Interim report January – June 2018 for Nordea Hypotek AB (publ)

Profit/loss
Operating profit amounted to SEK 3,256m (3,663), a decrease of 11.1% 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 decreased SEK 235m, a decrease of 5.5% compared to the same period last year.
- Net result from financial items at fair value increased by SEK 2m. This is chiefly attributable to financial instruments under hedge accounting and reduced interest rate differential compensation, which negatively affected the item by SEK 74m, and reduced repurchasing of issued bonds entered at amortised cost, which had a positive effect of SEK 76m on the item.
- Operating expenses increased by SEK 156m, see the comment below in the Expenses section.
- The resolution fee during the period amounted to SEK 281m (192), an increase of SEK 89m from the same period last year. The increase is mainly due to the fact that, for 2018, Nordea Hypotek is paying a fee of 12.5 bps, instead of 9.0 bps for 2017. The resolution fee for the 2018 full year is SEK 533m (384).
- Net loan losses amounted to SEK -11.8m (-1.4). The main reason for the increase is that a new provision for an individual corporate exposure was made in the first quarter of 2018.

Income
Net interest income for the period amounted to SEK 4,046m (4,280). Net fee and commission income for the period was SEK -3m (5).

Expenses
Operating expenses amounted to SEK 583m (427), an increase of SEK 156m or 36.6% compared to the same period last year. The main reason for the increase from the same period in 2017 is that the distribution cost calculation model was modified in July 2017 to cover total costs, and not only direct costs as before.

Loans
At the end of the period, lending to the public was at SEK 540,888m (538,772), exceeding last year's volume by 0.4% (4.1).

Lending to household customers decreased 0.2% (4.7% increase), amounting at the close of the period to SEK 445,296m (446,027). Lending to legal entities rose by 3.1% (0.9), amounting at the close of the period to SEK 95,592m (92,744).

Impaired loans and loan losses
Impaired loans, gross, amounted to SEK 575m (626). The net amount from recoveries and new loan losses gave a loss of SEK 11.8m (loss of 1.4). Out of the SEK 11.8m loss, SEK 9.1m is attributable to a loss of such a nature that it could be re-recognised, in full or in part, as an operating expense.

Funding
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 64,150m were issued in Swedish kronor (21,650). The outstanding bond volume (nominal amount) at 30 June 2018 was SEK 312,483 (306,883) of which SEK 10,552m (10,879) was issued in currencies other than SEK.

At 30 June 2018, Nordea Hypotek had outstanding dated debenture loans from the Parent Company totalling SEK 0.8bn (3.1).

Covered bonds are funding instruments, regulated under the Covered Bonds (Issuance) Act (2003:1223), which give investors priority in the event 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 from 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 sovereign.

At the end of June, the company’s RWA amounted to SEK 40,858m. The tier 1 capital ratio was 56.5% and the capital ratio was 58.5%.

Change in the board of directors
No changes were made to the board of directors of Nordea Hypotek in the first half of 2018.
Chairman of the board Anna Storåkers will leave the position on 31 August 2018. The processes of finding a new chairman has commenced and is expected to be concluded before the end of the year.

Relocation of the registered office of Nordea Hypotek’s parent company to Finland
Nordea Bank AB (publ), the parent company of Nordea Hypotek, intends through a merger to form part of the subsidiary Nordea Bank Abp, a bank with it’s registered office in Finland. Through the merger, Nordea Bank Abp will become the parent company of Nordea Hypotek. The date of carrying out the merger and hence the relocation is preliminarily 1 October 2018. For more information, see Nordea’s 2017 annual report, page 36

Material events after the balance sheet date
No major events have occurred since 30 June 2018.

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 2018

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 2018	Jan-Jun 2017	Full year 2017
Operating income				
Interest income		4,103,572	4,383,661	8,874,229
Interest expense		-57,895	-103,301	-87,790
Net interest income		**4,045,677**	**4,280,360**	**8,786,439**
Fee and commission income	3	25,400	28,034	55,506
Fee and commission expense	3	-28,839	-23,420	-52,021
Net fee and commission income		**-3,439**	**4,614**	**3,485**
Net result from items at fair value	4	-190,924	-192,782	-283,049
Total operating income		**3,851,314**	**4,092,192**	**8,506,875**
Operating expenses				
General administrative expenses:				
Staff costs		-14,190	-12,964	-25,689
Other expenses		-569,308	-414,132	-1,477,150
Total operating expenses		**-583,498**	**-427,096**	**-1,502,839**
Profit before loan losses		**3,267,816**	**3,665,096**	**7,004,036**
Net loan losses	5	-11,794	-1,403	-11,051
Operating profit		**3,256,022**	**3,663,693**	**6,992,985**
Income tax expense		-719,225	-806,025	-1,550,771
Net profit for the period		**2,536,797**	**2,857,668**	**5,442,214**

Statement of comprehensive income

SEK (000s)	Jan-Jun 2018	Jan-Jun 2017	Full year 2017
Net profit for the year	**2,536,797**	**2,857,668**	**5,442,214**
Items that may be reclassified subsequently to income statement			
Cash flow hedges			
Valuation gains/losses during the year	-24,196	-678,590	-611,551
Tax on valuation gains/losses during the year	5,323	149,289	112,744
Other comprehensive income, net of tax	**-18,873**	**-529,301**	**-498,807**
Total comprehensive income	**2,517,924**	**2,328,367**	**4,943,407**

Balance sheet

SEK (000s)	Note	30 Jun 2018	31 Dec 2017	30 Jun 2017
Assets				
Loans to credit institutions	6	10,715,932	7,273,948	6,907,627
Loans to the public	6	540,887,671	536,933,355	538,771,511
Derivatives	7	5,661,841	6,175,780	6,078,064
Fair value changes of the hedged items in portfolio hedge of interest rate risk		70,649	-70,702	-62,716
Current tax assets		1	341,743	0
Other assets		2,754,106	1,154,598	2,100,070
Prepaid expenses and accrued income		911,348	697,728	828,752
Total assets		**561,001,548**	**552,506,450**	**554,623,308**
Liabilities				
Deposits by credit institutions		206,099,704	194,468,518	202,545,803
Debt securities in issue		320,235,123	319,801,341	313,452,689
Derivatives	7	315,163	498,009	746,871
Fair value changes of the hedged items in portfolio hedge of interest rate risk		5,000,950	4,796,241	5,751,194
Current tax liabilities		184,307	-	475,978
Other liabilities		2,533,880	7,832,848	2,373,558
Accrued expenses and prepaid income		38,258	39,266	31,512
Deferred tax liabilities		9,320	14,643	6,042
Subordinated liabilities		800,060	1,800,248	3,101,178
Total liabilities		**535,216,765**	**529,251,114**	**528,484,825**
Equity				
Share capital		110,000	110,000	110,000
Other reserves		33,043	51,916	21,422
Retained earnings		25,641,740	23,093,420	26,007,061
Total equity		**25,784,783**	**23,255,336**	**26,138,483**
Total liabilities and equity		**561,001,548**	**552,506,450**	**554,623,308**

Other notes

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Statement of changes in equity

SEK (000s)	Restricted equity Share capital[1)]	Unrestricted equity Cash flow-hedges	Unrestricted equity Retained earnings	Total
Balance at 1 Jan 2018	**110,000**	**51,916**	**23,093,420**	**23,255,336**
Restatement due to changed accounting policy, net of tax[2]	-	-	11,523	11,523
Restated opening balance at 1 Jan 2018	**110,000**	**51,916**	**23,104,943**	**23,266,859**
Total comprehensive income	-	-18,873	2,536,797	2,517,924
Balance at 30 Jun 2018	**110,000**	**33,043**	**25,641,740**	**25,784,783**

[2] The opening balance has been restated by reason of the implementation of IFRS 9. The net effect on equity after tax was an increase of SEK 11.5m.

SEK (000s)	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	-	-498,807	5,442,214	4,943,407
Shareholder’s contribution received	-	-	-	-
Group contribution paid	-	-	-7,048,959	-7,048,959
Tax effect of group contribution	-	-	1,550,771	1,550,771
Balance at 31 Dec 2017	**110,000**	**51,916**	**23,093,420**	**23,255,336**

SEK (000s)	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**

[1)] 100,000 Shares

Cash flow statement

SEK (000s)	Jan-Jun 2018	Jan-Jun 2017	Full year 2017
Operating activities			
Operating profit	3,256,022	3,663,693	6,992,985
Adjustments for items not included in cash flow	-2,567,696	-3,757,940	-798,877
Income tax paid	-193,176	-242,582	-254,276
Cash flow from operating activities before changes in operating assets and liabilities	**495,150**	**-336,829**	**5,939,832**
Changes in operating assets			
Changes in lending to the public	-3,967,200	-7,712,923	-5,885,940
Changes in derivatives, net	299,948	1,785,659	570,553
Changes in other assets	-1,599,509	366,345	1,318,817
Changes in operating liabilities			
Change in deposits by credit institutions	11,532,000	33,955,490	25,867,999
Change in debt securities in issue	2,969,039	-19,885,494	-16,376,025
Change in other liabilities	-5,298,967	-4,539,085	-6,128,752
Cash flow from operating activities	**4,430,461**	**3,633,163**	**5,299,484**
Financing activities			
Amortised subordinated liabilities	-1,000,000	-	-1,300,000
Other changes in equity	11,523	-	-
Cash flow from financing activities	**-988,477**	**-**	**-1,300,000**
Cash flow for the period	**3,441,984**	**3,633,163**	**3,999,484**
Cash and cash equivalents at beginning of period	7,273,948	3,274,464	3,274,464
Cash and cash equivalents at end of period	10,715,932	6,907,627	7,273,948
Change	**3,441,984**	**3,633,163**	**3,999,484**

Cash and cash equivalents

SEK (000s)	30 Jun 2018	30 Jun 2017	31 Dec 2017
Loans to credit institutions, payable on demand	10,715,932	6,907,627	7,273,948

Note 1 Accounting policies

This interim report was prepared according to IAS 34 “Interim Financial Reporting.” Furthermore, certain additional rules have been applied in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (1995:1559), Finansinspektionen’s regulations (FFFS 2008:25 including amendments) and the accounting recommendation for legal entities (RFR 2) issued by the Swedish Financial Reporting Board.

The same accounting policies and calculation methods have been used for the interim report as for the 2017 annual report, also with respect to the section “Changed accounting policies and presentation”. For more information, see note 1 of the 2017 annual report.

Changed accounting policies and presentation

Nordea Hypotek started to apply the following new and amended standards on 1 January 2018:

IFRS 9 “Financial instruments”
The new standard IFRS 9 “Financial instruments” covers classification and measurement, impairment and general hedge accounting and replaces the former requirements covering these areas in IAS 39. Nordea Hypotek started to apply the classification, measurement and impairment requirements in IFRS on 1 January 2018. Nordea Hypotek continues to follow IAS 39 for its hedge accounting.

The overall positive effect on equity from IFRS 9 is SEK 12m after tax (in the 2017 annual report in note 1, SEK 11m was stated, which was corrected to SEK 12m in the first quarter of 2018) and was recognised by means of an adjustment to the opening balance on 1 January 2018. Further information about the effects of the transition to IFRS 9 on 1 January 2018 and the accounting policies used by Nordea Hypotek as of 1 January 2018 for classification, measurement and impairment of financial instruments, are provided in note 30 of the 2017 annual report. Nordea Hypotek has not restated any comparative figures for 2017.

IFRS 15 “Revenue from Contracts with Customers”
The new standard IFRS 15 “Revenue from contracts with customers” describes a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue recognition standards and interpretations within IFRS, such as IAS 18 “Revenue”. The standard does not apply to financial instruments, insurance contracts or leases, and it has not had any effect on Nordea Hypotek’s financial statements.

Other changes
The following new and amended IASB standards were implemented by Nordea Hypotek on 1 January 2018, but have not had any significant impact on Nordea Hypotek’s financial statements:

- Annual Improvements to IFRSs, 2014–2016

Amendments have been made to the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (1995:1559). These amendments were implemented 1 January 2018 but have not had any significant impact on Nordea Hypotek’s financial statements.

Furthermore, Finansinspektionen has amended its regulation FFFS 2008:25 by issuing FFFS 2017:18, and the Swedish Financial Reporting Board has amended its recommendation for legal entities by issuing “RFR 2 – Supplementary accounting rules for legal entities – January 2018”. These amendments were implemented by Nordea Hypotek on 1 January 2018 but have not had any significant impact on Nordea Hypotek’s financial statements.

Changes in IFRSs not yet applied

IFRS 16 “Leases”
IFRS 16 “Leases” will not be applied at Nordea Hypotek. On 1 January 2019, Nordea Hypotek will start to apply the new rules governing leases in RFR 2. The new rules in RFR 2 have no significant impact on Nordea Hypotek’s financial statements, capital adequacy or large exposures for the period of initial application, as the company already applies these rules.

Other amendments to IFRS
Other amendments to IFRS are not expected to have any effect 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 2018	Jan-Jun 2017	Jan-Jun 2018	Jan-Jun 2017	Jan-Jun 2018	Jan-Jun 2017
Total operating income	3,501	3,773	552	535	-103	-144
Operating profit	3,498	3,771	543	536	-112	-153
Loans to the public	418,917	430,682	107,942	103,829	-	-

	Other operating segments		Total operating segments		Reconciliation	
SEKm	Jan-Jun 2018	Jan-Jun 2017	Jan-Jun 2018	Jan-Jun 2017	Jan-Jun 2018	Jan-Jun 2017
Total operating income	-216	-181	3,734	3,983	117	109
Operating profit	-275	-219	3,654	3,935	-398	-271
Loans to the public	14,029	4,261	540,888	538,772	-	-

	Total	
SEKm	Jan-Jun 2018	Jan-Jun 2017
Total operating income	3,851	4,092
Operating profit	3,256	3,664
Loans to the public	540,888	538,772

Reconciliation between total operating segments and financial statements

	Jan-Jun 2018		Jan-Jun 2017	
SEKm	Operating profit	Loans to the public	Operating profit	Loans to the public
Total operating segments	3,654	540,888	3,935	538,772
Group functions and unallocated items	-398	-	-271	-
Total	**3,256**	**540,888**	**3,664**	**538,772**

Reportable segments

In the second quarter of 2018, changes were made to the segment breakdown following a decision to reorganise the segment Business & Commercial Banking into new operating segments. Business & Commercial Banking consists of the two new operating segments Business Banking and Business Banking Direct, instead of the previous operating segments Commercial Banking and Business Banking. Other operating segments mainly refer to Wholesale Banking, which is responsible for lending to large corporate customers. Group functions and earnings that are not entirely allocated to any of the operating segments are shown separately as reconciling items in the table above. Nordea Hypotek has short-term borrowing from Nordea Bank AB. Because the borrowing rate is negative, Nordea Hypotek gains revenue from each such instance of borrowing, while Nordea Bank AB incurs an equivalent expense. The PL effect of the short-term borrowing, which is linked to three-month STIBOR, which Nordea Hypotek has from the Parent Company was approx. SEK +345m in the first half of 2018.

Note 3 Net fee and commission income

SEK 000s	Jan-June 2018	Jan-June 2017	Full year 2017
Custody and issuance services	**-13,582**	**-12,709**	**-27,363**
– of which income	-	-	-
– of which expense	-13,582	-12,709	-27,363
Lending products	**6,776**	**8,580**	**13,235**
– of which income	16,622	17,893	35,151
– of which expense	-9,846	-9,313	-21,916
Other	**3,367**	**8,743**	**17,613**
– of which income	8,778	10,141	20,355
– of which expense	-5,411	-1,398	-2,742
Net fee and commission income	**-3,439**	**4,614**	**3,485**

Note 4 Net result from items at fair value

SEK (000s)	Jan-Jun 2018	Jan-Jun 2017	Full year 2017
Interest-bearing securities and other interest-related instruments	-190,924	-192,782	-283,049
Total	**-190,924**	**-192,782**	**-283,049**

Note 5 Net loan losses

SEK 000s	Jan-Jun 2018[1]
Net loan losses, stage 1	1,453
Net loan losses, stage 2	-90
Net loan losses, non-defaulted	**1,363**
Stage 3, defaulted	
Net loan losses, individually assessed, collectively calculated	-2,395
Realised loan losses	-2,752
Decrease of provisions to cover realised loan losses	-
Recoveries on previous realised loan losses	1,090
New/increase in provisions	-9,100
Reversals of provisions	-
Net loan losses, defaulted	**-13,157**
Net loan losses	**-11,794**

Key ratios

	Jan-Jun 2018[1]
Loan loss ratio, basis points	0.4
- of which stage 1	-0.1
- of which stage 2	0.0
- of which stage 3	0.5

SEK 000s	Jan-Jun 2017[2]	Jan-Dec 2017[2]
Realised loan losses	-4,996	-10,891
Decrease of provisions to cover realised loan losses	-	-
Recoveries on previous realised loan losses	552	2,077
New/increase in provisions	-1,505	-10,423
Reversals of provisions	4,546	8,186
Net loan losses	**-1,403**	**-11,051**

1 Based on IFRS 9.

2 Based on IAS 39.

Note 6 Loans and impairment

SEKm	30 Jun 2018[1]	31 Dec 2017[2]	30 Jun 2017[2]
Loans measured at amortised cost, not impaired (stage 1 and 2)	551,091	543,695	545,115
Impaired loans (stage 3)	575	579	626
- of which servicing	61	48	57
- of which non-servicing	514	531	569
Loand before allowances	**551,666**	**544,274**	**545,741**
-of which credit institutions	*10,716*	*7,274*	*6,908*
Allowances for individually assessed impaired loans (stage 3)	-22	-16	16
- of which servicing	-2	-5	-5
- of which non-servicing	-20	-11	-11
Allowances for collectively assessed loans (stage 1 and 2)	-40	-51	-46
Allowances	**-62**	**-67**	**-62**
-of which credit institutions	-	-	-
Loans, carrying amount	**551,604**	**544,207**	**545,679**

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

SEKm	30 June 2018[1]			
	Stage 1	Stage 2	Stage 3	30 Jun 2017[2]
Loans to credit institutions and the public	542,223	8,868	575	551,666
Total	**542,223**	**8,868**	**575**	**551,666**

Allowances and provisions

SEKm	30 June 2018[1]			
	Stage 1	Stage 2	Stage 3	30 Jun 2017[2]
Loans to credit institutions and the public	-15	-25	-22	-62
Total[3]	**-15**	**-25**	**-22**	**-62**

Movements of allowance accounts for loans measured at amortised cost

SEKm	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 Jan 2018[1]	-17	-24	-11	-52
Changes due to origination and acquisition	-2	0	0	-2
Changes due to change in credit risk	2	-3	-12	-13
Changes due to repayments and disposals	2	2	1	5
Write of through decrease in allowance account	-	-	-	-
Other changes	-	-	-	-
Translation differences	-	-	-	-
Balance as at 30 Jun 2018	-15	-25	-22	-62

[1] Based on IFRS 9

[2] Based on IAS 39.

[3] The final amount that was restated at transition from IFRS 9 from allowances to loans measured at amortised cost was SEK 15m. In the 2017 annual report, note 30 IFRS 9, SEK 14m was stated, which was a preliminary figure.

Key ratios

	30 Jun 2018[1]
Impairment rate (stage 3), gross[2], basis points	10.4
Impairment rate (stage 3), net[3], basis points	10.0
Total allowance rate[4] (stage 1, 2 and 3), basis points	1.1
Allowances in relation to impaired loans[5] (stage 3), %	3.9
Allowances in relation to loans in stage 1 and 2[6], basis points	0.7

1 Based on IFRS 9.

2 Impaired loans (category 3) before allowances divided by total loans, measured at amortised cost, before allowances.

3 Impaired loans (category 3) after allowances divided by total loans, measured at amortised cost, before allowances.

4 Total allowances divided by total loans, measured at amortised cost, before allowances.

5 Allowances for impaired loans (category 3) divided by impaired loans measured at amortised cost (category 3), before allowances.

6 Allowances for performing loans (category 2) divided by performing loans measured at amortised cost (categories 1 and 2), before allowances

	31 Dec 2017[7]	30 Jun 2017[7]
Impairment rate, gross[8], basis points	10.6	11.5
Impairment rate, net[9], basis points	10.3	11.2
Total allowance rate[10], basis points	1.2	1.1
Allowances in relation to impaired loans[11], %	2.8	2.6
Total allowances in relation to impaired loans[12], %	11.6	9.8

7 Based on IAS 39.

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

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

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

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

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

Note 7 Derivatives

	30 Jun 2018		31 Dec 2017		30 Jun 2017	
Fair value, SEKm	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Derivatives used for hedging						
Interest rate derivatives	4,424	273	5,269	332	5,326	398
Foreign exchange derivatives	1,238	42	907	166	752	349
Total	**5,662**	**315**	**6,176**	**498**	**6,078**	**747**

Nominal amount, SEKm	**30 Jun 2018**	**31 Dec 2017**	**30 Jun 2017**
Derivatives used for hedging			
Interest rate derivatives	438,325	388,361	339,431
Foreign exchange derivatives	10,552	10,879	13,202
Total	**448,877**	**399,240**	**352,633**

Note 8 Classification of financial instruments

SEKm	Amortised cost	Fair value through profit and loss Derivatives used for hedging	Non financial assets	Total
Financial assets				
Loans to credit institutions	10,716	-	-	10,716
Loans to the public	540,888	-	-	540,888
Derivatives	-	5,662	-	5,662
Fair value changes of the hedged items in portfolio hedge of interest rate risk	71	-	-	71
Other assets	2,753	-	1	2,754
Prepaid expenses and accrued income	911	-	-	911
Total 30 Jun 2018	**555,339**	**5,662**	**1**	**561,002**
Total 1 Jan 2018[1]	546,003	6,176	342	552,521

SEKm	Amortised cost	Fair value through profit and loss Derivatives used for hedging	Non financial liabilities	Total
Financial liabilities				
Deposits by credit institutions	206,100	-	-	206,100
Debt securities in issue	320,235	-	-	320,235
Derivatives	-	315	-	315
Fair value changes of the hedged items in portfolio hedge of interest rate risk	5,001	-	-	5,001
Other liabilities	2,534	-	194	2,728
Accrued expenses and prepaid income	38	-	-	38
Subordinated liabilities	800	-	-	800
Total 30 Jun 2018	**534,708**	**315**	**194**	**535,217**
Total 1 Jan 2018[2]	528,737	498	19	529,254

[1] The final amount restated from allowances to loans measured at amortised cost was SEK 15m. The amount of SEK 14m in the 2017 annual report, note 30 IFRS 9 page 57, was preliminary.

[2] In note 30 IFRS 9 on page 57 of the 2017 annual report, it was stated that the classification of the increase in net tax liabilities of SEK 3m remained to be determined. Now, that classification has been determined, and this caused an increase in tax liabilities of SEK 3m, and the amount has been classified as non-financial liabilities.

Note 9 Fair value of financial assets and liabilities

SEKm	30 Jun 2018 Carrying amount	30 Jun 2018 Fair value	31 Dec 2017 Carrying amount	30 Jun 2018 Fair value
Assets				
Loans	551,675	565,177	544,136	545,752
Derivatives[1]	5,662	5,662	6,176	6,176
Other assets	2,753	2,753	1,154	1,154
Prepaid expenses and accrued income	911	911	698	698
Total assets	**561,001**	**574,503**	**552,164**	**553,780**
Financial liabilities				
Deposits and debt instruments	532,136	536,330	520,866	525,853
Derivatives[1]	315	315	498	498
Other liabilities	2,534	2,534	7,832	7,832
Accrued expenses and prepaid income	38	38	39	39
Total liabilities	**535,023**	**539,217**	**529,235**	**534,222**

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

Note 10 Capital adequacy

Summary of items included in own funds

SEKm	30 Jun 2018	31 Dec[2] 2017	30 Jun 2017
Calculation of own funds			
Equity in the consolidated situation	23,248	23,255	23,281
Common Equity Tier 1 capital before regulatory adjustments	23,248	23,255	23,281
IRB provisions shortfall (-)	-109	-107	-140
Other items, net	-56	-73	-67
Total regulatory adjustments to common Equity Tier 1 capital	-165	-180	-207
Common Equity Tier 1 capital (net after deduction)	**23,083**	**23,075**	**23,074**
Tier 1 capital (net after deduction)	**23,083**	**23,075**	**23,074**
Tier 2 capital before regulatory adjustments	800	1,800	3,100
IRB provisions excess (+)	13	24	24
Total regulatory adjustments to Tier 2 capital	13	24	24
Tier 2 Capital	813	1,824	3,124
Own funds (net after deduction)[1]	**23,896**	**24,899**	**26,198**

[1] Own funds adjusted IRB provisions, i e, adjusted own funds equal SEK 23,992m by 30 June 2018.

[2] Including profit.

Minimum capital requirement and REA

	30 Jun 2018		31 Dec 2017		30 Jun 2017	
SEKm	**Min. Capital-requirement**	**REA**	**Min. Capital-requirement**	**REA**	**Min. Capital-requirement**	**REA**
Credit risk	**2,353**	**29,411**	**2,208**	**27,594**	**2,381**	**29,753**
-of which counterparty credit risk	-	-	-	-	-	-
IRB	2,353	29,411	2,208	27,594	2,381	29,753
- sovereign	28	346	29	359	24	293
- corporate	915	11,439	828	10,352	936	11,700
- advanced	915	11,439	828	10,352	936	11,700
- foundation	-	-	-	-	-	-
- institutions	-	-	-	-	-	-
- retail	1,376	17,196	1,317	16,455	1,389	17,365
- secured by immovable property collateral	1,318	16,474	1,255	15,686	1,279	15,994
- other retail	58	722	62	769	110	1,371
- other	34	430	34	428	32	395
Standardised	-	-	-	-	-	-
- central governments or central banks	-	-	-	-	-	-
- regional government or local authorities	-	-	-	-	-	-
- institutions	-	-	-	-	-	-
- of which secured by mortgages on immovable properties	-	-	-	-	-	-
Credit Value Adj. Risk	**-**	**-**	**-**	**-**	**-**	**-**
Market risk	**-**	**-**	**-**	**-**	**-**	**-**
Operational risk	**916**	**11,447**	**781**	**9,768**	**781**	**9,768**
Standardised	916	11,447	781	9,768	781	9,768
Additional risk exposure Amount due to Article 3 CCR	**-**	**-**	**-**	**-**	**-**	**-**
Sub total	**3,269**	**40,858**	**2,989**	**37,362**	**3,162**	**39,521**
Adjustment for Basel 1 floor						
Additional capital requirement	-	-	19,343	241,787	19,226	240,330
Total	**3,269**	**40,858**	**22,332**	**279,149**	**22,388**	**279,851**

Minimum Capital Requirement & Capital Buffers

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

SEKm

Common Equity Tier capital	1,839	1,021	810	-	-	1,831[1]	**3,670**
Tier 1 Capital	2,451	1,021	810	-	-	1,831[1]	**4,283**
Own funds	3,269	1,021	810	-	-	1,831[1]	**5,100**

[1] Only the maximum of the SRB and SII is used in the calculation of the total capital buffers.

Common Equity Tier 1 available to meet Capital Buffers

Percentage points of REA	30 Jun 2018	31 Dec[1] 2017	30 Jun 2017
Common Equity Tier I capital	50.5	55.8	52.4

[1] Including profit of the period.

Capital ratios

Percentage	30 Jun 2018	31 Dec 2017	30 Jun 2017
Common Equity Tier I capital ratio, excluding profit	56.5	47.1	58.4
Tier I ratio, excluding profit	56.5	47.1	58.4
Total capital ratio, excluding profit	58.5	52.0	66.3

Leverage ratio

	30 Jun 2018	31 Dec[1] 2017	30 Jun 2017
Tier 1 capital, transitional definition, SEKm	23,083	23,075	23,074
Leverage ratio exposure, SEKm	624,739	596,424	596,313
Leverage ratio, percentage	3.7	3.9	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	6,141	-	10,085	-	3.4
-of which rating grades 7	6,141	-	10,085	-	3.4
-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	89,025	-	85,082	-	13.4
-of which rating grades 6	52,053	-	51,259	-	6.4
-of which rating grades 5	15,113	-	12,710	-	14.0
-of which rating grades 4	20,060	-	19,464	-	28.1
-of which rating grades 3	1,293	-	1,190	-	42.7
-of which rating grades 2	67	-	67	-	76.0
-of which rating grades 1	45	-	43	-	112.5
-of which unrated	355	-	310	-	114.3
-of which defaulted	39	-	39	-	-
Retail, of which secured by real estate	435,551	61,520	497,071	61,520	3.3
-of which scoring grades A	384,595	54,325	438,920	54,326	2.2
-of which scoring grades B	31,384	4,460	35,844	4,460	5.5
-of which scoring grades C	13,770	1,979	15,749	1,979	12.2
-of which scoring grades D	3,017	428	3,445	428	23.3
-of which scoring grades E	989	160	1,148	159	37.4
-of which scoring grades F	1,130	168	1,298	168	58.7
-of which not scored	90	-	90	-	21.6
-of which defaulted	576	-	577	-	123.0
Retail, of which other retail	10,693	-	10,693	-	6.8
-of which scoring grades A	8,859	-	8,859	-	4.2
-of which scoring grades B	914	-	914	-	10.0
-of which scoring grades C	563	-	563	-	18.3
-of which scoring grades D	86	-	86	-	25.7
-of which scoring grades E	166	-	166	-	27.6
-of which scoring grades F	78	-	78	-	38.3
-of which not scored	4	-	4	-	24.4
-of which defaulted	23	-	23	-	233.2
Other non credit-obligation assets	430	-	430	-	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, loans to central governments and central banks, qualifying revolving retail.

Not 11 Risks and uncertainties

T company's main risk exposure is credit risk. The company also assumes market risk, liquidity risk and non-financial risks such as operational risk and legal risks. These risks are inherent in the company's business and accepted to a certain level. Risk limits are issued by the Board in the Risk Appetite and covers the full risk picture.

None of the above-mentioned exposures and risks are expected to have any significant adverse effect on the company or its financial position in the next six months. Liquidity risk is managed on a Nordea Group level and the company is part of the Swedish Liquidity Group after approval by the Swedish FSA. The Nordea Group has decided to re-domicile to Finland and one result of the decision is that the Liquidity Group will be discontinued. The company will have to arrange a stand-alone liquidity buffer as well as a prolongation of intra-Group funding. Measures have already been taken to prepare the company and the Board has issued new limits on liquidity to ensure a continued stable liquidity situation also after re-domiciliation of the parent company.

There are no disputes or legal proceedings in which material claims have been issued against the company.