Nordea

Interim report January – June 2017 for Nordea Hypotek AB (publ)

Results
Operating profit amounted to SEK 3,663m (3,362), an increase of 9.0% compared with the same period the previous year.

The result compared to the previous period was mainly affected by the following factors:

- Net interest income rose SEK 591m, an increase of 16.0% compared to the same period last year.
- Net result from financial items at fair value declined by SEK 124m. This is chiefly attributable to financial instruments under hedge accounting and reduced interest rate differential compensation, which negatively affected the item by SEK 183m, and reduced repurchasing of issued bonds entered at amortised cost, which had a positive effect of SEK 59m on the item.
- Credit losses amounted to SEK -1.4m (-5.6) net, and are entirely attributable to household lending.

Income
Net interest income for the period amounted to SEK 4,280m (3,690). Net fee and commission income amounted to SEK 5m (10). The resolution fee during the period amounted to SEK 192m (68), an increase of SEK 124m from the same period last year. The increase is mainly due to the fact that, for 2017, Nordea Hypotek is paying the full fee, 9 basis points, instead of 4.5 basis points for 2016. The resolution fee for the 2017 full year is SEK 384m (155).

Expenses
Operating expenses amounted to SEK 427m (263), an increase of SEK 164m or 62.6% compared to the same period last year. Compared with the same period in 2016, Nordea Hypotek has increased its number of employees by 20 people. In connection with this, responsibility for expenses related to systems and applications for the mortgage process was also transferred from the Parent Company to Nordea Hypotek. This, in combination with the fact that a review was performed in 2017 of the selling and administrative expenses paid by Nordea Hypotek to the Parent Company, and the fact that the amount of remuneration for 2016 was adjusted in the first quarter of 2017, mainly explains the substantial increase in operating expenses for the first six months of 2017 compared with the equivalent period in 2016.

Lending
At the end of the report period, lending to the public was at SEK 538,772m (517,738), exceeding last year's volume by 4.1% (6.5).

Lending to household customers rose 4.7% (8.0), amounting at the close of the period to SEK 446,027m (425,820). Lending to legal entities increased by 0.9% (-0.2), amounting at the close of the period to SEK 92,744m (91,917).

Impaired loans and loan losses
Impaired loans, gross, amounted to SEK 626m (594). The net amount from recoveries and new loan losses gave a loss of SEK 1.4m (loss of -5.6).

Financing
Long-term funding is mainly secured by means of the issuance of covered bonds on the Swedish market, with maturities from two to ten years. During the period, bonds equalling SEK 21,650m were issued in Swedish kronor (58 900). The outstanding bond volume at 30 June 2017 was SEK 305,757m (307,396), of which SEK 10,886m (24,930) was issued in currencies other than SEK.

At 30 June 2017, Nordea Hypotek had outstanding dated debenture loans from the Parent Company totalling SEK 3.1bn (4.7).

Covered bonds are funding instruments, regulated by a separate Swedish Act, which grant the investor priority in the event of the borrower's bankruptcy.
Covered bonds may only be issued following special permission from the Financial Supervisory Authority and on the basis of high-quality assets. Covered bonds and assigned ratings provide the company with a broader base of funding sources.

In addition to the aforementioned long-term borrowing, during the period the company regularly secured funding through short-term borrowing with the Parent Company.

Rating
Since June 2006, the company has been 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.

Capital adequacy
Nordea Hypotek uses the Internal Ratings-based (IRB) approach (internal risk classification) for calculating credit risk in the exposure classes corporate, institution household and sovereigns.

At the end of June, Nordea Hypotek's RWA amounted to SEK 279,851m, applying the floor rule.
The tier 1 capital ratio was 9.3% and the capital ratio was 10.4% including profit for the period. Excluding the premium for the transition rules, the company's risk-weighted assets amounted to SEK 39,521m with a tier 1 capital of 65.6 % and a capital ratio of 73.6% including profit for the period.

Change in the Board of Directors
Torsten Allqvie and Cathrine Skoglund Bognäs have left the board in 2017. Anna Storåkers, Head of Personal Banking Sweden replaced Torsten Allqvie as Chairman in January 2017. Since January 2017, Nicklas Ilebrand, Head of Products, and Maria Härdling, Head of Treasury Asset and Liability Management (TALM) Analytics, have been ordinary board members.

Material events after the balance sheet date
No major events have occurred since 30 June 2017.

Assurance of the Board of Directors
The January–June interim report provides a fair overview of the company's operations, financial position and result, and describes material risks and uncertainties faced by the company.

Stockholm, 25 August 2017

Anna Storåkers *Chairman of the Board*	Elisabet Olin
Nicklas Ilebrand	Nils Lindberg
Peter Dalmalm	Maria Härdling

Michael Skytt
Managing Director

Nordea Hypotek AB (publ), corporate registration number 556091-5448, is part of the Nordea Group, and is a wholly owned subsidiary of Nordea Bank AB (publ). This Interim report has not been subject to review by the company's auditors.

Income statement

SEK (000s)	Note	Jan-Jun 2017	Jan-Jun 2016	Full year 2016
Operating income				
Interest income		4,383,661	4,340,961	8,710,129
Interest expense		-103,301	-651,437	-881,852
Net interest income		**4,280,360**	**3,689,524**	**7,828,277**
Fee and commission income	3	28,034	25,644	48,437
Fee and commission expense	3	-23,420	-16,050	-30,053
Net fee and commission income		**4,614**	**9,594**	**18,384**
Net result from items at fair value	4	-192,782	-69,023	-144,785
Total operating income		**4,092,192**	**3,630,095**	**7,701,876**
Operating expenses				
General administrative expenses:				
Staff costs		-12,964	-3,844	-10,127
Other expenses		-414,132	-258,598	-521,318
Total operating expenses		**-427,096**	**-262,442**	**-531,445**
Profit before loan losses		**3,665,096**	**3,367,653**	**7,170,431**
Net loan losses	5	-1,403	-5,556	-9,068
Operating profit		**3,663,693**	**3,362,097**	**7,161,363**
Income tax expense		-806,025	-739,662	-1,575,252
Net profit for the period		**2,857,668**	**2,622,435**	**5,586,111**

Statement of comprehensive income

SEK (000s)	Jan-Jun 2017	Jan-Jun 2016	Jan-Dec 2016
Net profit for the year	**2,857,668**	**2,622,435**	**5,586,111**
Items that may be reclassified subsequently to income statement			
Cash flow hedges			
Valuation gains/losses during the year	-678,590	84,036	73,537
Tax on valuation gains/losses during the year	149,289	-18,488	-16,178
Other comprehensive income, net of tax	**-529,301**	**65,548**	**57,359**
Total comprehensive income	**2,328,367**	**2,687,983**	**5,643,470**

Balance sheet

SEK (000s)	Note	30 Jun 2017	31 Dec 2016	30 Jun 2016
Assets				
Loans to credit institutions	6	6,907,627	3,274,464	3,264,440
Loans to the public	6	538,771,511	531,060,543	517,737,757
Derivatives	7	6,078,064	9,641,545	10,653,833
Fair value changes of the hedged items in portfolio hedge of interest rate risk		-62,716	-25,860	95,070
Current tax assets		0	87,466	1
Other assets		2,100,070	2,466,415	2,830,247
Prepaid expenses and accrued income		828,752	643,591	645,750
Total assets		**554,623,308**	**547,148,164**	**535,227,098**
Liabilities				
Deposits by credit institutions		202,545,803	168,608,677	177,539,193
Debt securities in issue		313,452,689	336,899,512	315,536,204
Derivatives	7	746,871	685,702	621,878
Fair value changes of the hedged items in portfolio hedge of interest rate risk		5,751,194	6,936,406	9,877,144
Current tax liabilities		475,978	-	327,495
Other liabilities		2,373,558	6,912,642	1,266,766
Accrued expenses and prepaid income		31,512	38,510	155,936
Deferred tax liabilities		6,042	155,332	157,642
Subordinated liabilities		3,101,178	3,101,266	4,701,469
Total liabilities		**528,484,825**	**523,338,047**	**510,183,727**
Equity				
Share capital		110,000	110,000	110,000
Other reserves		21,422	550,723	558,912
Retained earnings		26,007,061	23,149,394	24,374,459
Total equity		**26,138,483**	**23,810,117**	**25,043,371**
Total liabilities and equity		**554,623,308**	**547,148,164**	**535,227,098**

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Statement of changes in equity

SEK (000s)	Restricted equity	Unrestricted equity	Unrestricted equity	
	Share capital[1)]	Cash flow-hedges	Retained earnings	Total
Balance at 1 Jan 2017	**110,000**	**550,723**	**23,149,394**	**23,810,117**
Total comprehensive income	-	-529,301	2,857,667	2,328,366
Shareholder’s contribution received	-	-	-	-
Balance at 30 Jun 2017	**110,000**	**21,422**	**26,007,061**	**26,138,483**

SEK (000s)	Share capital[1)]	Cash flow-hedges	Retained earnings	Total
Balance at 1 Jan 2016	**110,000**	**493,364**	**17,052,024**	**17,655,388**
Total comprehensive income	-	57,359	5,586,111	5,643,470
Shareholder’s 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 Dec 2016	**110,000**	**550,723**	**23,149,394**	**23,810,117**

SEK (000s)	Share capital[1)]	Cash flow-hedges	Retained earnings	Total
Balance at 1 Jan 2016	**110,000**	**493,364**	**17,052,024**	**17,655,388**
Total comprehensive income	-	65,548	2,622,435	2,687,983
Shareholder’s contribution received	-	-	4,700,000	4,700,000
Balance at 30 Jun 2016	**110,000**	**558,912**	**24,374,459**	**25,043,371**

1) 100,000 Shares

Cash flow statement

SEK (000s)	Jan-Jun 2017	Jan-Jun 2016	Full year 2016
Operating activities			
Operating profit	3,663,693	3,362,097	7,161,363
Adjustments for items not included in cash flow	-3,757,940	-3,999,376	-809,329
Income tax paid	-242,582	-259,554	-328,664
Cash flow from operating activities before changes in operating assets and liabilities	**-336,829**	**-896,833**	**6,023,370**
Changes in operating assets			
Changes in lending to the public	-7,712,923	-16,891,226	-30,218,120
Changes in derivatives, net	1,785,659	1,451,241	-244,099
Changes in other assets	366,345	-344,972	18,859
Changes in operating liabilities			
Change in deposits by credit institutions	33,955,490	19,621,801	10,721,801
Change in debt securities in issue	-19,885,494	-1,497,077	16,475,454
Change in other liabilities	-4,539,085	-5,480,159	-5,204,466
Cash flow from operating activities	**3,633,163**	**-4,037,225**	**-2,427,201**
Financing activities			
Amortised subordinated liabilities	-	-	-1,600,000
Shareholders’ contribution received	-	4,700,000	4,700,000
Cash flow from financing activities	**-**	**4,700,000**	**3,100,000**
Cash flow for the period	**3,633,163**	**662,775**	**672,799**
Cash and cash equivalents at beginning of period	3,274,464	2,601,665	2,601,665
Cash and cash equivalents at end of period	6,907,627	3,264,440	3,274,464
Change	**3,633,163**	**662,775**	**672,799**

Cash and cash equivalents

SEK (000s)	30 Jun 2017	30 Jun 2016	31 Dec 2016
Loans to credit institutions, payable on demand	6,907,627	3,264,440	3,274,464

Note 1 Accounting policies

The interim financial statements are presented in accordance with IAS 34 “Interim Financial Reporting”. In addition, certain complementary rules in 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 for legal entities (RFR 2) from the Swedish Financial Reporting Board have been applied.

The same accounting policies and calculation methods of computation have been used for the interim report as for the 2016 annual report. Further information is presented in Note 1 of the 2016 annual report. The changes implemented in 2017 are described in the section “Changed accounting policies ”below.

Changed accounting policies and presentation

The following amendments published by IASB were implemented on 1 January 2017 but have not had any significant impact on the financial statements of Nordea Hypotek:

- Amendments to IAS 12: “Recognition of Deferred Tax Assets for Unrealised Losses”
- Amendments to IAS 7: “Disclosure initiative”

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

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

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 Hypotek does not intend to early adopt the standard. Nordea Hypotek 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 Hypotek has divided its financial assets into portfolios and/or sub-portfolios based on how groups of financial assets are managed together to achieve a particular business objective. To derive the right level on which portfolios are determined, Nordea Hypotek has taken the current business area structure into account. 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 behaviour and management compensation.

Nordea Hypotek 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 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 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 Hypotek has yet 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 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. Nordea Hypotek 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, 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 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, 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 staging assessment, the calculation should be based on probability weighted forward looking information. Nordea Hypotek 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 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 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 Hypotek's financial statements, capital adequacy, or large exposures in the period of initial application.

Other amendments to IFRS

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

Note 2 Segment reporting

	Operating segments					
	Personal Banking		Commercial & Business Banking		Group Treasury	
SEKm	Jan-Jun 2017	Jan-Jun 2016	Jan-Jun 2017	Jan-Jun 2016	Jan-Jun 2017	Jan-Jun 2016
Total operating income	3,773	3,677	535	606	-144	-716
Operating profit	3,771	3,671	536	606	-153	-725
Loans to the public	430,682	407,260	103,829	103,660	-	-

	Other operating segments		Total operating segments		Reconciliation	
SEKm	Jan-Jun 2017	Jan-Jun 2016	Jan-Jun 2017	Jan-Jun 2016	Jan-Jun 2017	Jan-Jun 2016
Total operating income	-181	-33	3,983	3,534	109	96
Operating profit	-219	-41	3,935	3,511	-271	-149
Loans to the public	4,261	6,818	538,772	517,738	-	-

	Total	
SEKm	Jan-Jun 2017	Jan-Jun 2016
Total operating income	4,092	3,630
Operating profit	3,664	3,362
Loans to the public	538,772	517,738

Reconciliation between total operating segments and financial statements

	Jan-Jun 2017		Jan-Jun 2016	
SEKm	Operating profit	Loans to the public	Operating profit	Loans to the public
Total operating segments	3,935	538,772	3,511	517,738
Group functions and unallocated items	-271	-	-149	-
Total	**3,664**	**538,772**	**3,362**	**517,738**

Reportable operating segments

Identification of the operating segments is unchanged since the 2016 annual report.
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 Operations support function within the banking business. Group functions and earnings that are not entirely allocated to any of the operating segments are shown separately as reconciliation items in the table above. Nordea Hypotek has short-term borrowing from Nordea Bank AB. Because Stibor (3m) is negative, Nordea Hypotek gains revenue from each such instance of borrowing, while Nordea Bank AB incurs an equivalent expense. 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 679m compared with the same period of 2016. The PL effect of the short-term borrowing, which is linked to three-month Stibor, which Nordea Hypotek has with the Parent Company was SEK +462m in the first half of 2017.

Note 3 Net fee and commission income

SEK 000s	Jan-June 2017	Jan-June 2016	Full year 2016
Custody and issuance services	**-12,709**	**-15,995**	**-29,963**
– of which income	-	-	-
– of which expense	-12,709	-15,995	-29,963
Lending products	**8,580**	**11,830**	**23,235**
– of which income	17,893	11,830	23,235
– of which expense	-9,313[1]	-	-
Other	**8,743**	**13,759**	**25,112**
– of which income	10,141	13,814	25,202
– of which expense	-1,398	-55	-90
Net fee and commission income	**4,614**	**9,594**	**18,384**

[1] The fees for Mortgage Protection are reported gross as of Q1 2017. It has not been possible to restate the figures for previous periods.

Note 4 Net result from items at fair value

SEK (000s)	Jan-Jun 2017	Jan-Jun 2016	Full year 2016
Interest-bearing securities and other interest-related instruments	-192,782	-69,023	-144,785
Total	**-192,782**	**-69,023**	**-144,785**

Note 5 Net loan losses

SEK (000s)	Jan-Jun 2017	Jan-Jun 2016	Full year 2016
Loan losses divided by class			
Loans and receivables to the public			
Realised loan losses	-4,996	-9,510	-13,932
Allowances to cover realised loan losses	-	-	-
Recoveries on previous loan losses	552	248	845
Provisions	-1,505	-339	-3,790
Reversals of previous provisions	4,546	4,045	7,809
Total	**-1,403**	**-5,556**	**-9,068**

Note 6 Loans and impairment

SEKm	Credit institutions 30 Jun 2017	31 Dec 2016	30 Jun 2016	The public 30 Jun 2017	31 Dec 2016	30 Jun 2016
Loans, not impaired	6,908	3,274	3,264	538,207	530,505	517,209
Impaired loans:	-	-	-	626	621	594
- Performing	-	-	-	57	43	19
- Non-performing	-	-	-	569	577	575
Loans before allowances	**6,908**	**3,274**	**3,264**	**538,833**	**531,125**	**517,803**
Allowances for individually assessed impaired loans	-	-	-	-16	-16	-16
- Performing	-	-	-	-5	-5	-2
- Non-performing	-	-	-	-11	-11	-14
Allowances for collectively assessed impaired loans	-	-	-	-46	-48	-49
Allowances	**-**	**-**	**-**	**-62**	**-65**	**-65**
Loans, carrying amount	**6,908**	**3,274**	**3,264**	**538,771**	**531,061**	**517,738**

SEKm	Total 30 Jun 2017	31 Dec 2016	30 Jun 2016
Loans, not impaired	545,115	533,779	520,473
Impaired loans:[1]	626	621	594
- Performing	57	43	19
- Non-performing	569	577	575
Loans before allowances	**545,741**	**534,400**	**521,067**
Allowances for individually assessed impaired loans	-16	-16	-16
- Performing	-5	-5	-2
- Non-performing	-11	-11	-14
Allowances for collectively assessed impaired loans	-46	-48	-49
Allowances	**-62**	**-65**	**-65**
Loans, carrying amount	**545,679**	**534,335**	**521,002**

Allowances and provisions

SEK (000s)	30 Jun 2017	31 Dec 2016	30 Jun 2016
Allowances for items in the balance sheet	-61,589	-64,628	-64,941
Total allowances	**-61,589**	**-64,628**	**-64,941**

Key ratios

	30 Jun 2017	31 Dec 2016	30 Jun 2016
Impairment rate, gross[1], basis points	11.5	11.6	11.4
Impairment rate, net[2], basis points	11.2	11.3	11.1
Total allowance rate[3], basis points	1.1	1.2	1.2
Allowances in relation to impaired loans[4], %	2.6	2.6	2.7
Total allowances in relation to impaired loans[5], %	9.8	10.4	10.9

1 Individually assessed impaired loans before allowances divided by total loans before allowances, basis points.

2 Individually assessed impaired loans after allowances divided by total loans before allowances, basis points.

3 Total allowances divided by total loans before allowances, basis points.

4 Allowances for individually assessed impaired loans divided by individually assessed impaired loans before allowances, %.

5 Total allowance divided by total impaired loans before allowances, %.

Note 7 Derivatives

	30 Jun 2017		31 Dec 2016		30 Jun 2016	
Fair value, SEKm	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Derivatives used for hedging						
Interest rate derivatives	5,326	398	8,186	381	9,428	315
Foreign exchange derivatives	752	349	1,456	305	1,226	307
Total	**6,078**	**747**	**9,642**	**686**	**10,654**	**622**

Nominal amount, SEKm	**30 Jun 2017**	**31 Dec 2016**	**30 Jun 2016**
Derivatives used for hedging			
Interest rate derivatives	339,431	339,723	316,342
Foreign exchange derivatives	13,202	27,081	27,198
Total	**352,633**	**366,804**	**343,540**

Note 8 Classification of financial instruments

SEKm	Loans and receivables	Derivatives used for hedging	Non financial assets	Total
Financial assets				
Loans to credit institutions	6,908	-	-	6,908
Loans to the public	538,772	-	-	538,772
Derivatives	-	6,078	-	6,078
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-63	-	-	-63
Other assets	2,099	-	0	2,099
Prepaid expenses and accrued income	829	-	-	829
Total 30 Jun 2017	**548,545**	**6,078**	**0**	**554,623**
Total 31 Dec 2016	537,419	9,642	87	547,148

SEKm	Derivatives used for hedging	Other financial liabilities	Non financial liabilities	Total
Financial liabilities				
Deposits by credit institutions	-	202,546	-	202,546
Debt securities in issue	-	313,453	-	313,453
Derivatives	747	-	-	747
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	5,751	-	5,751
Other liabilities	-	2,374	481	2,855
Accrued expenses and prepaid income	-	15	17	32
Subordinated liabilities	-	3,101	-	3,101
Total 30 Jun 2017	**747**	**527,240**	**498**	**528,485**
Total 31 Dec 2016	686	522,473	179	523,338

Note 9 Fair value of financial assets and liabilities

SEKm	30 Jun 2017 Carrying amount	30 Jun 2017 Fair value	31 Dec 2016 Carrying amount	31 Dec 2016 Fair value
Assets				
Loans	545,617	542,348	534,309	536,547
Derivatives[1]	6,078	6,078	9,642	9,642
Other assets	2,099	2,099	2,466	2,466
Prepaid expenses and accrued income	829	829	644	644
Total assets	**554,623**	**551,354**	**547,061**	**549,299**
Financial liabilities				
Deposits and debt instruments	524,851	529,145	515,546	517,631
Derivatives[1]	747	747	686	686
Other liabilities	2,855	2,855	6,911	6,911
Accrued expenses and prepaid income	32	32	16	16
Total liabilities	**528,485**	**532,779**	**523,159**	**525,244**

[1] Valuation techniques using observable data (level 2) have been used for determination of fair value regarding derivatives.

The determination of fair value is described in the Annual report 2016, Note 23 “Assets and liabilities at fair value”.

Measurement of offsetting positions

Financial assets and liabilities with offsetting positions in market risk or credit risk are measured on the basis of the price that would be received to sell the net asset exposed for that particular risk or paid to transfer the net liability exposed for that particular risk. For more information about valuation techniques and inputs used in the fair value measurement, see the Annual report 2016, Note 23 “Assets and liabilities at fair value”.

Note 10 Capital adequacy

Summary of items included in own funds

SEKm	30 Jun 2017	31 Dec[2] 2016	30 Jun 2016
Calculation of own funds			
Equity	23,281	23,810	22,421
Common Equity Tier 1 capital before regulatory adjustments	23,281	23,810	22,421
IRB provisions shortfall (-)	-140	-136	-128
Other items, net	-67	-598	-565
Total regulatory adjustments to common Equity Tier 1 capital	-207	-734	-693
Common Equity Tier 1 capital (net after deduction)	**23,074**	**23,076**	**21,728**
Tier 1 capital (net after deduction)	**23,074**	**23,076**	**21,728**
Tier 2 capital before regulatory adjustments	3,100	3,100	4,700
IRB provisions excess (+)	24	-	22
Total regulatory adjustments to Tier 2 capital	24	-	22
Tier 2 Capital	3,124	3,100	4,722
Own funds (net after deduction)[1]	**26,198**	**26,176**	**26,450**

[1] Own funds adjusted IRB provisions, i e, adjusted own funds equal SEK 26,314m by 30 June 2017.

[2] Including profit.

Own funds including profit

SEKm	30 Jun 2017	31 Dec 2016	30 Jun 2016
Common Equity Tier 1 capital, including profit	25,945	23,076	24,399
Total Own Funds, including profit	29,069	26,176	29,122

Minimum capital requirement and REA

	30 Jun 2017		31 Dec 2016		30 Jun 2016	
SEKm	**Min. Capital-requirement**	**REA**	**Min. Capital-requirement**	**REA**	**Min. Capital-requirement**	**REA**
Credit risk	**2,381**	**29,753**	**2 137**	**26 707**	**2,248**	**28,102**
-of which counterparty credit risk	-	-	0	3	0	2
IRB	2,381	29,753	2,126	26,571	2,236	27,954
- sovereign	24	293	-	-	-	-
- corporate	936	11,700	737	9,215	767	9,581
- advanced	936	11,700	737	9,215	767	9,581
- foundation	-	-	-	-	-	-
- institutions	-	-	-	-	35	442
- retail	1,389	17,365	1,360	17,002	1,410	17,624
- secured by immovable property collateral	1,279	15,994	1,250	15,628	1,284	16,047
- other retail	110	1,371	110	1,374	126	1,577
- other	32	395	29	354	24	307
Standardised	-	-	11	136	12	148
- central governments or central banks	-	-	0	0	0	0
- regional government or local authorities	-	-	11	133	10	124
- institutions	-	-	0	3	2	24
- of which secured by mortgages on immovable properties	-	-	0	0	0	0
Credit Value Adj. Risk	**-**	**-**	**-**	**-**	**-**	**-**
Market risk	**-**	**-**	**-**	**-**	**-**	**-**
Operational risk	**781**	**9,768**	**646**	**8,075**	**646**	**8,075**
Standardised	781	9,768	646	8,075	646	8,075
Additional risk exposure Amount due to Article 3 CCR	**-**	**-**	**12**	**155**	**25**	**305**
Sub total	**3,162**	**39,521**	**2,795**	**34,937**	**2,919**	**36,482**
Adjustment for Basel 1 floor						
Additional capital requirement	19,226	240,330	19,106	238,824	18,542	231,786
Total	**22,388**	**279,851**	**21,901**	**273,761**	**21,461**	**268,268**

Minimum Capital Requirement & Buffers

Percentage	Minimum Capital Requirement	Buffers CCOB	CCyB	SII	SRB	Capital Buffers Total	Total
Common Equity Tier capital	4.5	2.5	2.0	-	-	4.5	**9.0**
Tier 1 Capital	6.0	2.5	2.0	-	-	4.5	**10.5**
Own funds	8.0	2.5	2.0	-	-	4.5	**12.5**

SEKm							
Common Equity Tier capital	1,778	988	783	-	-	1,771	**3,549**
Tier 1 Capital	2,371	988	783	-	-	1,771	**4,142**
Own funds	3,162	988	783	-	-	1,771	**4,933**

Common Equity Tier 1 available to meet Capital Buffers

Percentage points of REA	30 Jun 2017	31 Dec[1] 2016	30 Jun 2016
Common Equity Tier I capital	52.4	60.0	53.6

[1] Including profit of the period.

Capital ratios

Percentage	30 Jun 2017	31 Dec 2016	30 Jun 2016
Common Equity Tier I capital ratio, including profit	65.6	66.0	66.9
Tier I ratio, including profit	65.6	66.0	66.9
Total capital ratio, including profit	73.6	74.9	79.8
Common Equity Tier I capital ratio, excluding profit	58.4	50.1	59.6
Tier I ratio, excluding profit	58.4	50.1	59.6
Total capital ratio, excluding profit	66.3	59.0	72.5

Capital ratios including Basel I floor

Percentage	30 Jun 2017	31 Dec 2016	30 Jun 2016
Common Equity Tier I capital ratio, including profit	9.3	8.5	9.1
Tier I ratio, including profit	9.3	8.5	9.1
Total capital ratio, including profit	10.4	9.6	10.9
Common Equity Tier I capital ratio, excluding profit	8.3	6.4	8.1
Tier I ratio, excluding profit	8.3	6.4	8.1
Total capital ratio, excluding profit	9.4	7.6	9.9

Leverage ratio

	30 Jun 2017	31 Dec[1] 2016	30 Jun 2016
Tier 1 capital, transitional definition, SEKm	23,074	23,076	21,728
Leverage ratio exposure, SEKm	596,313	564,105	555,727
Leverage ratio, percentage	3.9	4.1	3.9

[1] Including profit of the period.

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 weig-hted average risk weight:
Sovereign, foundation IRB	2,883	-	8,257	-	3.5
-of which rating grades 7	2,883	-	8,257	-	3.5
-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	-	-	-	-	-
-of which defaulted	-	-	-	-	-
Corporate, advanced IRB	89,410	-	84,036	-	13.9
-of which rating grades 6	47,765	-	46,916	-	5.8
-of which rating grades 5	14,581	-	12,471	-	12.5
-of which rating grades 4	21,432	-	20,684	-	23.4
-of which rating grades 3	1,561	-	1,507	-	35.7
-of which rating grades 2	32	-	33	-	51.4
-of which rating grades 1	17	-	13	-	69.2
-of which unrated	4,022	-	2,412	-	84.4
-of which defaulted	-	-	-	-	-
Retail, of which secured by real estate	433,107	40,639	473,746	40,639	3.4
-of which scoring grades A	379,450	37,211	416,660	37,211	2.4
-of which scoring grades B	34,723	3,428	38,151	3,428	5.9
-of which scoring grades C	13,941	-	13,941	-	13.0
-of which scoring grades D	3,579	-	3,579	-	22.7
-of which scoring grades E	-	-	-	-	-
-of which scoring grades F	550	-	550	-	64.3
-of which not scored	189	-	189	-	19.7
-of which defaulted	675	-	676	-	118.2
Retail, of which other retail	13,846	-	13,846	-	9.9
-of which scoring grades A	10,012	-	10,012	-	4.4
-of which scoring grades B	1,157	-	1,157	-	10.2
-of which scoring grades C	657	-	657	-	19.0
-of which scoring grades D	434	-	434	-	25.6
-of which scoring grades E	1,013	-	1,013	-	28.7
-of which scoring grades F	538	-	538	-	40.2
-of which not scored	7	-	7	-	23.9
-of which defaulted	28	-	28	-	222.2
Other non credit-obligation assets	395	-	395	-	100,0

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

Nordea Hypotek does not have the following IRB exposure classes: equity exposure, items representing securitisation positions, central governments and central banks, qualifying revolving retail.

Not 11 Risks and uncertainties

The company's main risk exposure is credit risk. The company also assumes liquidity risk and operational risk. 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.