

Interim report January-June 2011 for Nordea Hypotek AB (publ)

Result

Operating profit amounted to SEK 975m (1,005), a decline of 3 per cent from the same period last year.

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

- Net interest income increased by SEK 37m, an increase of 3 per cent compared to the same period last year.
- Net result from items at fair value decreased by SEK 65m, the item pertains to hedge accounting and interest compensation on fixed interest rate loans. Also buy-backs of issued bonds at amortised costs has effected the item negative by SEK 59m.
- Net loan losses amounted to SEK 0.1m (1).

Income

Net interest income amounted to SEK 1,278m (1,242). Net commission income for the period has been charged with an estimated stability fee of SEK 59m and amounted to SEK -43m (-6).

Expenses

Operating expenses amounted to SEK 241m (277), a decline of 13 per cent compared to the same period last year. The change is mainly due to lower compensation to Nordea.

Lending

At the end of the report period lending to the public amounted to SEK 415,421m (395,469), exceeding last year's volume by 5 per cent (11).

Lending to household customers increased by SEK 25,785m or 9 per cent. Lending volumes in respect of legal entities decreased by SEK 5,833m or 5 per cent.

Impaired loans and loan losses

Impaired loans, net, amounted to SEK 11m (20). Net loan losses from recoveries and new loan losses amounted to SEK 0.1m (1).

Funding

Long-term funding occurs mainly by way of issuance of bonds with maturities from two to ten years. During the period, bonds equalling an amount of SEK 38,700m (53,171) were issued in Swedish currency. The remaining bond volume as at 30 June 2011 amounted to SEK 291,497m (297,480), of which SEK 61,292m (85,261) was in currencies other than SEK.

Covered bonds are debt instruments, regulated in a separate Swedish Act, which entitles the investor to 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 after special permission from 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.

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.

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 190,901m after transition rules. Tier 1 capital ratio was 6.9 per cent and the total capital ratio was 8.9 per cent. Risk-weighted assets excluding transition rules amounted to SEK 49,339m with a tier 1 capital ratio of 26.8 per cent and a total capital ratio of 34.3 per cent.

Change in the Board of Directors

At the Annual General Meeting 14 March 2011, Tina Sandvik, Head of Corporate Sweden, Erik Gref Head of Segment Household and Group Marketing and Michael Skytt, Head of Deposit & Loan Products, were elected as new board members. The current board member Kurt Gustafsson, Head of Account Products, was appointed the new chairman of the board. At the same time Björn Hökby left the board.

Michael Skytt was appointed as the new President 1 March 2011.

Material events after the balance sheet date

No major events have occurred after 30 June 2011.

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, 24 August 2011

Kurt Gustafsson <i>Chairman</i>	Torsten Allqvist
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Ulla Hermann	Nils Lindberg
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Erik Gref	Tina Sandvik
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Michael Skytt
President

Income statement

SEK (000s)	Note	Jan-Jun 2011	Jan-Jun 2010	Jan-Dec 2010
Operating income				
Interest income		7,274,635	4,472,119	10,089,026
Interest expense		-5,996,452	-3,230,490	-7,401,125
Net interest income		1,278,183	1,241,629	2,687,901
Fee and commission income		24,166	30,411	56,040
Fee and commission expense		-67,310	-36,322	-73,680
Net fee and commission income		-43,144	-5,911	-17,640
Net result from items at fair value	3	-19,501	45,298	171,095
Total operating income		1,215,538	1,281,016	2,841,356
Operating expenses				
General administrative expenses:				
Staff costs		-3,399	-2,649	-5,444
Other expenses		-237,120	-274,322	-549,815
Depreciation, amortisation and impairment changes of tangible assets		-	-1	-1
Total operating expenses		-240,519	276,972	-555,260
Net loan losses	4	80	1,092	11,222
Operating profit		975,099	1,005,136	2,297,318
Income tax expense		-256,453	-264,353	-604,214
Net profit for the period		718,646	740,783	1,693,104

Balance sheet

SEK (000s)	Note	30 Jun 2011	31 Dec 2010	30 Jun 2010
Assets				
Loans to credit institutions	5	12,053,166	11,761,914	898,329
Loans to the public	5	415,420,664	410,159,675	395,468,858
Derivatives	7	4,938,427	5,993,341	9,692,199
Fair value changes of the hedged items in portfolio hedge of interest rate risk		1,337,869	1,533,192	2,725,203
Tangible assets		0	0	0
Current tax assets		853	498	902
Other assets		18	-	1,424,791
Prepaid expenses and accrued income		877,968	761,148	543,491
Total assets		434,628,965	430,209,768	410,753,773
Liabilities				
Deposits by credit institutions		114,429,907	86,360,357	79,020,686
Debt securities in issue		293,150,398	308,662,185	299,378,180
Derivatives	7	5,359,300	6,642,053	3,945,921
Fair value changes of the hedged items in portfolio hedge of interest rate risk		1,823,191	2,183,341	8,027,626
Current tax liabilities		256,453	-	264,353
Other liabilities		349	2,472,260	291
Accrued expenses and prepaid income		1,663,923	6,721,574	2,013,627
Deferred tax liabilities		-	-	45,745
Provisions		115,800	57,000	77,300
Subordinated liabilities		3,800,000	3,800,000	3,800,000
Total liabilities		420,599,321	416,898,770	396,573,729
Equity				
Share capital		110,000	110,000	110,000
Retained earnings		13,919,644	13,200,998	14,070,044
Total equity		14,029,644	13,310,998	14,180,044
Total liabilities and equity		434,628,965	430,209,768	410,753,773
Assets pledged as security for own liabilities		405,648,464	397,789,394	371,765,260
Contingent liabilities		None	None	None
Commitments		592,800	3,948,800	4,933,200
Other notes				
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Statement of changes in equity

SEK (000s)	Share capital ¹⁾	Retained earnings	Total equity
Opening balance at 1 Jan 2011	110,000	13,200,998	13,310,998
Net profit for the period	-	718,646	718,646
Closing balance at 30 Jun 2011	110,000	13,919,644	14,029,644

SEK (000s)	Share capital ¹⁾	Retained earnings	Total equity
Opening balance at 1 Jan 2010	110,000	13,329,261	13,439,261
Net profit for the year	-	1,693,104	1,693,104
Group contribution paid	-	-2,471,326	-2,471,326
Tax effect of group contribution	-	649,959	649,959
Closing balance at 31 Dec 2010	110,000	13,200,998	13,310,998

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

1) 100,000 shares

Cash flow statement

SEK (000s)	Jan-Jun 2011	Jan-Jun 2010	Full year 2010
Operating activities			
Operating profit	975,099	1,005,136	2,297,318
Adjustments for items not included in cash flow	-4,637,130	-4,012,644	-77,372
Income tax paid	-355	-404	-
Cash flow from operating activities before changes in operating assets and liabilities	-3,662,386	-3,007,912	2,219,946
Changes in operating assets			
Changes in lending to credit institutions	894,937	-	-11,761,222
Changes in lending to the public	-5,265,684	-21,230,196	-35,916,200
Changes in derivatives, net	-866,513	8,077,804	10,350,426
Changes in other assets	-18	485,891	1,910,680
Changes in operating liabilities			
Change in deposits by credit institutions	28,069,551	-7,571,314	-231,643
Change in debt securities in issue	-15,511,787	26,508,144	35,792,149
Change in other liabilities	-2,471,911	-2,572,526	-2,571,882
Cash flow from operating activities	1,186,189	689,891	-207,746
Cash flow for the period	1,186,189	689,891	-200,746
Cash and cash equivalents at beginning of period	692	208,438	208,438
Cash and cash equivalents at end of period	1,186,881	898,329	692
Change	1,186,189	689,891	-207,746

Cash and cash equivalents

SEK (000s)	30 Jun 2011	30 Jun 2010	31 Dec 2010
Loans to credit institutions, payable on demand	1,186,881	898,329	692

Note 1 Accounting policies

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 RFR 2. "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 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 2010 Annual Report.

Note 2 Segment reporting

	Operating segments					
	Nordic Banking		Group Corporate Centre		Other Operating segments	
	Jan-Jun 2011	Jan-Jun 2010	Jan-Jun 2011	Jan-Jun 2010	Jan-Jun 2011	Jan-Jun 2010
SEKm						
Total operating income	1,831	1,624	-831	-453	0	0
Operating profit	1,831	1,625	-831	-453	0	0
Loans to the public	415,394	395,443	-	-	27	26

	Total Operating segments		Reconciliation		Total	
	Jan-Jun	Jan-Jun	Jan-Jun	Jan-Jun	Jan-Jun	Jan-Jun
	2011	2010	2011	2010	2011	2010
SEKm						
Total operating income	1,000	1,171	216	110	1,216	1,281
Operating profit	1,000	1,172	-25	-167	975	1,005
Loans to the public	415,421	395,469	-	-	415,421	395,469

Reconciliation between total operating segments and financial statements

SEKm	Jan-Jun 2011		Jan-Jun 2010	
	Operating profit	Loans to the public	Operating profit	Loans to the public
Total operating segments	1,000	415,421	1,172	395,469
Group functions and unallocated items	-25	-	-167	-
Total	975	415,421	1,005	395,469

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 Financial Institutions and Shipping Offshore & Oil Services.

Note 3 Net result from items at fair value

	Jan-Jun 2011	Jan-Jun 2010	Full year 2010
SEK (000s)			
Interest-bearing securities and other interest-related instruments	-19,501	45,298	171,095
Total	-19,501	45,298	171,095

Note 4 Net loan losses

	Jan-Jun 2011	Jan-Jun 2010	Full year 2010
SEK (000s)			
Loan losses divided by class			
Loans and receivables to the public	80	1,092	11,222
- of which provisions	-	-5,000	-23,000
- of which write-offs	-4,695	-8,965	-14,301
- of which allowances used for covering write-offs	-	2,353	2,503
- of which reversals	-	7,524	35,524
- of which recoveries	4,775	5,180	10,496
Total	80	1,092	11,222

Note 5 Loans and impairment

	Credit institutions			The public		
	30 Jun 2011	31 Dec 2010	30 Jun 2010	30 Jun 2011	31 Dec 2010	30 Jun 2010
SEKm						
Loans, not impaired	12,053	11,762	898	415,474	410,205	395,523
Impaired loans:	-	-	-	19	27	28
- Performing	-	-	-	5	27	28
- Non-performing	-	-	-	14	-	0
Loans before allowances	12,053	11,762	898	415,493	410,232	395,551
Allowances for individually assessed impaired loans	-	-	-	-8	-8	-8
- Performing	-	-	-	-3	-8	-8
- Non-performing	-	-	-	-5	-	0
Allowances for collectively assessed impaired loans	-	-	-	-64	-64	-74
Allowances	-	-	-	-72	-72	-82
Loans, carrying amount	12,053	11,762	898	415,421	410,160	395,469
				Total		
				30 Jun 2011	31 Dec 2010	30 Jun 2010
SEKm						
Loans, not impaired				427,527	421,967	396,421
Impaired loans:				19	27	28
- Performing				5	27	28
- Non-performing				14	-	0
Loans before allowances				427,546	421,994	396,449
Allowances for individually assessed impaired loans				-8	-8	-8
- Performing				-3	-8	-8
- Non-performing				-5	-	0
Allowances for collectively assessed impaired loans				-64	-64	-74
Allowances				-72	-72	-82
Loans, carrying amount				427,474	421,922	396,367

Allowances and provisions

	30 Jun 2011	31 Dec 2010	30 Jun 2010
SEK (000s)			
Allowances for items in the balance sheet	-71,848	-71,848	-81,998
Total allowances	-71,848	-71,848	-81,998

Key ratios

	30 Jun 2011	31 Dec 2010	30 Jun 2010
Impairment rate, gross ¹ , basis points	0.5	0.6	0.7
Impairment rate, net ² , basis points	0.3	0.5	0.5
Total allowance rate ³ , basis points	1.7	1.7	2.1
Allowances in relation to impaired loans ⁴ , %	40.8	29.1	28.8
Total allowances in relation to impaired loans ⁵ , %	373.3	266.5	295.0

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 6 Classification of financial instruments

SEKm	Loans and receivables	Derivatives used for hedging	Non financial assets	Total
Financial assets				
Loans to credit institutions	12,053	-	-	12,053
Loans to the public	415,421	-	-	415,421
Derivatives ¹	-	4,938	-	4,938
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1,338	-	-	1,338
Other assets	0	-	1	1
Prepaid expenses and accrued income	878	-	-	878
Total 30 Jun 2011	429,690	4,938	1	434,629
Total 31 Dec 2010	424,216	5,993	1	430,210
Total 30 Jun 2010	401,061	9,692	1	410,754

SEKm	Derivatives used for hedging	Other financial liabilities	Non financial liabilities	Total
Financial liabilities				
Deposits by credit institutions	-	114,430	-	114,430
Debt securities in issue	-	293,150	-	293,150
Derivatives ¹	5,359	-	-	5,359
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	1,823	-	1,823
Other liabilities	-	0	257	257
Accrued expenses and prepaid income	-	1,660	4	1,664
Provisions	-	-	116	116
Subordinated liabilities	-	3,800	-	3,800
Total 30 Jun 2011	5,359	414,863	377	420,599
Total 31 Dec 2010	6,642	410,194	63	416,899
Total 30 Jun 2010	3,946	392,236	392	396,574

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

Note 7 Derivatives

Fair value, SEKm	30 Jun 2011		31 Dec 2010		30 Jun 2010	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Derivatives used for hedging						
Interest rate derivatives	2,776	3,133	5,182	1,757	6,686	1,673
Foreign exchange derivatives	2,162	2,226	811	4,885	3,006	2,273
Total	4,938	5,359	5,993	6,642	9,692	3,946
- Of which fair value hedges	4,938	5,359	5,993	6,642	9,692	3,946
Nominal amount, SEKm				30 Jun 2011	31 Dec 2010	30 Jun 2010
Derivatives used for hedging						
Interest rate derivatives				342,740	300,786	261,161
Foreign exchange derivatives				57,798	77,049	90,718
Total				400,538	377,835	351,879
- Of which fair value hedges				400,538	377,835	351,879

Note 8 Capital adequacy**Capital base**

	30 Jun 2011	31 Dec 2010	30 Jun 2010
SEKm			
Tier 1 capital	13,215	13,197	13,202
Total capital base	16,918	16,884	16,892

Capital requirement

	30 Jun 2011		31 Dec 2010		30 Jun 2010	
SEKm	Capital requirement	RWA	Capital requirement	RWA	Capital requirement	RWA
Credit risk	3,609	45,106	3,961	49,511	3,953	49,411
IRB foundation	3,609	45,106	3,961	49,508	3,949	49,367
- of which corporate	2,275	28,432	2,505	31,319	2,545	31,815
- of which institutions	-	-	0	3	13	163
- of which retail	1,328	16,599	1,451	18,132	1,387	17,343
- of which other	6	75	4	55	4	46
Standardised	0	0	0	2	4	45
- of which retail	-	-	-	-	-	-
- of which sovereign	0	0	0	0	0	0
- of which other	0	0	0	2	4	45
Market risk	-	-	-	-	-	-
Operational risk	339	4,232	296	3,703	296	3,700
Standardised	339	4,232	296	3,703	296	3,700
Sub total	3,947	49,339	4,257	53,214	4,249	53,111

Adjustment for transition rules

Additional capital requirement according to transition rules	11,325	141,562	10,664	133,300	9,952	124,399
Total	15,272	190,901	14,921	186,515	14,201	177,510

Capital ratio

	30 Jun 2011	31 Dec 2010	30 Jun 2010
Risk-weighted amount excluding transition rules	49,339	53,214	53,111
Tier 1 ratio, excluding transition rules, %	26.8	24.8	24.9
Capital ratio, excluding transition rules, %	34.3	31.7	31.8
Risk-weighted amount including transition rules	190,901	186,515	177,510
Tier 1 ratio, including transition rules, %	6.9	7.1	7.4
Capital ratio, including transition rules, %	8.9	9.1	9.5

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.