

Interim report January – June 2012 for Nordea Hypotek AB (publ)

Result

Operating profit amounted to SEK 1,589m (975), an increase of 63 per cent from the same period last year. Compared with the second half of 2011, operating profit declined by just over 7 per cent, mainly because the net result from financial transactions was lower in the period.

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

- Net interest income rose SEK 647m, an increase of 51 per cent compared to the same period last year. Net interest income was largely unchanged from the second half of 2011.
- The net result from items at fair value decreased by SEK 21m. The item pertains to hedge accounting and interest compensation on fixed rate loans. Also buy-backs of issued bonds at amortised costs affected the item by a negative SEK 23m.
- Net loan losses amounted to SEK -9.0m (0.1).

Income

Net interest income amounted to SEK 1,925m (1,278). Net commission income for the period was charged with an estimated stability fee of SEK 59m and amounted to SEK -43m (-43).

Expenses

Operating expenses amounted to SEK 243m (241), an increase of 1 per cent compared to the same period last year.

Lending

At the end of the report period lending to the public was at SEK 428,673m (415,421), exceeding last year's volume by 3 per cent (5).

Lending to household customers rose SEK 13,075m or 4 per cent. Lending volumes in respect of legal entities were almost unchanged.

Impaired loans and loan losses

Impaired loans, net, amounted to SEK 494m (424). Net loan losses from recoveries and new loan losses reached SEK -9m (0.1).

The definition of impaired loans changed in Q1 2012, which affects the reported amounts and comparative figures between the years; see note 1 Accounting Policies on page 7 of the interim report.

Funding

Long-term funding occurs mainly by way of the issuance of bonds on the Swedish market, with maturities from two to ten years. During the period, bonds equalling SEK 16,000m (38,700) were issued in

Swedish currency. The remaining bond volume at 30 June 2012 was SEK 291,609m (291,497), of which SEK 48,498m (61,292) was in currencies other than SEK.

Covered bonds are debt instruments, regulated by a separate Swedish Act, which entitle the investor to priority in terms of claims on a pool of high quality assets in the event of the issuer's bankruptcy. Covered bonds may only be issued following 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

Since June 2006, the company has been rated Aaa by Moody's Investor Service and AAA by Standard & Poor's, for the covered bonds that account for the company's main long-term borrowing.

Capital adequacy

Nordea uses the IRB method (internal ratings-based approach) for calculating credit risk in the exposure classes corporate, institution and household. Other exposure classes, e.g. sovereigns, are calculated according to the standardised approach until further notice.

The new capital adequacy regulations under the Basel II agreement will be implemented progressively, whereby potentially reduced capital requirements during a transitional 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 2012.

At the end of June, Nordea Hypotek's RWA amounted to SEK 199,489m applying the transition rules. The Tier 1 capital ratio was 6.6 per cent and the total capital ratio was 8.8 per cent. Risk-weighted assets excluding transition rules amounted to SEK 49,346m with a tier 1 capital ratio of 26.7 per cent and a total capital ratio of 35.4 per cent.

Change in the Board of Directors

Tina Sandvik has left the board in 2012.

At the extraordinary general meeting on 1 June 2012, Elisabeth Olin, Head of Segment Corporate within Retail Banking Sweden, was elected new board member.

Material events after the balance sheet date

No major events have occurred since 30 June 2012.

Assurance of the Board of Directors

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

Stockholm, 24 August 2012

Kurt Gustafsson
Chairman

Torsten Allqvist

Ulla Hermann

Nils Lindberg

Erik Gref

Elisabeth Olin

Michael Skytt
President

Income statement

SEK (000s)	Note	Jan-Jun 2012	Jan-Jun 2011	Jan-Dec 2011
Operating income				
Interest income		8,194,750	7,274,635	15,531,695
Interest expense		-6,269,631	-5,996,452	-12,321,714
Net interest income		1,925,119	1,278,183	3,209,981
Fee and commission income		27,481	24,166	50,440
Fee and commission expense		-70,813	-67,310	-134,934
Net fee and commission income		-43,332	-43,144	-84,494
Net result from items at fair value	3	-40,050	-19,501	55,945
Other operating income		-	-	72
Total operating income		1,841,737	1,215,538	3,181,504
Operating expenses				
General administrative expenses:				
Staff costs		-3,282	-3,399	-6,712
Other expenses		-240,209	-237,120	-478,846
Total operating expenses		-243,491	-240,519	-485,558
Net loan losses	4	-8,982	80	-4,521
Operating profit		1,589,264	975,099	2,691,425
Income tax expense		-417,979	-256,453	-707,847
Net profit for the period		1,171,285	718,646	1,983,578

Statement of comprehensive income

SEK (000s)	Jan-Jun 2012	Jan-Jun 2011	Jan-Dec 2011
Net profit for the year	1,171,285	718,646	1,983,578
Cash flow hedges			
Valuation gains/losses during the year	-1,198,425	-	1,717,955
Tax on valuation gains/losses during the year	315,186	-	-451,822
Other comprehensive income, net of tax	-883,239	-	1,266,133
Total comprehensive income	288,046	718,646	3,249,710

Balance sheet

SEK (000s)	Note	30 Jun 2012	31 Dec 2011	30 Jun 2011
Assets				
Loans to credit institutions	5	556,167	6,385,333	12,053,166
Loans to the public	5	428,672,715	421,484,931	415,420,664
Derivatives	6	8,077,495	12,056,082	4,938,427
Fair value changes of the hedged items in portfolio hedge of interest rate risk		821,188	1,220,436	1,337,869
Current tax assets		1,052	682	853
Other assets		305,588	189	18
Prepaid expenses and accrued income		793,225	895,867	877,968
Total assets		439,227,430	442,043,520	434,628,965
Liabilities				
Deposits by credit institutions		115,170,441	86,348,375	114,429,907
Debt securities in issue		290,652,402	315,831,854	293,150,398
Derivatives	6	4,665,778	3,192,234	5,359,300
Fair value changes of the hedged items in portfolio hedge of interest rate risk		7,308,751	7,381,539	1,823,191
Current tax liabilities		417,979	-	256,453
Other liabilities		2,605	2,692,153	349
Accrued expenses and prepaid income		1,607,669	7,049,789	1,663,923
Deferred tax liabilities		136,636	451,822	-
Provisions		-	118,631	115,800
Subordinated liabilities		4,400,000	4,400,000	3,800,000
Total liabilities		424,362,261	427,466,397	420,599,321
Equity				
Share capital		110,000	110,000	110,000
Other reserves		382,894	1,266,133	-
Retained earnings		14,372,275	13,200,990	13,919,644
Total equity		14,865,169	14,577,123	14,029,644
Total liabilities and equity		439,227,430	442,043,520	434,628,965
Assets pledged as security for own liabilities		405,984,597	406,510,321	405,648,464
Contingent liabilities		None	None	None
Commitments		145,000	270,000	592,800
Other notes				
Accounting policies	1			
Segment reporting	2			
Classification of financial instruments	7			
Capital adequacy	8			
Risks and uncertainties	9			

Statement of changes in equity

Tkr	Share capital¹⁾	Cash flow-hedges	Retained earnings	Total
Balance at 1 January 2012	110,000	1,266,133	13,200,990	14,577,123
Total comprehensive income	-	-883,239	1,171,285	288,046
Balance at 30 Jun 2012	110,000	382,894	14,372,275	14,865,169

Tkr	Share capital¹⁾	Cash flow-hedges	Retained earnings	Total
Balance at 1 January 2011	110,000	-	13,200,998	13,310,998
Total comprehensive income	-	1,266,133	1,983,578	3,249,711
Group contribution paid	-	-	-2,691,433	-2,691,433
Tax effect of group contribution	-	-	707,847	707,847
Balance at 31 Dec 2011	110,000	1,266,133	13,200,990	14,577,123

Tkr	Share capital¹⁾	Cash flow-hedges	Retained earnings	Total
Balance at 1 Jan 2011	110,000	-	13,200,998	13,310,998
Total comprehensive income	-	-	718,646	718,646
Balance at 30 Jun 2011	110,000	-	13,919,644	14,029,644

¹⁾ 100,000 Shares

Cash flow statement

SEK (000s)	Jan-Jun 2012	Jan-Jun 2011	Full year 2011
Operating activities			
Operating profit	1,589,264	975,099	2,691,425
Adjustments for items not included in cash flow	-5,439,125	-4,637,130	-1,932,007
Income tax paid	-370	-355	-184
Cash flow from operating activities before changes in operating assets and liabilities	-3,850,231	-3,662,386	4,623,248
Changes in operating assets			
Changes in lending to credit institutions	5,904,375	894,937	5,856,847
Changes in lending to the public	-7,202,062	-5,265,684	-11,339,690
Changes in derivatives, net	4,575,461	-866,513	-3,946,098
Changes in other assets	-305,399	-18	-189
Changes in operating liabilities			
Change in deposits by credit institutions	28,822,066	28,069,551	-11,982
Change in debt securities in issue	-25,179,453	-15,511,787	7,169,669
Change in other liabilities	-2,689,548	-2,471,911	-2,471,539
Cash flow from operating activities	75,209	1,186,189	-119,734
Financing activities			
Issued subordinated liabilities	-	-	1,600,000
Amortised subordinated liabilities	-	-	-1,000,000
Cash flow from financing activities	-	-	600,000
Cash flow for the period	75,209	1,186,189	480,266
Cash and cash equivalents at beginning of period	480,958	692	692
Cash and cash equivalents at end of period	556,167	1,186,881	480,958
Change	75,209	1,186,189	480,266

Cash and cash equivalents

SEK (000s)	30 Jun 2012	30 Jun 2011	31 Dec 2011
Loans to credit institutions, payable on demand	556,167	1,186,881	480,958

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 2011:54) 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 and 2011:54). 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.

Changed accounting policies and presentation

The accounting policies, basis for calculations and presentations are, in all material aspects, unchanged compared with the 2011 Annual Report, except for the definition of impaired loans in "Loans and impairment" (note 5). These changes are further described below.

Definition of impaired loans

The definition of impaired loans changed during the first quarter 2012. For Nordea Hypotek this means that all household loans that have been past due for more than 90 days and not previously considered as impaired through individual assessment will now be classified as impaired loans. Also corporate loans of less than EUR 500,000, or the equivalent in SEK, that have been past due for more than 90 days and not previously considered as impaired through individual assessment will from now on be classified as impaired loans.

For loans that are defined as impaired according to the above, a provision of SEK 37m has been made. Correspondingly the collective provisions were reduced by the same amount to SEK 27m. This means that the new definition of impaired loans has not led to any increase in the need for provisions for Nordea Hypotek.

The comparative figures have been restated accordingly and the impact is disclosed in the table below.

	31 Dec 2011 The public		30 Jun 2011 The public	
SEK m	New policy	Old policy	New policy	Old policy
Loans, not impaired	421,134	421,538	415,136	415,474
Impaired loans	424	20	357	19
- of which performing	51	8	46	5
- of wick non-performing	373	12	311	14
Loans before allowances	421,558	421,558	415,493	415,493
Allowances for individually assessed Impaired loans	-46	-9	-45	-8
- of which performing	-39	-2	-40	-3
- of which non-performing	-7	-7	-5	-5
Allowances for collectively assessed Impaired loans	-27	-64	-27	-64
Allowances	-73	-73	-72	-72

Note 2 Segment reporting

	Operating segments					
	Banking Sweden		Group Treasury		Other Operating segments	
	Jan-Jun 2012	Jan-Jun 2011	Jan-Jun 2012	Jan-Jun 2011	Jan-Jun 2012	Jan-Jun 2011
SEKm						
Total operating income	2,395	1,809	-814	-831	146	138
Operating profit	2,385	1,809	-814	-831	135	129
Loans to the public	423,493	410,448	-	-	5,180	4,973

	Total Operating segments		Reconciliation		Total	
	Jan-Jun 2012	Jan-Jun 2011	Jan-Jun 2012	Jan-Jun 2011	Jan-Jun 2012	Jan-Jun 2011
	2012	2011	2012	2011	2012	2011
SEKm						
Total operating income	1,727	1,116	115	100	1,842	1,216
Operating profit	1,706	1,107	-117	-132	1,589	975
Loans to the public	428,673	415,421	-	-	428,673	415,421

Reconciliation between total operating segments and financial statements

SEKm	Jan-Jun 2012		Jan-Jun 2011	
	Operating profit	Loans to the public	Operating profit	Loans to the public
Total operating segments	1,706	428,673	1,107	415,421
Group functions and unallocated items	-117	-	-132	-
Total	1,589	428,673	975	415,421

Reportable operating segments

Compared with the 2011 Annual Report there have been no changes in the basis of segmentation.

Banking Sweden provides full-service banking operations for private individuals and corporate customers and comprises Nordea Hypotek's biggest customer area. Other business segments mainly relates to Wholesale Banking and the support function Products within banking operations. Group functions and result that is not fully allocated to any of the operating segments, are shown separately as reconciling items in the above table.

Note 3 Net result from items at fair value

	Jan-Jun 2012	Jan-Jun 2011	Full year 2011
SEK (000s)			
Interest-bearing securities and other interest-related instruments	-40,050	-19,501	55,945
Total	-40,050	-19,501	55,945

Note 4 Net loan losses

SEK (000s)	Jan-Jun 2012	Jan-Jun 2011	Full year 2011
Loan losses divided by class			
Loans and receivables to the public	-8,982	80	-4,521
- of which provisions	-2,200	-	-7,700
- of which write-offs	-13,778	-4,695	-12,965
- of which allowances used for covering write-offs	1,235	-	-
- of which reversals	465	-	6,232
- of which recoveries	5,296	4,775	9,912
Total	-8,982	80	-4,521

Note 5 Loans and impairment

SEKm	Credit institutions			The public		
	30 Jun 2012	31 Dec 2011	30 Jun 2011	30 Jun 2012	31 Dec 2011	30 Jun 2011
Loans, not impaired	556	6,385	12,053	428,253	421,134	415,136
Impaired loans:	-	-	-	494	424	357
- Performing	-	-	-	49	51	46
- Non-performing	-	-	-	445	373	311
Loans before allowances	556	6,385	12,053	428,747	421,558	415,493
Allowances for individually assessed impaired loans	-	-	-	-47	-46	-45
- Performing	-	-	-	-37	-39	-40
- Non-performing	-	-	-	-10	-7	-5
Allowances for collectively assessed impaired loans	-	-	-	-27	-27	-27
Allowances	-	-	-	-74	-73	-72
Loans, carrying amount	556	6,385	12,053	428,673	421,485	415,421
SEKm	Total					
	30 Jun 2012	31 Dec 2011	30 Jun 2011			
Loans, not impaired	428,809	427,519	427,189			
Impaired loans:	494	424	357			
- Performing	49	51	46			
- Non-performing	445	373	311			
Loans before allowances	429,303	427,943	427,546			
Allowances for individually assessed impaired loans	-47	-46	-45			
- Performing	-37	-39	-40			
- Non-performing	-10	-7	-5			
Allowances for collectively assessed impaired loans	-27	-27	-27			
Allowances	-74	-73	-72			
Loans, carrying amount	429,229	427,870	427,474			

Allowances and provisions

SEK (000s)	30 Jun 2012	31 Dec 2011	30 Jun 2011
Allowances for items in the balance sheet	-73,816	-73,316	-71,848
Total allowances	-73,816	-73,316	-71,848

Key ratios

	30 Jun 2012	31 Dec 2011 ¹	30 Jun 2011 ¹
Impairment rate, gross ² , basis points	11.5	9.9	8.3
Impairment rate, net ³ , basis points	10.4	8.8	7.3
Total allowance rate ⁴ , basis points	1.7	1.7	1.7
Allowances in relation to impaired loans ⁵ , %	9.5	10.9	12.6
Total allowances in relation to impaired loans⁶, %	14.9	17.3	20.1

¹ The comparative figures for 30 June and 31 December regarding impaired loans have been restated to ensure consistency between the periods.

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

³ Individually assessed impaired loans after allowances divided by total loans before allowances, basis points.

⁴ Total allowances divided by total loans before allowances, basis points.

⁵ Allowances for individually assessed impaired loans divided by individually assessed impaired loans before allowances, %.

⁶ Total allowance divided by total impaired loans before allowances, %.

Note 6 Derivatives

Fair value, SEKm	30 Jun 2012		31 Dec 2011		30 Jun 2011	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Derivatives used for hedging						
Interest rate derivatives	6,781	2,006	10,755	2,020	2,776	3,133
Foreign exchange derivatives	1,296	2,660	1,301	1,172	2,162	2,226
Total	8,077	4,666	12,056	3,192	4,938	5,359

- Of which fair value hedges	8,077	4,666	12,056	3,192	4,938	5,359
------------------------------	-------	-------	--------	-------	-------	-------

Nominal amount, SEKm	30 Jun 2012	31 Dec 2011	30 Jun 2011
----------------------	----------------	----------------	----------------

Derivatives used for hedging			
Interest rate derivatives	362,069	362,967	342,740
Foreign exchange derivatives	46,662	60,064	57,798
Total	408,731	423,031	400,538
- Of which fair value hedges	408,731	423,031	400,538

Note 7 Classification of financial instruments

SEKm	Loans and receivables	Derivatives used for hedging	Non financial assets	Total
Financial assets				
Loans to credit institutions	556	-	-	556
Loans to the public	428,673	-	-	428,673
Derivatives ¹	-	8,077	-	8,077
Fair value changes of the hedged items in portfolio hedge of interest rate risk	821	-	-	821
Other assets	306	-	1	307
Prepaid expenses and accrued income	793	-	-	793
Total 30 Jun 2012	431,149	8,077	1	439,227
Total 31 Dec 2011	429,987	12,056	1	442,044
Total 30 Jun 2011	429,690	4,938	1	434,629

SEKm	Derivatives used for hedging	Other financial liabilities	Non financial liabilities	Total
Financial liabilities				
Deposits by credit institutions	-	115,170	-	115,170
Debt securities in issue	-	290,652	-	290,652
Derivatives ¹	4,666	-	-	4,666
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	7,309	-	7,309
Other liabilities	-	2	418	420
Accrued expenses and prepaid income	-	1,425	183	1,608
Provisions	-	-	137	137
Subordinated liabilities	-	4,400	-	4,400
Total 30 Jun 2012	4,666	418,958	738	424,362
Total 31 Dec 2011	3,192	423,698	577	427,467
Total 30 Jun 2011	5,359	414,863	377	420,599

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

Note 8 Capital adequacy**Capital base**

	30 Jun 2012	31 Dec 2011	30 Jun 2011
SEKm			
Tier 1 capital	13,184	13,214	13,215
Total capital base	17,457	17,516	16,918

Capital requirement

	30 Jun 2012		31 Dec 2011		30 Jun 2011	
	Capital requirement	RWA	Capital requirement	RWA	Capital requirement	RWA
SEKm						
Credit risk	3,571	44,636	3,576	44,695	3,609	45,106
IRB foundation	3,566	44,574	3,576	44,690	3,609	45,106
- of which corporate	2,219	27,734	2,219	27,728	2,275	28,432
- of which institutions	1	13	3	34	-	-
- of which retail	1,341	16,765	1,348	16,850	1,328	16,599
- of which other	5	62	6	78	6	75
Standardised	5	62	0	5	0	0
- of which retail	-	-	-	-	-	-
- of which sovereign	0	0	0	0	0	0
- of which other	5	62	0	5	0	0
Market risk	-	-	-	-	-	-
Operational risk	377	4,710	339	4,232	339	4,232
Standardised	377	4,710	339	4,232	339	4,232
Sub total	3,948	49,346	3,915	48,927	3,947	49,339

Adjustment for transition rules

Additional capital requirement according to transition rules	12,011	150,143	11,662	145,780	11,325	141,562
Total	15,959	199,489	15,577	194,707	15,272	190,901

Capital ratio

	30 Jun 2012	31 Dec 2011	30 Jun 2011
Risk-weighted amount excluding transition rules	49,346	48,927	49,339
Tier 1 ratio, excluding transition rules, %	26.7	27.0	26.8
Capital ratio, excluding transition rules, %	35.4	35.8	34.3
Risk-weighted amount including transition rules	199,489	194,707	190,901
Tier 1 ratio, including transition rules, %	6.6	6.8	6.9
Capital ratio, including transition rules, %	8.8	9.0	8.9

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.