Nordea

Half-year financial report January-June 2018

Nordea Mortgage Bank Plc

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Introduction

Nordea Mortgage Bank operates as an issuer of covered bonds in the Finnish market. Bonds issues by Nordea Mortgage Bank are covered by a pool of loans consisting mainly of Finnish housing loans.

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 2018

Income in the first half of 2018 amounted to EUR 102.2m (January-June 2017 81.5). Total expenses stayed stable amounting to EUR 24.4m (24.3). Net loan losses increased mainly due to IFRS9 model and amounted to EUR 7.3m (0.3).

NMB’s operating profit was EUR 70.5m (56.9). Return on equity was 9.6% (8.3) and the cost/income ratio 24% (30). Net profit totaled EUR 55.3m (45.5).

Macroeconomic trend

The second quarter of 2018 was eventful in terms of geopolitics and saw an escalation of trade tensions. The US administration imposed more tariffs on Chinese goods, while China followed suit and retaliated by imposing tariffs on U.S. products. Moreover, macroeconomic data in the US came in on the strong side. US core inflation reached 1.96% in May, up from 1.82% in March, and the US unemployment rate decreased to 3.9%, down from 4.1% in March. On the back of this positive data, the US Federal Reserve Bank was not discouraged by trade disputes and raised interest rates in June by 0.25% to 2.0%, which was in line with expectations. Simultaneously, two additional hikes were indicated, exceeding market expectations. The 10-year US government bond yield rose 12bp (q/q) to 2.86%.

In Europe, the two euro-skeptic parties formed a majority government in Italy, causing turmoil in financial markets. In Germany, Chancellor Angela Merkel’s CDU was confronted on immigration by its long-time coalition partner, CSU. The ECB disregarded the political noise and announced its intention to end quantitative easing by the end of the year. This did not cause interest rates to rise, however, as the ECB also declared its intention to leave interest rates unchanged until the fall of 2019. Euro area HICP inflation rose to 1.9% (y/y) in May while the EUR decreased to 1.168 from 1.230 against the USD (q/q). Brent crude oil rose 16.7% (q/q) to 79.23 USD/bbl.

Market performance in Finland in January–June 2018

The start of the year was stronger than expected for the Finnish economy. The Q1 2018 GDP numbers were surprisingly strong and at 1.2% quarterly growth was higher than expected. These numbers gave a positive start to the year.

The biggest upside surprise came from fixed asset investment. Especially growth in machinery and equipment investment was strong – already well above the pre-crisis level in volume terms. Construction growth was also strong but weakness is still apparent in R&D investment. That is, of course, a worrying sign about the future growth prospects of the Finnish economy.

Consumption growth continued to benefit from improving labour market conditions and strong confidence. Conversely, we saw a downward correction in foreign trade after a strong performance last year. From the perspective of net exports, however, the decline in exports was partly offset by a decline in imports.

The overall picture of the Finnish economy continues to be positive. A broad set of economic indicators suggest continued growth.

Short-term growth prospects are supported by robust developments in the labour market. The overall trend in employment has remained positive and confidence indicators point to robust trends in the coming months. Indeed, wage sum growth continues to be strong especially in real terms with low inflation.

Nordea Mortgage Bank business development in Q2 2018

The mortgage business picked up during 2017 as a more positive outlook on the overall demand began to release pent-up demand. The first half of 2018 did see some hesitation in the market, mainly due to banks not able to satisfy increased demand at required pace as well as from regulatory changes, i.e. the decision to lower the LTC cap from 90% to 85% for non-first-time buyers starting July. Construction of new apartments in the capital region as well as in growth centres has been significantly higher than in the past – supported by the gradual movement of population to growth centres from other parts of the country.

The division of the housing market continues with house prices increasing in the capital area and decreasing outside the capital area. In the whole country the housing prices of old apartments went up 0.8% in January to May comparted to previous year. In Greater Helsinki, prices went up 3.5%, whereas in the rest of Finland the prices went down 1.7%.

Although the consumer confidence is at record high levels this has not boosted the sales of existing homes in the first part of 2018. However new mortgages increased by over 4 % in January to May compared to 2017.

Household savings rate is expected to remain negative with household indebtedness deepening further. In new housing loan agreements, the average interest rate currently stands at approximately 0.88% and the imputed margin was 0.86%.

The buy-to-let-market has been growing since 2017, driven by new capacity in small apartments as well as high rent levels.

Comments on the income statement

(Comparison figures in brackets refer to the corresponding period in 2017)

Income

Net interest income in January-June 2018 was EUR 108.4m (91.1). Interest rates continued to stay on a very low level throughout the first half year. The pressure towards housing loan margins continued during the period. The January-June net interest income was positively impacted by a decrease in interest expenses. Net interest income includes the resolution fee of 5.6m for the whole year 2018.

Net fee and commission income was -4.7m (-5.3). Commission income relates mainly to lending and amounted to EUR 3.8m while commission expenses were EUR 8.5m. Commission expenses relate mainly to the guarantee and liquidity facility provided by Nordea Bank AB (publ) Finnish Branch.

Net result from items at fair value was EUR -1.5m (-4.3) representing the hedging inefficiency of financial instruments.

Expenses

Total operating expenses amounted to EUR 24.4m (24.3).

Staff costs amounted to EUR 1.0m (0.9). The number of employees was 18 at the end of June 2018.

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

The cost/income ratio was 24% (30) in the first half of 2018.

Loan losses

Net loan losses totalled EUR 7.3m (0.3) corresponding to a loan loss ratio of 6.2 (0.3) basis points. Increase in the net loan losses is mostly related to the new IFRS 9 model.

Taxes

The effective tax rate for the first half of 2018 was 21% (20).

Net profit

Net profit amounted to EUR 55.3m (45.5), corresponding to a return on equity of 9.6% (8.3) in the first half of the year.

Comments on the balance sheet

(Comparison figures in brackets refer to December 2017 figures.)

The total assets of NMB amounted to EUR 25.1bn (25.0).

Total loans to the public decreased 1% compared to the end of 2017, amounting to EUR 23.4m. However, compared to corresponding half-year-period in 2017 the loans to the public increased 1%.

Lending to households was 91% (92) of the total lending and totaled EUR 21.3bn (21.6). Corporate lending totaled EUR 2.1bn (1.9).

Positive market values of derivatives were nearly on the same level as at year-end 2017 and amounted to EUR 0.5bn (0.5). NMB’s derivatives mainly pertain to interest rate swaps and forward currency exchange contracts.

Total liabilities amounted to EUR 24.0bn (23.8) and equity to EUR 1.1bn (1.2).

Deposits by credit institutions and central banks, decreased to EUR 4.8bn (7.6).

Debt securities in issue consist of covered bonds issued under EUR25bn Covered Bond Programme. Covered bond funding at the end of June 2018 was EUR 18.4bn (15.5). NMB issued three new covered bonds during the first half year of 2018, amounting to EUR 3bn in total. The size of the cover pool was EUR 20.1bn and the overcollateralisation was 9.4 %.

Capital position and capital management

The Board of the Financial Supervisory Authority (FIN-FSA) has set a minimum risk weight level of 15% for residential mortgage loans applicable to credit institutions that have adopted the Internal Ratings Based Approach for the calculation of capital requirements. The decision on the 15% minimum risk weight entered into force as from 1 January 2018.

At the end of June 2018, NMB's risk exposure amount (REA) was EUR 4.1bn, compared to 3.2bn at year-end 2017.

Excluding profit and excluding Basel I rules, the Common Equity Tier 1 capital ratio stood at 25.4 % and total capital ratio at 30.6 % at the end of June 2018.

NMB has not included the interim profits net of any foreseeable charges or dividend in Common Equity Tier.

Credit portfolio

Total lending was EUR 23.4bn (23.5) at the end of June 2018, showing a decrease of 0.1bn from December 2017.

Impaired loans gross increased to EUR 159.7m from EUR 135.4m at the end of December 2017 but are still on a low level. Allowances for impaired loans amounted to EUR 43.7m (11.1), representing 0.18% of total loans before allowances. At year-end 2017 the allowance ratio was 0.05%.

Off-balance sheet commitments

The total amount of off-balance sheet commitments was EUR 211.9m compared to EUR 209.6m at year-end 2017.

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.

Macroprudential decision

On 21 December 2017 the Board of the FIN-FSA has identified credit institutions significant for the Finnish financial system (other systemically important institutions, O-SIIs). Nordea Mortgage Bank Plc has been identified as a new O-SII and is subject to 0.5 % additional capital buffer requirement as of 1 July 2018. Hence Nordea Mortgage Bank enters under direct supervision of European Central Bank as per 1 July 2018.

Changes in the management

Sara Mella was appointed as a member of the Board of Directors in the Annual General Meeting held on 9 March 2018. The term of Riikka Laine-Tolonen and Nina Luomanen ended upon the conclusion of the Annual General Meeting.

Tomi Ylöstalo acted as Chief Financial Officer until 31 December 2017. Satu Vartiainen was appointed as Chief Financial Officer in the Board meeting held on 12 December 2017.

Helsinki, 19 July 2018
Board of Directors

Income statement

EURm	Jan-Jun 2018	Jan-Jun 2017	Change %	Full year 2017
Net interest income	108.4	91.1	19	192.1
Net fee and commission income	-4.7	-5.3	-11	-11.0
Net result from items at fair value	-1.5	-4.3	-65	-2.4
Other operating income	0.0	0.0		0.0
Total operating income	**102.2**	**81.5**	**25**	**178.7**
Staff costs	**-1.0**	-0.9	11	-1.9
Other expenses	**-23.4**	-23.4	0	-45.9
Total operating expenses	**-24.4**	**-24.3**	**0**	**-47.8**
Profit before loan losses	**77.8**	**57.2**	**36**	**130.9**
Net loan losses	**-7.3**	-0.3		0.7
Operating profit	**70.5**	**56.9**	**24**	**131.6**
Income tax expense	**-15.2**	-11.4	33	-26.3
Net profit for the period	**55.3**	**45.5**	**22**	**105.3**

Business volumes, key items[1]

EURm	30 Jun 2018	30 Jun 2017	Change %	31 Dec 2017	Change %
Loans to the public	23,403.6	23,160.4	1	23,530.1	-1
Debt securities in issue	18,366.6	17,780.5	3	15,469.6	19
Equity	1,116.1	1,123.6	-1	1,180.5	-5
Total assets	25,108.3	26,589.2	-6	25,025.2	0

[1] End of period

Ratios and key figures

	Jan-Jun 2018	Jan-Jun 2017	Full year 2017
Return on equity[1] %	9.6	8.3	9.3
Cost/income ratio[1], %	24	30	27
Loan loss ratio, basis points[1]	6.2	0.3	-0.3
Common Equity Tier 1 capital ratio, excl. Basel I floor[2,3], %	25.4	33.6	32.7
Tier 1 capital ratio, excl. Basel I floor[2,3], %	25.4	33.6	32.7
Total capital ratio, excl. Basel I floor[2,3], %	30.6	40.0	39.2
Tier 1 capital[2,3], EURm	1,048.9	1,052.6	1,042.8
Risk exposure amount, excl. Basel I floor, EURm	4,127.3	3,135.8	3,184.4
Number of employees (full-time equivalents)	18	19	20

[1] End of period

[2] Excluding profit, except Dec 2017 figures

[3] For more detailed information regarding ratios and key figures defined as Alternative performance measures, see www.nordea.com/en/investor-relations/.

Income statement

EURm	Note	Jan-Jun 2018	Jan-Jun 2017	Full year 2017
Operating income				
Interest income		*138.7*	127.3	257.2
Interest expense		*-30.3*	-36.2	-65.1
Net interest income		108.4	**91.1**	**192.1**
Fee and commission income		*3.8*	1.4	5.1
Fee and commission expense		*-8.5*	-6.7	-16.1
Net fee and commission income	3	-4.7	**-5.3**	**-11.0**
Net result from items at fair value	4	-1.5	-4.3	-2.4
Other operating income		0.0	0.0	0.0
Total operating income		**102.2**	**81.5**	**178.7**
Operating expenses				
General administrative expenses:				
- Staff costs		-1.0	-0.9	-1.9
- Other expenses		-23.4	-23.4	-45.9
Total operating expenses		**-24.4**	**-24.3**	**-47.8**
Profit before loan losses		**77.8**	**57.2**	**130.9**
Net loan losses	6	-7.3	-0.3	0.7
Operating profit		**70.5**	**56.9**	**131.6**
Income tax expense		-15.2	-11.4	-26.3
Net profit for the period		**55.3**	**45.5**	**105.3**
Attributable to:				
Shareholders of Nordea Mortgage Bank Plc		55.3	45.5	131.6
Non-controlling interests		-	-	-26.3
Total		**55.3**	**45.5**	**105.3**

Statement of comprehensive income

EURm	Jan-Jun 2018	Jan-Jun 2017	Full year 2017
Net profit for the period	**55.3**	**45.5**	**105.3**
Items that may be reclassified subsequently to the income statement			
Cash flow hedges:			
-Valuation gains/losses during the period, net of recycling	3.4	-0.5	-4.1
-Tax on valuation gains/losses during the period	-0.7	0.1	0.8
Items that may not be reclassified subsequently to the income statement			
Defined benefit plans:			
-Remeasurement of defined benefit plans	0.0	0.0	0.0
-Tax on remeasurement of defined benefit plans	0.0	0.0	0.0
Other comprehensive income, net of tax	**2.7**	**-0.4**	**-3.3**
Total comprehensive income	**58.0**	**45.1**	**102.0**
Attributable to:			
Shareholders of Nordea Mortgage Bank Plc	58.0	45.1	102.0
Non-controlling interests	-	-	-
Total	**58.0**	**45.1**	**102.0**

Balance sheet

EURm	Note	30 Jun 2018	31 Dec 2017	30 Jun 2017
Assets				
Cash and balances with central banks		197.7	198.2	2,449.1
Loans to credit institutions	7	873.4	647.6	228.5
Loans to the public	7	23,403.6	23,530.1	23,160.4
Derivatives		476.5	535.4	623.2
Fair value changes of the hedged items in portfolio hedge of interest rate risk		93.8	82.3	74.4
Deferred tax assets		13.2	14.1	13.3
Current tax assets		5.0	0.6	-
Other assets		13.9	-	-
Prepaid expenses and accrued income		31.2	16.9	40.3
Total assets		**25,108.3**	**25,025.2**	**26,589.2**
Liabilities				
Deposits by credit institutions		4,834.8	7,557.6	6,847.2
Debt securities in issue		18,366.6	15,469.6	17,780.5
Derivatives		143.6	160.2	158.2
Fair value changes of the hedged items in portfolio hedge of interest rate risk		326.4	326.1	387.5
Current tax liabilities		-	-	2.8
Other liabilities		2.5	70.0	0.2
Accrued expenses and prepaid income		117.7	60.7	88.7
Retirement benefit obligations		0.0	0.0	0.0
Provisions		0.1	-	-
Subordinated liabilities		200.5	200.5	200.5
Total liabilities		**23,992.2**	**23,844.7**	**25,465.6**
Equity				
Share capital		250.0	250.0	250.0
Other reserves		799.6	796.9	799.8
Retained earnings		66.5	133.6	73.8
Total equity		**1,116.1**	**1,180.5**	**1,123.6**
Total liabilities and equity		**25,108.3**	**25,025.2**	**26,589.2**
Assets pledged as security for own liabilities		20,083.8	20,562.5	21,276.4
Credit commitments		211.9	209.6	89.5

Statement of changes in equity

	Attributable to the shareholders of Nordea Mortgage Bank Plc					
		Other reserves:				
EURm	Share capital[1]	Cash flow hedges	Other reserves	Defined benefit plans	Retained earnings	**Total equity**
Balance at 1 Jan 2018	**250.0**	**-3.1**	**800.0**	**0.0**	**133.6**	**1,180.5**
Restatement due to changed accounting policy, net of tax[2]	-	-	-	-	-20.4	-20.4
Restated opening balance 1 Jan 2018	**250.0**	**-3.1**	**800.0**	**0.0**	**113.2**	**1,160.1**
Net profit for the period	-	-	-	-	55.3	55.3
Other comprehensive income, net of tax	-	2.7	-	-	-	2.7
Total comprehensive income	-	2.7	0.0	0.0	55.3	58.0
Dividend 2017	-	-	-	-	-102.0	-102.0
Balance at 30 Jun 2018	**250.0**	**-0.4**	**800.0**	**0.0**	**66.5**	**1,116.1**

	Attributable to the shareholders of Nordea Mortgage Bank Plc					
		Other reserves:				
EURm	Share capital[1]	Cash flow hedges	Other reserves	Defined benefit plans	Retained earnings	**Total equity**
Balance at 1 Jan 2017	**250.0**	**0.2**	**800.0**	**0.0**	**28.3**	**1,078.5**
Net profit for the period	-	-	-	-	105.3	105.3
Other comprehensive income, net of tax	-	-3.3	-	0.0	-	-3.3
Total comprehensive income	-	-3.3	0.0	0.0	105.3	102.0
Balance at 31 Dec 2017	**250.0**	**-3.1**	**800.0**	**0.0**	**133.6**	**1,180.5**

	Attributable to the shareholders of Nordea Mortgage Bank Plc					
		Other reserves:				
EURm	Share capital[1]	Cash flow hedges	Other reserves	Defined benefit plans	Retained earnings	**Total equity**
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**

[1] Total shares registered were 257.7 million (31 Dec 2017: 257.7 million).

[2] Related to IFRS 9. See Note 1 for more information.

Cash flow statement, condensed

EURm	Jan-Jun 2018	Jan-Jun 2017	Full year 2017
Operating activities			
Operating profit	70.5	54.1	131.6
Adjustments for items not included in cash flow	52.1	66.2	55.3
Income taxes paid	-19.4	-14.5	-32.9
Cash flow from operating activities before changes in operating assets and liabilities	**103.2**	**105.8**	**154.0**
Changes in operating assets and liabilities	241.9	1,878.1	-559.2
Cash flow from operating activities	**345.1**	**1,983.9**	**-405.2**
Financing activities			
Dividend paid	-102.0	-	-
Other changes	-17.8	-0.5	-3.3
Cash flow from financing activities	-119.8	**-0.5**	**-3.3**
Cash flow for the period	**225.3**	**1,983.4**	**-408.5**

Cash and cash equivalents

EURm	30 Jun 2018	30 Jun 2017	31 Dec 2017
Cash and cash equivalents at beginning of the period	285.8	694.2	694.2
Translation difference	-	-	-
Cash and cash equivalents at end of the period	511.1	2,677.6	285.8
Change	**225.3**	**1,983.4**	**-408.5**
The following items are included in cash and cash equivalents:			
Cash and balances with central banks	197.7	2,449.1	198.2
Loans to credit institutions	313.4	228.5	647.6
Total cash and cash equivalents	**511.1**	**2,677.6**	**845.8**

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 2017, for more information see Note 1 in the Annual Report 2017. For changes implemented during 2018, 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.

Changed accounting policies and presentation

The following new and amended standards were implemented by Nordea 1 January 2018:

IFRS 9 "Financial instruments"
The new standard IFRS 9 "Financial instruments" covers classification and measurement, impairment and general hedge accounting and replaces the earlier requirements covering these areas in IAS 39. The classification, measurement and impairment requirements in IFRS 9 were implemented by Nordea as from 1 January 2018.

Nordea continues to use the IAS 39 hedge accounting requirements.

The total negative impact on NMB's equity from IFRS 9 amounted to EUR -20m after tax and was recognised as an opening balance adjustment 1 January 2018. For more information about the IFRS 9 transition impact on 1 January 2018, and the accounting principles applied by Nordea as from 1 January 2018 for classification, measurement and impairment of financial instruments, see Note 28 in the Annual Report for 2017. NMB has not restated the comparative figures for 2017.

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

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

The new standard had no impact on NMB's revenue recognition.

Other amendments
The following new and amended standards issued by IASB were implemented by Nordea 1 January 2018 but have not had any significant impact on Nordea Group's or NMB's financial statements:

- Amendment to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- Amendments to IFRS 2: Classification and Measurement of Share based Payment Transactions
- Amendments to IAS 40: Transfers of Investment Property
- Annual Improvements to IFRS Standards 2014-2016 Cycle.

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	Jan-Jun	Full year
EURm	2018	2017	2017
Total operating income	102.2	81.5	178.7
Operating profit	70.5	56.9	131.6

Balance sheet	30 Jun	30 Jun	31 Dec
EURm	2018	2017	2017
Loans to the public	23,403.6	23,160.4	23,530.1
Debt securities in issue	18,366.6	17,780.5	15,469.6

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	Jan-Jun	Full year
EURm	2018	2017	2017
Brokerage, securities issues and corporate finance	-0.2	-0.3	-0.3
Custody and issuer services	-	0.0	-0.1
Lending products	3.8	3.8	7.5
Guarantees	-8.4	-6.5	-15.7
Other	0.1	-2.3	-2.4
Total	**-4.7**	**-5.3**	**-11.0**

Note 4 Net result from items at fair value

	Jan-Jun	Jan-Jun	Full year
EURm	2018	2017	2017
Interest related instruments and foreign exchange gains/losses	-1.5	-4.3	-2.4
Total	**-1.5**	**-4.3**	**-2.4**

Note 5 Other expenses

EURm	Jan-Jun 2018	Jan-Jun 2017	Full year 2017
Information technology	0.0	-0.1	-0.1
Marketing and representation	0.0	0.0	-0.1
Postage, transportation, telephone and office expenses	0.0	0.0	-0.1
Rents, premises and real estate	0.0	0.0	0.0
Other	-23.4	-23.3	-45.6
Total	**-23.4**	**-23.4**	**-45.9**

Note 6 Net loan losses

EURm	Jan-Jun 2018[1]
Net loan losses, stage 1	-0.3
Net loan losses, stage 2	-3.7
Net loan losses, non-defaulted	**-4.0**
Stage 3, defaulted	
Net loan losses, individually assessed, collectively calculated	-3.1
Realised loan losses	-0.1
New/increase in provisions	-0.1
Reversal of previous provisions	0.0
Net loan losses, defaulted	**-3.3**
Net loan losses	**-7.3**

Key ratios

	Jan-Jun 2018[1]
Loan loss ratio, basis points[3]	-6.2
- of which stage 1	-0.3
- of which stage 2	-3.2
- of which stage 3	-2.8

[1] Based on IFRS 9

[3] Net loan losses (annualised) divided by closing balance of loans to the public (lending) measured at amortised cost.

EURm	Jan-Jun 2017[2]	Full year 2017[2]
New/increase in provisions	-2.7	-2.9
Reversal of provisions	2.4	3.6
Net loan losses	**-0.3**	**0.7**

Key ratios

	Jan-Jun 2017[2]	Full year 2017[2]
Loan loss ratio, basis points	0.3	-0.3
- of which individual	1.7	0.9
- of which collective	-1.5	-1.2

[2] Based on IAS 39

Note 7 Loans and impairment

EURm	30 Jun 2018[1]	Total 31 Dec 2017[2]	30 Jun 2017[2]
Loans measured at amortised cost, not impaired (stage 1 and 2)	24,161.0	24,053.4	23,284.6
Impaired loans (stage 3)	159.7	135.4	116.4
- of which servicing	20.3	0.6	2.0
- of which non-servicing	139.4	134.8	114.4
Loans before allowances	**24,320.7**	**24,188.8**	**23,401.0**
- of which central banks and credit institution	*-873.4*		
Allowances for individually assessed impaired loans (stage 3)	-13.2	-2.0	-2.0
- of which servicing	-1.8	-0.2	-0.2
- of which non-servicing	-11.4	-1.8	-1.8
Allowances for collectively assessed impaired loans (stage 1 and 2)	-30.5	-9.1	-10.1
Allowances	**-43.7**	**-11.1**	**-12.1**
Loans, carrying amount	**24,277.0**	**24,177.7**	**23,388.9**

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

	30 Jun 2018[1]			30 Jun
EURm	Stage 1	Stage 2	Stage 3	2017[2]
Loans to central banks, credit institutions and the public	22,219.9	1,941.1	159.7	23,401.0
Interest-bearing securities	-	-	-	-
Total[3]	**22,219.9**	**1,941.1**	**159.7**	**23,401.0**

Allowances and provisions

	30 Jun 2018[1]			30 Jun
EURm	Stage 1	Stage 2	Stage 3	2017[2]
Loans to central banks, credit institutions and the public	-6.2	-24.2	-13.2	-12.1
Interest-bearing securities	-	-	-	-
Provisions for off balance sheet items	0.0	-0.1	-	-
Total allowances and provisions[3]	**-6.2**	**-24.3**	**-13.2**	**-12.1**

[1] Based on IFRS 9
[2] Based on IAS 39
[3] EUR 11.1m reclassified from allowances on loans held at amortised cost at transition to IFRS 9.

Note 7 Loans and impairment, cont.

Movements of allowance accounts for loans measured at amortised cost

EURm	Stage 1	Stage 2	Stage 3	Total
Balance at 1 Jan 2018[1]	**-5,8**	**-20,6**	**-10,0**	**-36,5**
Changes due to origination and acquisition	-0,7	-0,1	-0,3	-1,2
Changes due to change in credit risk (net)	0,2	-4,3	-3,3	-7,3
Changes due to repayments and disposals	0,2	0,7	0,4	1,3
Balance at 30 Jun 2018	**-6,2**	**-24,3**	**-13,2**	**-43,7**

Key ratios	30 Jun 2018[1]
Impairment rate (stage 3), gross, basis points	66
Impairment rate (stage 3), net, basis points	60
Total allowance rate (stage 1, 2 and 3), basis points	18
Allowances in relation to impaired loans (stage 3), %	8
Allowances in relation to loans in stage 1 and 2, %	0

	31 Dec 2017[2]	30 Jun 2017[2]
Impairment rate, gross[4], basis points	56	50
Impairment rate, net[5], basis points	55	49
Total allowance rate[6], basis points	5	5
Allowances in relation to impaired loans[7], %	1	2
Total allowances in relation to impaired loans[8], %	8	10
Non-servicing, not impaired[9], EURm	13.5	11.1

[1] Based on IFRS 9
[2] Based on IAS 39
[4] Individually assessed impaired loans before allowances divided by total loans before allowances.
[5] Individually assessed impaired loans after allowances divided by total loans before allowances.
[6] Total allowances divided by total loans before allowances.
[7] Allowances for individually assessed impaired loans divided by individually assessed impaired loans before allowances.
[8] Total allowances divided by total impaired loans before allowances.
[9] Past due loans, not impaired due to future cash flows (included in Loans, not impaired).

Note 8 Classification of financial instruments

EURm	Amortised cost (AC)	Fair value through profit or loss (FVPL)		Total
		Mandatorily	Derivatives used for hedging	
Financial assets				
Cash and balances with central banks	197.7	-	-	197.7
Loans to credit institutions	873.4	-	-	873.4
Loans to the public	23,403.6	-	-	23,403.6
Derivatives	-	14.4	462.1	476.5
Fair value changes of the hedged items in portfolio hedge of interest rate risk	93.8	-	-	93.8
Prepaid expenses and accrued income	17.9	-	-	17.9
Total 30 Jun 2018	**24,586.3**	**14.4**	**462.1**	**25,062.9**
Total 1 Jan 2018	24,449.7	13.8	521.6	24,985.1

EURm	Amortised cost (AC)	Fair value through profit or loss (FVPL)		Total
		Mandatorily	Derivatives used for hedging	
Financial liabilities				
Deposits by credit institutions	4,834.8	-	-	4,834.8
Debt securities in issue	18,366.6	-	-	18,366.6
Derivatives	-	15.1	128.5	143.6
Fair value changes of the hedged items in portfolio hedge of interest rate risk	326.4	-	-	326.4
Other liabilities	0.0	-	-	0.0
Accrued expenses and prepaid income	75.2	-	-	75.2
Subordinated liabilities	200.5	-	-	200.5
Total 30 Jun 2018	**23,803.5**	**15.1**	**128.5**	**23,947.2**
Total 1 Jan 2018	23,278.6	15.2	145.0	23,438.8

Note 9 Fair value of financial assets and liabilities

EURm	30 Jun 2018 Carrying amount	30 Jun 2018 Fair value	31 Dec 2017 Carrying amount	31 Dec 2017 Fair value
Financial assets				
Cash and balances with central banks	197.7	197.7	198.2	198.2
Loans	24,370.7	25,124.7	24,260.0	24,750.1
Derivatives	476.5	476.5	535.4	535.4
Prepaid expenses and accrued income	17.9	17.9	17.0	17.0
Total	**25,062.9**	**25,816.8**	**25,010.6**	**25,500.7**
Financial liabilities				
Deposits and debt instruments	23,728.3	23,972.8	23,553.9	23,796.6
Derivatives	143.6	143.6	160.2	160.2
Other liabilities	0.0	0.0	-	-
Accrued expenses and prepaid income	75.2	75.2	50.9	50.9
Total	**23,947.2**	**24,191.7**	**23,765.0**	**24,007.7**

The determination of fair value is described in the Annual Report 2017. 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	-	476.5	-	476.5
Total 30 Jun 2018	**-**	**476.5**	**-**	**476.5**
Total 31 Dec 2017	-	535.4	-	535.4
Liabilities at fair value on the balance sheet[1]				
Derivatives	-	143.6	-	143.6
Total 30 Jun 2018	**-**	**143.6**	**-**	**143.6**
Total 31 Dec 2017	-	160.2	-	160.2

[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 2017. Note 23 “Assets and liabilities at fair value”.

Note 11 Capital adequacy

Summary of items included in own funds

EURm	30 Jun 2018	31 Dec 2017[3]	30 Jun 2017
Calculation of own funds			
Equity	1,060.7	1,075.2	1,078.0
Proposed/actual dividend			
Common Equity Tier 1 capital before regulatory adjustments	1,060.7	1,075.2	1,078.0
Deferred tax assets			
Intangible assets			
IRB provisions shortfall (-)	-9.9	-33.3	-23.4
Deductions for investments in credit institutions (50%)			
Pension assets in excess of related liabilities[1]			
Other items, net	-1.9	0.9	-2.0
Total regulatory adjustments to Common Equity Tier 1 capital	-11.8	-32.4	-25.4
Common Equity Tier 1 capital (net after deduction)	1,048.9	1,042.8	1,052.6
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)	1,048.9	1,042.8	1,052.6
Tier 2 capital before regulatory adjustments	200.0	200.0	200.0
IRB provisions excess (+)	13.5	4.7	1.2
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	13.5	4.7	1.2
Tier 2 capital	213.5	204.7	201.2
Own funds (net after deductions)[2]	1,262.4	1,247.5	1,253.8

[1] Based on conditional FSA approval
[2] Own funds adjusted for IRB provision. i.e. adjusted own funds equal EUR 1,259m at 30 Jun 2018
[3] Including profit of the period

Note 11 Capital adequacy. cont.

Minimum capital requirement and REA

EURm	30 Jun 2018 Minimum capital requirement	30 Jun 2018 REA	31 Dec 2017 Minimum capital requirement	31 Dec 2017 REA	30 Jun 2017 Minimum capital requirement	30 Jun 2017 REA
Credit risk	253.0	3,162.6	230.9	2,886.3	184.3	2,303.3
- of which counterparty credit risk	8.5	105.8	9.4	117.0	10.9	136.0
IRB	229.3	2,866.3	210.1	2,625.9	168.3	2,103.5
- sovereign	0.7	8.4	0.2	2.3	1.9	23.2
- corporate	19.5	243.8	17.7	221.5	19.1	239.3
- advanced	*19.5*	*243.8*	*17.7*	*221.5*	*19.1*	*239.3*
- foundation	-	-	-	-	*0.0*	*0.0*
- retail	208.0	2,600.1	192.0	2,399.7	147.3	1,841.0
- secured by immovable property collateral	*158.7*	*1,983.8*	*146.4*	*1,829.6*	*113.9*	*1,423.7*
- other retail	*49.3*	*616.3*	*45.6*	*570.0*	*33.4*	*417.3*
- other	1.1	14.0	0.2	2.2	-	-
Standardised	23.7	296.3	20.8	260.5	16.0	199.7
- central governments or central banks	1.1	13.2	1.1	14.1	1.1	13.3
- institutions	22.7	283.2	19.7	246.4	14.9	186.4
Operational risk	21.8	273.0	23.8	298.1	23.8	298.1
Standardised	21.8	273.0	23.8	298.1	23.8	298.1
Additional REA related to Finnish RW floor due to Article 458 CRR	55.3	691.7				
Additional REA due to Article 3 CRR			-	-	42.8	534.4
Sub total	330.2	4,127.3	254.8	3,184.4	250.9	3,135.8
Adjustment for Basel I floor						
Additional capital requirement according to Basel I floor			603.0	7,537.5	590.8	7,385.2
Total	**330.2**	**4,127.3**	**857.8**	**10,721.9**	**841.7**	**10,521.0**

Note 11 Capital adequacy. cont.

Minimum capital requirement and Capital Buffers

Percentage	Minimum capital requirement	Capital Buffers: CCoB	CCyB	SII	SRB	Capital Buffers total[1]	**Total**
Common Equity Tier 1 capital	4.5	2.5	0.0			2.5	**7.0**
Tier 1 capital	6.0	2.5	0.0			2.5	**8.5**
Own funds	8.0	2.5	0.0			2.5	**10.5**
EURm							
Common Equity Tier 1 capital	185.7	103.2	0.4			103.6	**289.3**
Tier 1 capital	247.6	103.2	0.4			103.6	**351.2**
Own funds	330.2	103.2	0.4			103.6	**433.7**

[1] Only the maximum of the SRB and 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 2018	31 Dec 2017[1]	30 Jun 2017
Common Equity Tier 1 capital	19.4	26.7	27.6

[1] Including profit of the period

Capital ratios

Percentage	30 Jun 2018	31 Dec 2017	30 Jun 2017
Common Equity Tier 1 capital ratio, excluding profit	25.4	32.7	33.6
Tier 1 capital ratio, excluding profit	25.4	32.7	33.6
Total capital ratio, excluding profit	30.6	39.2	40.0

Leverage ratio

	30 Jun 2018	31 Dec 2017[1]	30 Jun 2017
Tier 1 capital, transitional definition, EURm	1,048.9	1,042.8	1,052.6
Leverage ratio exposure, EURm	25,252.8	25,143.0	26,663.3
Leverage ratio, percentage	4.2	4.1	3.9

[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 2018	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:	216.5		228.6		3.7
- of which rating grades 7			0.4		3.7
- of which rating grades 6	216.5		228.2		3.7
- 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:	1,574.7	44.2	1,587.6	25.0	15.4
- of which rating grades 6	973.1	0.7	963.1	0.4	4.9
- of which rating grades 5	84.5	6.7	89.1	3.8	15.2
- of which rating grades 4	308.6	22.0	320.3	12.4	23.0
- of which rating grades 3	136.1	11.1	141.8	6.3	46.2
- of which rating grades 2	10.7	0.2	9.8	0.1	66.3
- of which rating grades 1	6.1	0.3	6.2	0.2	75.6
- of which unrated	53.3	3.2	54.9	1.8	49.8
- of which defaulted	2.3		2.3		252.1
Retail. of which secured by real estate:	19,522.2	74.0	19,573.1	50.9	10.1
- of which scoring grades A	9,613.2	39.8	9,640.6	27.4	4.0
- of which scoring grades B	6,662.8	22.5	6,678.3	15.5	8.1
- of which scoring grades C	2,264.7	8.0	2,270.1	5.5	16.3
- of which scoring grades D	642.7	3.5	645.1	2.4	29.6
- of which scoring grades E	7.9		7.9		47.2
- of which scoring grades F	115.5	0.2	115.7	0.1	86.3
- of which not scored	2.6	0.0	2.6	0.0	30.1
- of which defaulted	212.8	0.1	212.8	0.1	181.7
Retail. of which other retail:	2,341.2	93.6	2,405.7	64.5	25.6
- of which scoring grades A	506.1	37.6	532.0	25.9	5.6
- of which scoring grades B	454.7	32.9	477.4	22.6	11.1
- of which scoring grades C	179.5	8.1	185.1	5.6	19.8
- of which scoring grades D	426.4	11.0	433.9	7.5	32.0
- of which scoring grades E	440.2	2.6	442.0	1.8	35.3
- of which scoring grades F	313.2	1.3	314.0	0.9	50.6
- of which not scored	4.1	0.1	4.2	0.0	33.1
- of which defaulted	16.9	0.2	17.0	0.1	246.7
Other non-credit-obligation assets:	13.9		13.9		100.5

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

NMB does not have the following IRB exposure classes: equity exposures or qualifying revolving retail.