Tier 1 capital, including profit	1,099.3	1,049.0
Total own funds, including profit	1,300.5	1,251.7

Note 11 Capital adequacy. cont.

Minimum capital requirement and REA

EURm	30 Jun 2017 Minimum capital requirement	30 Jun 2017 REA	31 Dec 2016 Minimum capital requirement	31 Dec 2016 REA
Credit risk	**184.3**	**2,303.3**	**196.8**	**2,459.4**
- of which counterparty credit risk	10.9	136.0	14.3	180.5
IRB	168.3	2,103.5	173.4	2,168.0
- sovereign	1.9	23.2		
- corporate	19.1	239.3	14.0	174.9
- advanced	*19.1*	*239.3*	*14.0*	*174.9*
- foundation	*0.0*	*0.0*		
- retail	147.3	1,841.0	159.5	1,993.1
- secured by immovable property collateral	*113.9*	*1,423.7*	*120.5*	*1,506.9*
- other retail	*33.4*	*417.3*	*38.9*	*486.3*
- other				
Standardised	16.0	199.7	23.3	291.3
- central governments or central banks	1.1	13.3	1.1	13.9
- institutions	14.9	186.4	22.2	277.5
Operational risk	**23.8**	**298.1**	**23.8**	**298.1**
Standardised	23.8	298.1	23.8	298.1
Additional risk exposure amount due to Article 3 CRR	**42.8**	**534.4**	**1.0**	**12.8**
Sub total	**250.9**	**3,135.8**	**221.6**	**2,770.3**
Adjustment for Basel I floor				
Additional capital requirement according to Basel I floor	590.8	7,385.2	652.5	8,158.5
Total	**841.7**	**10,521.0**	**874.1**	**10,928.8**

Note 11 Capital adequacy. cont.

Minimum capital requirement and Capital Buffers

Percentage	Minimum capital requirement	Capital Buffers CCoB	CCyB	O-SII	SRB	Capital Buffers total[1]	**Total**
Common Equity Tier 1 capital	4.5	2.5				2.5	**7.0**
Tier 1 capital	6.0	2.5				2.5	**8.5**
Own funds	8.0	2.5				2.5	**10.5**
EURm							
Common Equity Tier 1 capital	141.1	78.4				78.4	**219.5**
Tier 1 capital	188.1	78.4				78.4	**266.5**
Own funds	250.9	78.4				78.4	**329.3**

[1] Only the maximum of the SRB and O-SII is used in the calculation of the total capital buffers.

Common Equity Tier 1 available to meet Capital Buffers

Percentage points of REA	30 Jun 2017	31 Dec 2016[1]
Common Equity Tier 1 capital	27.6	31.9

[1] Including profit of the period

Capital ratios

Percentage	30 Jun 2017	31 Dec 2016
Common Equity Tier 1 capital ratio, including profit	35.1	37.9
Tier 1 capital ratio, including profit	35.1	37.9
Total capital ratio, including profit	41.5	45.2
Common Equity Tier 1 capital ratio, excluding profit	33.6	36.9
Tier 1 capital ratio, excluding profit	33.6	36.9
Total capital ratio, excluding profit	40.0	44.2

Capital ratios including Basel I floor

Percentage	30 Jun 2017	31 Dec 2016
Common Equity Tier 1 capital ratio, including profit	10.7	9.8
Tier 1 capital ratio, including profit	10.7	9.8
Total capital ratio, including profit	12.6	11.7
Common Equity Tier 1 capital ratio, excluding profit	10.2	9.6
Tier 1 capital ratio, excluding profit	10.2	9.6
Total capital ratio, excluding profit	12.1	11.4

Leverage ratio

	30 Jun 2017	31 Dec 2016[1]
Tier 1 capital, transitional definition, EURm	1,052.6	1,049.0
Leverage ratio exposure, EURm	26,663.3	25,673.9
Leverage ratio, percentage	3.9	4.1

[1] Including profit of the period

Note 11 Capital adequacy. cont.

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

30 Jun 2017	On-balance exposure. EURm	Off-balance exposure. EURm	Exposure value (EAD). EURm[1]	Of which EAD for off-balance. EURm	Exposure-weighted average risk weight:
Sovereign, foundation IRB:	2,454.4		2,461.0		0.9
- of which rating grades 7			6.6		3.3
- of which rating grades 6	2,454.4		2,454.4		0.9
- of which rating grades 5					
- of which rating grades 4					
- of which rating grades 3					
- of which rating grades 2					
- of which rating grades 1					
- of which unrated					
- of which defaulted					
Corporate, foundation IRB:	0.0		0.0		129.5
- 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	0.0		0.0		129.5
- of which defaulted					
Corporate, advanced IRB:	1,534.1	31.9	1,544.7	17.2	15.5
- of which rating grades 6	1,034.1	0.1	1,028.7	0.0	4.5
- of which rating grades 5	71.0	0.0	71.3		10.1
- of which rating grades 4	234.9	9.4	239.2	5.0	18.1
- of which rating grades 3	74.9	10.1	80.0	5.4	44.9
- of which rating grades 2	10.3	0.5	10.5	0.3	55.0
- of which rating grades 1	9.7		9.7		75.1
- of which unrated	98.4	11.9	104.4	6.4	87.3
- of which defaulted	0.8		0.8		254.6
Retail. of which secured by real estate:	19,842.6	24.0	19,859.3	16.7	7.2
- of which scoring grades A	10,754.1	15.0	10,764.6	10.4	3.0
- of which scoring grades B	5,877.1	6.4	5,881.5	4.5	6.0
- of which scoring grades C	2,189.1	1.9	2,190.4	1.3	12.3
- of which scoring grades D	709.3	0.5	709.6	0.3	22.1
- of which scoring grades E					
- of which scoring grades F	136.7	0.0	136.7	0.0	64.5
- of which not scored	6.2	0.2	6.3	0.1	22.1
- of which defaulted	170.1	0.1	170.1	0.0	135.3
Retail. of which other retail:	1,806.9	33.6	1,830.2	23.3	22.8
- of which scoring grades A	314.0	14.1	323.8	9.8	5.4
- of which scoring grades B	255.5	10.7	263.0	7.4	9.8
- of which scoring grades C	101.2	2.8	103.2	2.0	17.1
- of which scoring grades D	378.7	4.2	381.6	2.9	25.0
- of which scoring grades E	437.2	0.3	437.4	0.2	26.5
- of which scoring grades F	305.9	0.6	306.3	0.4	37.6
- of which not scored	5.0	0.3	5.2	0.2	37.8
- of which defaulted	9.5	0.6	9.9	0.4	281.3

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

NMB does not have the following IRB exposure classes: equity exposures, central governments and central banks, qualifying revolving retail.