

# Interim report January-June 2010 for Nordea Hypotek AB (publ)

## Result

Operating profit amounted to SEK 1,005m (1,305), a decline of 23 per cent on the same period of the previous year.

Results compared to the previous period were mainly affected by the following factors:

- Net interest income decreased by SEK 209m due to increased funding costs for long-term borrowing and reclassification of interest compensation.
- Net gains/losses on items at fair value fell by SEK 116m, the item pertains to hedge accounting and interest compensation on fixed interest rate loans.
- Net loan losses went from negative to positive by SEK 31m compared to the previous period.

## Income

Net interest income amounted to SEK 1,242m (1,451). Net commission income for the period has been charged with an estimated stability fee of SEK 28m and amounted to SEK -6m (1).

## Expenses

Operating expenses were unchanged. They totalled SEK 277m (278).

## Lending

At the end of the report period lending to the public amounted to SEK 395,469m (355,983), exceeding last year's volume by 11 per cent (7).

Lending to household customers increased by 13 per cent or SEK 32,342m. Lending volumes in respect of legal entities increased by SEK 7,143m or 6 per cent.

## Impaired loans and loan losses

Impaired loans, net, amounted to SEK 20m (6). Net loan losses from recoveries and new loan losses and also changes in collective provisions amounted to SEK 1m (-30).

## Funding

The company's borrowing is conducted in both Swedish and international markets. Long-term financing occurs mainly by way of issuance of bonds with maturities from two to ten years. During the period, bonds equalling an amount of SEK 53,171m (55,287) were issued in Swedish currency. Issues in other currencies amounted to SEK 17,132m (8,735). The remaining bond volume as at 30 June 2010 amounted to SEK 297,480m (266,727), of which SEK 85,261m (75,740) was in currencies other than SEK.

Covered bonds are debt instruments, regulated in a separate Swedish Act, for which the investor is given a priority of claim in respect of a pool of high quality assets in the event of the issuer's bankruptcy. Covered bonds may only be issued subject to special permission by the Financial Supervisory Authority and on the basis of assets of high quality. The covered bond issuance and assigned ratings will allow Nordea Hypotek to expand its funding into a broader base of funding sources, not least in the international financial market.

In addition to the aforementioned long-term borrowing the company has successively during the period secured its funding through short-term borrowing with the parent company.

## International rating

The company has since June 2006 been rated Aaa/AAA by Moody's Investor Service and respectively Standard & Poor's for the covered bonds that account for the company's main long-term borrowing. Standard & Poor's in December 2009 changed its criteria for the rating of covered bonds. Nordea Hypotek's covered bonds have been identified as "CreditWatch negative".

## Capital adequacy

Nordea received approval to use the foundation IRB approach (internal risk classification) from the second quarter of 2007 for assessment of credit risk in the exposure classes corporate and institutions. In December 2008 IRB approval was acquired for the exposure class retail. Sovereign and other exposure classes are until further notice reported according to the standardised approach.

The new capital adequacy regulations under the Basel II agreement will be implemented progressively, whereby potentially reduced capital requirements during a transition period will be affected by the so-called floor rules determined in Basel I. In 2009, the lowest accepted amount for risk-weighted assets (RWA) was 80 per cent of the amount calculated in accordance with the Basel I regulations, and will be unchanged for 2010 and 2011.

At the end of June, Nordea Hypotek's RWA amounted to SEK 177,510m after transition rules. Tier 1 capital ratio was 7.4 per cent and the total capital ratio was 9.5 per cent. Risk-weighted assets excluding transition rules amounted to SEK 53,111m with a tier

1 capital ratio of 24.9 per cent and a total capital ratio of 31.8 per cent.

**Change in the Board of Directors**

At the Annual General Meeting 18 March 2010, Nils Lindberg was elected as new board member.

**Material events after the balance sheet date**

No major events have occurred after 30 June 2010.

**The Board of Directors assurance**

The half-year interim report provides a fair overview of the company's activities, the financial position and result, and describes material risks and uncertainties assumed by the company.

Stockholm, 27 August 2010

Torsten Allqvist  
*Chairman*

Kurt Gustafsson

Ulla Hermann

Björn Hökby

Nils Lindberg

Karin Markstedt  
*President*

**Income statement**

SEK (000s)	Note	Jan-Jun 2010	Jan-Jun 2009	Jan-Dec 2009
<b>Operating income</b>				
Interest income		4,472,119	5,888,468	10,747,157
Interest expenses		-3,230,490	-4,437,402	-7,704,646
<b>Net interest income</b>		<b>1,241,629</b>	<b>1,451,066</b>	<b>3,042,511</b>
Fee and commission income		30,411	31,592	63,869
Fee and commission expense		-36,322	-30,537	-66,824
<b>Net fee and commission income</b>		<b>-5,911</b>	<b>1,055</b>	<b>-2,955</b>
Net gains/losses on items at fair value	3	45,298	161,236	282,024
<b>Total operating income</b>		<b>1,281,016</b>	<b>1,613,357</b>	<b>3,321,580</b>
<b>Operating expenses</b>				
General administrative expenses:				
Staff costs		-2,649	-2,807	-5,554
Other expenses		-274,322	-274,915	-548,934
Depreciation, amortisation and impairment changes of tangible assets		-1	-5	-11
<b>Total operating expenses</b>		<b>-276,972</b>	<b>-277,727</b>	<b>-554,499</b>
Net loan losses	4	1,092	-30,138	-60,726
<b>Operating profit</b>		<b>1,005,136</b>	<b>1,305,491</b>	<b>2,706,355</b>
Income tax expense		-264,353	-343,344	-711,803
<b>Net profit for the period</b>		<b>740,783</b>	<b>962,147</b>	<b>1,994,552</b>

**Balance sheet**

SEK (000s)	Note	30 Jun 2010	31 Dec 2009	30 Jun 2009
<b>Assets</b>				
Loans to credit institutions	5	898,329	208,438	25,530
Loans to the public	5	395,468,858	374,242,749	355,983,377
Derivatives	7	9,692,199	13,951,494	15,761,485
Fair value changes of the hedged items in portfolio hedge of interest rate risk		2,725,203	2,404,303	2,379,839
Tangible assets		-	1	6
Current tax assets		902	498	769
Other assets		1,424,791	1,910,681	2,782,402
Prepaid expenses and accrued income		543,491	562,316	620,609
<b>Total assets</b>		<b>410,753,773</b>	<b>393,280,480</b>	<b>377,554,017</b>
<b>Liabilities</b>				
Deposits by credit institutions		79,020,686	86,592,000	83,752,535
Debt securities in issue		299,378,180	272,870,036	267,024,179
Derivatives	7	3,945,921	2,320,169	2,552,831
Fair value changes of the hedged items in portfolio hedge of interest rate risk		8,027,626	5,804,077	5,899,299
Current tax liabilities		264,353	-	321,376
Other liabilities		291	2,572,816	334
Accrued expenses and prepaid income		2,013,627	5,786,676	1,741,771
Deferred tax liabilities		45,745	45,745	32,317
Provisions		77,300	49,700	22,519
Subordinated liabilities		3,800,000	3,800,000	3,800,000
<b>Total liabilities</b>		<b>396,573,729</b>	<b>379,841,219</b>	<b>365,147,161</b>
<b>Equity</b>				
Share capital		110,000	110,000	110,000
Retained earnings		14,070,044	13,329,261	12,296,856
<b>Total equity</b>		<b>14,180,044</b>	<b>13,439,261</b>	<b>12,406,856</b>
<b>Total liabilities and equity</b>		<b>410,753,773</b>	<b>393,280,480</b>	<b>377,554,017</b>
Assets pledged as security for own liabilities		371,765,260	354,279,946	335,958,520
Contingent liabilities		None	None	None
Commitments		356,812,334	297,242,960	259,695,131
<b>Other notes</b>				
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## Statement of changes in equity

SEK (000s)	Share capital <sup>1)</sup>	Retained earnings	Total equity
<b>Opening balance at 1 Jan 2010</b>	<b>110,000</b>	<b>13,329,261</b>	<b>13,439,261</b>
Net profit for the period	-	740,783	740,783
<b>Closing balance at 30 Jun 2010</b>	<b>110,000</b>	<b>14,070,044</b>	<b>14,180,044</b>

SEK (000s)	Share capital <sup>1)</sup>	Retained earnings	Total equity
<b>Opening balance at 1 Jan 2009</b>	<b>110,000</b>	<b>11,334,709</b>	<b>11,444,709</b>
Net profit for the year	-	1,994,552	1,994,552
Shareholders' contribution	-	1,895,482	1,895,482
Group contribution paid	-	-2,571,889	-2,571,889
Tax effect of group contribution	-	676,407	676,407
<b>Closing balance at 31 Dec 2009</b>	<b>110,000</b>	<b>13,329,261</b>	<b>13,439,261</b>

SEK (000s)	Share capital <sup>1)</sup>	Retained earnings	Total equity
<b>Opening balance at 1 Jan 2009</b>	<b>110,000</b>	<b>11,334,709</b>	<b>11,444,709</b>
Net profit for the period	-	962,147	962,147
<b>Closing balance at 30 Jun 2009</b>	<b>110,000</b>	<b>12,296,856</b>	<b>12,406,856</b>

1) 100,000 shares

**Cash flow statement**

<b>SEK (000s)</b>	<b>Jan-Jun 2010</b>	<b>Jan-Jun 2009</b>	<b>Full year 2009</b>
<b><i>Operating activities</i></b>			
Operating profit	1,005,136	1,305,491	2,706,355
Adjustments for items not included in cash flow	-4,012,644	-2,876,812	920,448
Income tax paid	-404	-206	-676,341
<b>Cash flow from operating activities before changes in operating assets and liabilities</b>	<b>-3,007,912</b>	<b>-1,571,527</b>	<b>2,950,462</b>
<b>Changes in operating assets</b>			
Changes in lending to the public	-21,230,196	-15,528,274	-33,823,727
Changes in derivatives, net	8,077,804	2,344,727	4,171,574
Changes in other assets	485,891	-1,972,681	-1,100,962
<b>Changes in operating liabilities</b>			
Change in deposits by credit institutions	-7,571,314	23,259,535	26,099,000
Change in debt securities in issue	26,508,144	-5,362,144	483,713
Change in other liabilities	-2,572,526	-1,752,877	819,606
<b>Cash flow from operating activities</b>	<b>689,891</b>	<b>-583,241</b>	<b>-400,334</b>
<b><i>Financing activities</i></b>			
Shareholders' contribution	-	-	1,895,482
Change in subordinated liabilities	-	-	0
Group contributions paid	-	-	-1,895,482
<b>Cash flow from financing activities</b>	<b>-</b>	<b>-</b>	<b>0</b>
<b>Cash flow for the period</b>	<b>689,891</b>	<b>-583,241</b>	<b>-400,334</b>
Cash and cash equivalents at beginning of period	208,438	608,771	608,771
Cash and cash equivalents at end of period	898,329	25,530	208,438
<b>Change</b>	<b>689,891</b>	<b>-583,241</b>	<b>-400,334</b>

**Cash and cash equivalents**

<b>SEK (000s)</b>	<b>30 Jun 2010</b>	<b>30 Jun 2009</b>	<b>31 Dec 2009</b>
Lending to credit institutions, payable on demand	898,329	25,530	208,438

**Note 1 Accounting policies**

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Nordea Hypotek's interim report is prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (1995:1559) (ÅRKL) and the regulations and general directions of the Swedish Financial Supervisory Authority in respect of annual reports of credit institutions and securities companies (FFFS 2008:25, with addition of FFFS 2009:11) and the recommendations RFR2.3 "Accounting for Legal Entities" issued by the Swedish Financial Reporting Board. Nordea Hypotek applies so-called limited IFRS and this refers to the standards approved for application in the EU with the limitations that follow from RFR 2.3 and FFFS 2008:25, (with addition of FFFS 2009:11). This means that all of the EU-approved IFRS and declarations are applicable as far as possible within the framework of ÅRKL and with consideration to the connection between financial reporting and taxation. The accounting policies, basis for calculations and presentations are, in all material aspects, unchanged compared with the 2009 Annual Report, except for the classification of pension expenses, lending commissions and interest compensation.

All components within pension expenses are, as from 2010, classified as "Staff costs". Previous classified as "Appropriations".

Nordea Hypotek has also reclassified lending commissions from "Net fee and commission income" to "Net interest income". Lending commissions that are considered an integral part of the effective interest rate of a loan are included in the calculation of effective interest and now classified as "Net interest income" in the income statement. Lending commissions considered compensation for services performed are still classified as "Net fee and commission income". The impact on "Net interest income" as of June 2010 is SEK 2m and June 2009 is SEK 2m.

As from 2010 Nordea Hypotek AB recognises received interest compensation on fixed interest rate loans as "Net result on items at fair value", because this is common practice in the market and as the compensation equals the fair value adjustment arising from changes in applicable interest rates. The impact on Nordea Hypotek AB as of June 2010 is SEK 76m and June 2009 SEK 84m.

The comparable figures have been restated accordingly.

**Note 2 Segment reporting**

	Operating segments					
	Nordic Banking		Group Corporate Centre		Other Operating segments	
	Jan-Jun 2010	Jan-Jun 2009	Jan-Jun 2010	Jan-Jun 2009	Jan-Jun 2010	Jan-Jun 2009
<b>SEKm</b>						
Total operating income	1,624	1,445	-453	3	0	0
Operating profit	1,625	1,415	-453	3	0	0
Total assets	395,443	355,961	-	-	26	22

  

	Total Operating segments		Reconciliation		Total	
	Jan-Jun	Jan-Jun	Jan-Jun	Jan-Jun	Jan-Jun	Jan-Jun
	2010	2009	2010	2009	2010	2009
<b>SEKm</b>						
Total operating income	1,171	1,448	110	165	1,281	1,613
Operating profit	1,172	1,418	-167	-113	1,005	1,305
Total assets	395,469	355,983	-	-	395,469	355,983

**Reconciliation between total operating segments and financial statements**

	Jan-Jun 2010		Jan-Jun 2009	
	Operating profit	Loans to the public	Operating profit	Loans to the public
<b>SEKm</b>				
Total operating segments	1,172	395,469	1,418	355,983
Group functions and unallocated items	-167	-	-113	-
<b>Total</b>	<b>1,005</b>	<b>395,469</b>	<b>1,305</b>	<b>355,983</b>

**Reportable Operating segments**

Nordic Banking provides full-service banking operations for private individuals and corporate customers and comprises Nordea Hypotek's biggest customer area. Group Corporate Centre above refers to Group Treasury. Other business segments relate to Institutional and International Banking.



**Note 3 Net gains/losses on items at fair value**

	<b>Jan-Jun</b>	<b>Jan-Jun</b>	<b>Full year</b>
<b>SEK (000s)</b>	<b>2010</b>	<b>2009</b>	<b>2009</b>
Interest-bearing securities and other interest-related instruments	45,298	161,236	282,024
<b>Total</b>	<b>45,298</b>	<b>161,236</b>	<b>282,024</b>

**Note 4 Net loan losses**

	<b>Jan-Jun</b>	<b>Jan-Jun</b>	<b>Full year</b>
<b>SEK (000s)</b>	<b>2010</b>	<b>2009</b>	<b>2009</b>
<b>Loan losses divided by class</b>			
Loans and receivables to the public	1,092	-30,138	-60,726
- of which provisions	-5,000	-34,681	-63,629
- of which write-offs	-8,965	-2,244	-9,414
- of which allowances used for covering write-offs	2,353	600	628
- of which reversals	7,524	890	898
- of which recoveries	5,180	5,297	10,791
<b>Total</b>	<b>1,092</b>	<b>-30,138</b>	<b>-60,726</b>

**Specification of loan losses**

Changes of allowance accounts in the balance sheet	2,524	-33,791	-62,731
- of which Loans and receivables, individually assessed	-2,476	890	-2,050
- of which Loans and receivables, collectively assessed	5,000	-34,681	-60,681
Changes directly recognised in the income statement	-1,432	3,653	2,005
- of which realised loan losses, individually assessed	-128	-	-702
- of which realised loan losses, collectively assessed	-6,484	-1,644	-8,084
- of which realised recoveries, collectively assessed	5,180	5,297	10,791
<b>Total</b>	<b>1,092</b>	<b>-30,138</b>	<b>-60,726</b>

**Note 5 Loans and receivables and their impairment**

	Credit institutions			The public		
	30 Jun	31 Dec	30 Jun	30 Jun	31 Dec	30 Jun
SEKm	2010	2009	2009	2010	2009	2009
Loans and receivables, not impaired	898	208	26	395,523	374,305	356,030
Impaired loans and receivables:	-	-	-	28	25	11
- Performing	-	-	-	28	17	7
- Non-performing	-	-	-	0	8	4
Loans and receivables before allowances	898	208	26	395,551	374,330	356,041
Allowances for individually assessed impaired loans	-	-	-	-8	-8	-5
- Performing	-	-	-	-8	-5	-3
- Non-performing	-	-	-	0	-3	-2
Allowances for collectively assessed impaired loans	-	-	-	-74	-79	-53
Allowances	-	-	-	-82	-87	-58
Loans and receivables, carrying amount	898	208	26	395,469	374,243	355,983
				Total		
	30 Jun	31 Dec	30 Jun			
SEKm	2010	2009	2009			
Loans and receivables, not impaired	396,421	374,513	356,056			
Impaired loans and receivables:	28	25	11			
- Performing	28	17	7			
- Non-performing	0	8	4			
Loans and receivables before allowances	396,449	374,538	356,067			
Allowances for individually assessed impaired loans	-8	-8	-5			
- Performing	-8	-5	-3			
- Non-performing	0	-3	-2			
Allowances for collectively assessed impaired loans	-74	-79	-53			
Allowances	-82	-87	-58			
Loans and receivables, carrying amount	396,367	374,451	356,009			

**Reconciliation of allowance accounts for impaired loans**

Loans and receivables, SEK (000s)	The public		Total
	Individually assessed	Collectively assessed	
<b>Opening balance at 1 Jan 2010</b>	<b>-7,875</b>	<b>-79,000</b>	<b>-86,875</b>
Provisions	-5,000	-	-5,000
Reversals	2,525	5,000	7,525
<b>Changes through the income statement</b>	<b>-2,475</b>	<b>5,000</b>	<b>2,525</b>
Allowances used to cover write-offs	2,352	-	2,352
<b>Closing balance at 30 Jun 2010</b>	<b>-7,998</b>	<b>-74,000</b>	<b>-81,998</b>
<b>Opening balance at 1 Jan 2009</b>	<b>-6,453</b>	<b>-18,319</b>	<b>-24,772</b>
Provisions	-2,948	-60,681	-63,629
Reversals	898	-	898
<b>Changes through the income statement</b>	<b>-2,050</b>	<b>-60,681</b>	<b>-62,731</b>
Allowances used to cover write-offs	628	-	628
<b>Closing balance at 31 Dec 2009</b>	<b>-7,875</b>	<b>-79,000</b>	<b>-86,875</b>
<b>Opening balance at 1 Jan 2009</b>	<b>-6,453</b>	<b>-18,319</b>	<b>-24,772</b>
Provisions	-	-34,681	-34,681
Reversals	890	-	890
<b>Changes through the income statement</b>	<b>890</b>	<b>-34,681</b>	<b>-33,791</b>
Allowances used to cover write-offs	600	-	600
<b>Closing balance at 30 Jun 2009</b>	<b>-4,963</b>	<b>-53,000</b>	<b>-57,963</b>

**Key ratios**

	30 Jun 2010	31 Dec 2009	30 Jun 2009
Impairment rate, gross <sup>1</sup> , basis points	0.7	0.7	0.3
Impairment rate, net <sup>2</sup> , basis points	0.5	0.5	0.2
Total allowance rate <sup>3</sup> , basis points	2.1	2.3	1.6
Allowances in relation to impaired loans <sup>4</sup> , %	28.8	31.6	45.1
Total allowances in relation to impaired loans <sup>5</sup> , %	295.0	348.5	526.8

1 Individually assessed impaired loans and receivables before allowances divided by total loans and receivables before allowances.

2 Individually assessed impaired loans and receivables after allowances divided by total loans and receivables before allowances.

3 Total allowances divided by total loans and receivables before allowances.

4 Allowances for individually assessed impaired loans and receivables divided by individually assessed impaired loans and receivables before allowances.

5 Total allowance divided by total impaired loans and receivables before allowances.

**Note 6 Classification of financial instruments**

<b>SEKm</b>	<b>Loans and receivables</b>	<b>Derivatives used for hedging</b>	<b>Non financial assets</b>	<b>Total</b>
<b>Financial assets</b>				
Loans and receivables to credit institutions	898	-	-	898
Loans and receivables to the public	395,469	-	-	395,469
Derivatives	-	9,692	-	9,692
Fair value changes of the hedged items in portfolio hedge of interest rate risk	2,725	-	-	2,725
Other assets	1,425	-	1	1,426
Prepaid expenses and accrued income	544	-	-	544
<b>Total 30 Jun 2009</b>	<b>401,061</b>	<b>9,692</b>	<b>1</b>	<b>410,754</b>
Total 31 Dec 2009	379,328	13,952	0	393,280
Total 30 Jun 2009	361,792	15,761	1	377,554

  

<b>SEKm</b>	<b>Derivatives used for hedging</b>	<b>Other financial liabilities</b>	<b>Non financial liabilities</b>	<b>Total</b>
<b>Financial liabilities</b>				
Deposits by credit institutions	-	79,021	-	79,021
Debt securities in issue	-	299,378	-	299,378
Derivatives	3,946	-	-	3,946
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	8,028	-	8,028
Other liabilities	-	0	310	310
Accrued expenses and prepaid income	-	2,009	5	2,014
Provisions	-	-	77	77
Subordinated liabilities	-	3,800	-	3,800
<b>Total 30 Jun 2009</b>	<b>3,946</b>	<b>392,236</b>	<b>392</b>	<b>396,574</b>
Total 31 Dec 2009	2,320	377,419	102	379,841
Total 30 Jun 2009	2,553	362,214	381	365,147

**Note 7 Derivatives and hedge accounting, SEKm**

Fair value	30 Jun 2010		31 Dec 2009		30 Jun 2009	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
<b>Derivatives used for hedging</b>						
Interest rate derivatives	6,686	1,673	6,385	1,779	4,405	2,153
Foreign exchange derivatives	3,006	2,273	7,567	542	11,356	400
<b>Total</b>	<b>9,692</b>	<b>3,946</b>	<b>13,952</b>	<b>2,320</b>	<b>15,761</b>	<b>2,553</b>
Of which						
- Fair value hedges	9,692	3,946	13,952	2,320	15,761	2,553
<b>Nominal amount</b>				<b>30 Jun 2009</b>	<b>31 Dec 2008</b>	<b>30 Jun 2008</b>

**Derivatives used for hedging**

Interest rate derivatives	261,161	221,413	177,962
Foreign exchange derivatives	90,718	73,601	69,251
<b>Total</b>	<b>351,879</b>	<b>295,013</b>	<b>247,213</b>
Of which			
- Fair value hedges	351,879	295,013	247,213

**Note 8 Capital adequacy**

SEKm	30 Jun 2010	31 Dec 2009	30 Jun 2009
Tier 1 capital	13,202	13,206	11,285
Capital base	16,892	16,900	14,954
Risk-weighted amount excluding transition rules	53,111	49,707	49,312
Tier 1 capital ratio, per cent	24.9	26.6	22.9
Total capital ratio, per cent	31.8	34.0	30.3
Risk-weighted amount including transition rules	177,510	166,050	155,868
Tier 1 capital ratio, per cent	7.4	8.0	7.2
Total capital ratio, per cent	9.5	10.2	9.6

**Note 9 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.