Nordax Bank AB (publ)

INTERIM REPORT JANUARY-DECEMBER 2018

About the Group, Nordax Bank AB (publ)

Nordax Bank AB (publ) (Corporate Identity Number 556647-7286), with its registered office in Stockholm at Box 23124, SE-104 35 Stockholm, Sweden, telephone number +46 8 508 808 00, www.nordaxgroup.com, hereinafter “Nordax”, is a wholly owned subsidiary of Nordax Group AB (publ) (Corporate Identity Number 556993-2485), with its registered office in Stockholm. The Nordax Group’s largest owner is NDX Intressenter AB, which is controlled by Nordic Capital and Sampo and as of 31 December controlled 100 per cent of the shares in the company. This is Nordax’s fifteenth financial year. The Nordax Bank Group consists of Nordax Bank AB (publ), Nordax Sverige AB, Nordax Nordic 4 AB (publ), Nordax Sverige 4 AB (publ), Nordax Nordic 2 AB.

Nordax was authorised on 27 January 2004 as a credit market company to carry on finance activities. On 5 December 2014, Nordax received approval to carry on banking activities by the Swedish Financial Supervisory Authority according to the Banking and Finance Business Act and changed its name to Nordax Bank AB (publ).

Through a centralised business model and organisation based in Stockholm, Nordax conducts cross-border lending in Sweden, Norway, Denmark, Finland and Germany in accordance with Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms.

Nordax’s main business consists of lending to private customers in the Nordic region and Germany. Lending consists of unsecured loans up to the equivalent of SEK 600,000, NOK 500,000, EUR 60,000 in Finland and EUR 40,000 in Germany. As of 2008, there is no new lending in Denmark. Since the second quarter of 2018, secured loans against residential property are also offered in Sweden.

Nordax started its lending business in Sweden in February 2004, in Norway in October 2005, in Denmark in October 2006, in Finland in August 2007 and Germany in April 2012.

Nordax accepts deposits on accounts from the public in Sweden, Norway, Finland and Germany. Deposits generate positive net interest income for the Group since lending is offered at a higher interest rate than deposits, at the same time that they facilitate the Group’s traditional funding mainly from financial institutions.

Important events during the period

Personal loans
New lending for personal loans developed strongly and amounted to SEK 5.8 billion during the year, an increase of 24% compared to 2017. Finland was the market that performed the strongest (+35% in local currency), followed by Sweden and Norway, while new lending decreased in Germany. During the year new lending increased the most in the loan broker channel, which was a result of both improved customer processes and collaborations with more brokers. In the fourth quarter new lending amounted to SEK 1.5 billion, an increase of 35% compared to the same quarter in 2017, with the strongest trend in Sweden.

Mortgage loans
In early May Nordax began offering loans in the Swedish market. The main target group is customers with some form of non-traditional employment, i.e. the self-employed or temporary employees, including project, part-time or replacement workers. Thorough credit assessments and personal customer contacts have facilitated more loan approvals for this customer group, who is often denied by the major banks despite stable finances. Interest in the offer has been high and since mid-September marketing has been increased, which led to a significant increase in the number of applications in the period September to December.

Portfolio development
Total lending to the general public increased 12% compared to the beginning of the year to SEK 15.1 billion at year-end. Adjusted for FX effects and one-effects from the transition to IFRS 9, the increase was 11%. Lending increased in all markets with the strongest trend in Finland, where the corresponding increase was 24%.

Changes in Senior Management Team
In the fourth quarter Patrick MacArthur took over as the new CFO. Patrick has been employed at Nordax since 2017 and was already a member of the Senior Management Team in his former role as Head of Business Development and Strategy.

During the quarter Andreas Frid was appointed as Head of Marketing and Communication. Andreas has been employed at Nordax since 2016 and was already a member of the Senior Management Team in his former role as Head of IR and Communication.

Significant events after the end of the period

Acquisition of Svensk Hypotekspension
In January 2019 Nordax finalized the acquisition of Svensk Hypotekspension AB, experts in so-called equity release mortgages. Through the Hypotekspension® product, the Swedish pensioners with equity tied up in their homes are offered an opportunity to free up this capital without having to sell the home. Svensk Hypotekspension AB thereby became a wholly owned subsidiary of Nordax Bank.

Through the acquisition, Nordax strengthens its position as a challenger in the mortgage market. As with Nordax’s mortgage offer, which was launched in 2018, Svensk Hypotekspension meets an important and growing customer need, where an increasing number of creditworthy customers do not fit into the standardized credit assessments of the major banks.

At year-end Svensk Hypotekspension’s total lending amounted to just over SEK 4 billion divided among nearly 6,000 customers (households).

Result January-December 2018

GROUP

Operating profit amounted to 429 MSEK (540) in January-December 2018.

Net interest income amounted to 1 325 MSEK (1 194) in January-December 2018.

Credit losses from January-December 2018 amounted to -380 MSEK (-209), corresponding to 2.7 per cent (1.6) of average lending. As of 1 January 2018, the new reporting standard IFRS 9 is used to calculate credit loss provisions, which are based on expected credit losses, not only default events (see also pages 10-12). This has created greater volatility in the provisions. The main reasons for the higher credit losses are an increase in credit provisions in stage 1 and that the underlying credit quality has declined slightly, mainly in Norway and Germany.

Operating expenses January-December 2018 amounted to -571 MSEK (-440). Increased costs as a result of investments in growth initiatives to grow and broaden Nordax's business.

PARENT COMPANY

Operating profit amounted to 444 MSEK (559) on 31 December 2018.

Net interest income amounted to 466 MSEK (348) on 31 December 2018.

Credit losses amounted to -380 MSEK (-209) on 31 December 2018, corresponding to 2.7 per cent (1.6) of average lending.

Operating expenses amounted to -555 MSEK (-419) on 31 December 2018.

Risks and internal control

RISKS AND UNCERTAINTIES

The Group is exposed to both credit risk and to other financial risks such as market risk and liquidity risk. The Group is also exposed to IT and operational risks. The Group's overall risk and capital policy details the risk framework as well as risk management roles and responsibilities within the Group. The Group's risk profile as well as related risk, liquidity and capital management are described in Nordax's Annual Report for 2017 and in the Risk Management and Capital Adequacy Report.

INTERNAL CONTROL

The Group has established independent functions for risk control and compliance in accordance with the Swedish Financial Supervisory Authority's Regulations and General Guidelines regarding governance, risk management and control at credit institutions (FFFS 2014:1) and the European Banking Authority's Guidance on Internal Governance (GL 44). The functions report directly to the Board of Directors and the CEO. Internal audit was during the period conducted by PwC Sweden.

Key Figures

GROUP	Q4 2018	Q3 2018	Q4 2017	JAN-DEC 2018	JAN-DEC 2017
Common Equity Tier 1 Capital Ratio in %	17.0	18.7	14.7	17.0	14.7
Return on equity in %	4.2	15.6	17.7	13.8	19.4
Net credit loss level in %	2.8	2.7	1.8	2.7	1.6
Cost to Income ratio in %	53	37	36	41	37
Number of employees	217	218	191	217	191

PARENT COMPANY	Q4 2018	Q3 2018	Q4 2017	JAN-DEC 2018	JAN-DEC 2017
Common Equity Tier 1 Capital Ratio in %	17.1	17.5	13.5	17.1	13.5
Return on equity in %	5.1	18.3	21.1	16.1	23.4
Net credit loss level in %	2.8	2.7	1.8	2.7	1.6
Cost to Income ratio in %	52	36	33	40	35
Number of employees	217	218	191	217	191

Consolidated income statement

GROUP All amounts in MSEK	Note	**Q4** 2018	**Q3** 2018	**Q4** 2017	**JAN-DEC** 2018	**JAN-DEC** 2017
Operating income						
Interest income	7	414	407	370	1,595	1,455
Interest expense	7	-71	-72	-67	-270	-261
Total net interest income		**343**	**335**	**303**	**1,325**	**1,194**
Commission income	7	4	3	4	18	19
Net profit from financial transactions	7	-11	15	-10	37	-24
Total operating income		**336**	**353**	**297**	**1,380**	**1,189**
Operating expenses						
General administrative expenses	7	-133	-91	-74	-411	-289
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	7	-5	-6	-6	-23	-24
Other operating expenses	7	-40	-33	-26	-137	-127
Total operating expenses		**-178**	**-130**	**-106**	**-571**	**-440**
Profit before credit losses		**158**	**223**	**191**	**809**	**749**
Net credit losses	2, 7	-104	-102	-62	-380	-209
Operating profit		**54**	**121**	**129**	**429**	**540**
Tax on profit for the period		-28	-26	-29	-103	-121
NET PROFIT FOR THE PERIOD/COMPREHENSIVE INCOME		**26**	**95**	**100**	**326**	**419**
Attributable to:						
The Parent Company's shareholders		26	95	100	326	419

Consolidated statement of comprehensive income

Total profit corresponds to profit for the period

Parent Company income statement

PARENT COMPANY All amounts in MSEK	Note	**Q4** 2018	**Q3** 2018	**Q4** 2017	**JAN-DEC** 2018	**JAN-DEC** 2017
Operating income						
Interest income		421	417	371	1,631	1,461
Interest expense		-279	-299	-284	-1,165	-1,113
Total net interest income		**142**	**118**	**87**	**466**	**348**
Commision income		1	1	1	8	5
Net profit from financial transactions		-14	-5	-10	36	-23
Other operating income [1]		206	239	218	869	857
Total operating income		**335**	**353**	**296**	**1,379**	**1,187**
Operating expenses						
General administrative expenses		-132	-90	-72	-406	-280
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets		-3	-3	-3	-12	-12
Other operating expenses		-40	-33	-24	-137	-127
Total operating expenses		**-175**	**-126**	**-99**	**-555**	**-419**
Profit before credit losses		**160**	**227**	**197**	**824**	**768**
Net credit losses	2	-104	-102	-62	-380	-209
Operating profit		**56**	**125**	**135**	**444**	**559**
Tax on profit for the period		-28	-27	-32	-106	-127
NET PROFIT FOR THE PERIOD/COMPREHENSIVE INCOME		**28**	**98**	**103**	**338**	**432**

1 Operating income for the Parent Company refers to income from securitised loans.

Parent company statement of comprehensive income

Total profit corresponds to profit for the period

Consolidated statement of financial position

		GROUP		PARENT COMPANY	
All amounts are in MSEK	Note	31 DECEMBER 2018	31 DECEMBER 2017	31 DECEMBER 2018	31 DECEMBER 2017
ASSETS					
Lending to credit institutions	5, 6	2,681	1,795	2,167	1,365
Lending to the general public	2, 3,4, 5, 6, 7	15,140	13,488	15,137	13,480
Bonds and other fixed-income securities	5, 6	1,187	1,184	1,187	1,184
Shares in subsidiaries		-	-	1	2
Intangible assets		287	300	25	27
Tangible assets		4	6	4	6
Current tax assets		4	-	4	-
Other assets		225	68	226	56
Prepaid expenses and accrued income		33	23	32	23
TOTAL ASSETS		**19,561**	**16,864**	**18,783**	**16,143**
LIABILITIES, PROVISIONS AND EQUITY					
Liabilities					
Liabilities to credit institutions	5, 6	2,831	3,054	0	-
Deposits from the general public	5, 6	11,278	7,511	11,278	7,511
Issued securities	5, 6	2,581	3,547	487	498
Liabilities to securitisation firms[1]		-	-	4,380	5,594
Current tax liability		-	55	-	55
Deferred tax liability		-	31	-	24
Other liabilities		114	70	149	146
Accrued expenses and deferred income		68	54	63	49
Subordinated liabilities	5, 6	249	247	249	247
Total liabilities		**17,121**	**14,569**	**16,606**	**14,124**
Equity					
Share capital		50	50	50	50
Other reserves		7	7	7	7
Other funds		22	19	22	19
Retained earnings, incl. profit for the year		2,361	2,219	2,098	1,943
Total equity		**2,440**	**2,295**	**2,177**	**2,019**
TOTAL LIABILITIES, PROVISIONS AND EQUITY		**19,561**	**16,864**	**18,783**	**16,143**

1 Liabilities to securitisation firms refer in their entirety to liabilities to subsidiaries for the securitised loans, which are reported by Nordax Bank AB, since the derecognition rules according to IFRS 9 have not been met.

Statement of cash flows

GROUP All amounts are in MSEK	JAN-DEC 2018	JAN-DEC 2017
Operating activities		
Operating profit [1]	429	540
Adjustment for non-cash items		
Exchange rate effects [2]	-46	24
Depreciation, amortisation and impairment of property, plant & equipment	23	24
Amortisation of financing costs	31	-
Unrealised changes in value of bonds and other fixed income securities	10	6
Unrealised credit losses incl. IFRS 9 adjustment	814	-
Income tax paid	-141	-96
Group contribution	-	-43
Change in operating assets and liabilities		
Decrease/Increase in lending to the general public	-1,788	-834
Decrease/Increase in other assets	-168	-56
Decrease/Increase in deposits from the general public	3,123	370
Decrease/Increase in other liabilities	6	-26
Cash flow from operating activities	**2,294**	**-91**
Investing activities		
Purchase of equipment	-8	-16
Investment in bonds and other interest bearing securities	-3,342	-3,791
Sale/disposal of bonds and other fixed income securities	3,329	3,559
Cash flow from investing activities	**-21**	**-248**
Financing activities		
Increase in liability to credit institutions	232	-133
Issued bonds	-569	2,107
Repayment of issued bonds	-1,049	-1,369
Paid dividend	-	-121
Cash flow from financing activities	**-1,386**	**484**
Cash flow for the period	**887**	**-145**
Cash and cash equivalents at beginning of year	**1,795**	**1,650**
Cash and cash equivalents at end of year	**2,681**	**1,795**

1 Whereof received interest MSEK 1,557 (1,398) and paid interest MSEK 207 (135)
2 Unrealized changes in value were recognised in earlier periods as exchange rate effects and have now been reclassified as changes in operating assets and liabilities.

Cash and cash equivalents are defined as lending to credit institutions. Pledged cash and cash equivalents according to Note 8 are available to Nordax in connection with monthly settlement under financing arrangements and are thus defined as cash and cash equivalents because they are pledged for not more than 30 days and therefore are current.

Statement of changes in equity

GROUP

All amounts are in MSEK	Share capital	Other Reserves	Other Funds	Retained earnings	TOTAL
OPENING BALANCE 1 JANUARY 2017	**50**	**7**	**5**	**1,969**	**2,031**
Comprehensive income					
Net profit/loss for the year				419	**419**
Total comprehensive income				**419**	**419**
Other reserves					
Capitalization			16	-16	**-**
Depriciation			-2	2	**-**
Total other reserves			14	-14	**-**
Transactions with shareholders					
Dividends paid				-121	**-121**
Capital contributions				-43	**-43**
Tax effect on capital contribution				9	**9**
Total transactions with shareholders				-155	**-155**
CLOSING BALANCE 31 DECEMBER 2017	**50**	**7**	**19**	**2,219**	**2,295**
OPENING BALANCE 1 JANUARY 2018	**50**	**7**	**19**	**2,219**	**2,295**
Comprehensive income					
Net profit/loss for the year				326	**326**
Total comprehensive income				**326**	**326**
Other reserves					
Capitalization			8	-8	**-**
Depreciation			-5	5	**-**
Total other reserves			3	-3	**-**
Effect in equity attributable to transition to IFRS 9					
Initial effect in Equity attributable to transition to IFRS 9				-177	-177
Tax effect in Equity attributable to transition to IFRS 9				39	39
Total effect in equity attributable to the transition to IFRS 9				**-138**	**-138**
Transactions with shareholders					
Capital contributions				-55	**-55**
Tax effect on capital contribution				12	**12**
Total transactions with shareholders				-43	**-43**
CLOSING BALANCE 31 DECEMBER 2018	**50**	**7**	**22**	**2,361**	**2,440**

Statement of changes in equity

PARENT COMPANY	Restricted equity			Non-restricted equity	
All amounts are in MSEK	Share capital	Other Reserves	Other Funds	Retained Earnings	TOTAL
OPENING BALANCE 1 JANUARY 2017	**50**	**7**	**5**	**1,610**	**1,672**
Comprehensive income					
Net profit/loss for the eyar				432	**432**
Net profit/loss attributable to previous periods				70	**70**
Total comprehensive income				**502**	**502**
Other reserves					
Capitalization			16	-16	**-**
Depriciation			-2	2	**-**
Total other reserves			14	-14	**-**
Transactions with shareholders					
Dividends paid				-121	**-121**
Capital contributions				-43	**-43**
Tax effect on capital contribution				9	**9**
Total transactions with shareholders				-155	**-155**
CLOSING BALANCE 31 DECEMBER 2017	**50**	**7**	**19**	**1,943**	**2,019**
OPENING BALANCE 1 JANUARY 2018	**50**	**7**	**19**	**1,943**	**2,019**
Comprehensive income					
Net profit/loss for the eyar				338	**338**
Total comprehensive income				**338**	**338**
Other reserves					
Capitalization			8	-8	-
Depreciation			-5	5	-
Total other reserves			**3**	**-3**	**-**
Effect in equity attributable to transition to IFRS 9					
Initial effect in Equity attributable to transition to IFRS 9				-177	**-177**
Tax effect in Equity attributable to transition to IFRS 9				39	**39**
Total effect in equity attributable to the transition to IFRS 9				**-138**	**-138**
Transactions with shareholders					
Capital contributions				-55	**-55**
Tax effect on capital contribution				12	**12**
Total transactions with shareholders				-43	**-43**
CLOSING BALANCE 31 DECEMBER 2018	**50**	**7**	**22**	**2,098**	**2,177**

Notes

Amounts stated in the notes are in MSEK unless otherwise stated.
The information on pages 1-3 is an integrated part of this interim report.

Note 1 General information

Nordax Bank AB (publ) (Corporate Identity Number 556647-7286), with its registered office in Stockholm, is a wholly owned subsidiary to Nordax Group AB (publ) (Corporate Identity Number 556993-2485), registered office in Stockholm. Nordax Group's owner, NDX Intressenter AB, which is controlled by Nordic Capital and Sampo, controlled 100 per cent of the shares in the company as of 31 December. Nordax Bank AB owns companies whose business includes owning companies and managing shares in companies whose main operations consist of consumer lending in the Nordic region.

Accountings principles

The interim report has been prepared according to IAS 34, Interim Financial Reporting. The consolidated accounts for the Nordax Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, together with the Annual Accounts Act for Credit Institutions and Securities Companies (1995:1559), the Swedish Financial Accounting Standards Council's recommendation RFR 1, Supplementary Accounting Regulations for Groups, and the Swedish Financial Supervisory Authority's regulations and guidelines FFFS 2008:25. In all material aspects, the Group's and the Parent Company's accounting policies, basis for calculations and presentations are unchanged in comparison with the Annual Report 2017, aside from the transition from IAS 39 to IFRS 9 with respect to financial instruments. For more information, see IFRS 9 below.

New applicable standards, amendments and interpretations of existing standards that have not yet entered into force and have not been adopted early by the Group

Generally about IFRS 16

IFRS 16 "Leasing" covers the classification and valuation of leased assets and liabilities. The new standard comes into force for fiscal years beginning January 1, 2019 or later and earlier application is permitted. The standard was approved by the EU Commission in 2017.

What IFRS 16 entails and differences with IAS 17

IFRS 16 replaces IAS 17 where the biggest difference is that the accounting requirements for lessees are changed. The terms operational and financial leasing disappear. All leases (except for short-term and minor leases) shall be reported as an asset with rights of use and as a liability in the lessee's balance sheet and the lease payments shall be reported as amortization and interest expense. Accounting requirements for lessors are unchanged, but additional disclosure requirements will be required. The impact on Nordax's financial statements will be limited as the Group holds a few minor leases. These will be reported over the balance sheet for the time of the right of use.

IFRS 9

IFRS 9 Financial Instruments deals with classification and measurement, including impairment of financial assets and liabilities, and hedge accounting. The completed version of IFRS 9 was issued in July 2014 and replaces IAS 39. The standard is applied to the financial year beginning 1 January 2018 and has been adopted by the EU.

IFRS 9 is principle driven, in contrast to IAS 39, which was rules based, and contains new principles on how financial assets are classified and measured. The determining factors in the classification – the measurement category to which a financial asset belongs – are the entity's business model, the objective of the holding and the financial asset's contractual cash flows. The rules address classification and measurement, hedge accounting and impairment of financial instruments.

Effects on Assets	IAS 39 s of 31 December 2017			Initial effect attributable to transition to IFRS 9	IFRS 9 as of January 1, 2018		
Category	Financial assets available-for-sale	Held for trading/Fair value option	Loans and receivables		Hold to collect	Other	Hold to collect and sell
Measurement	Fair value through other comprehensive income	Fair value through profit and loss	Amortised cost		Amortised cost	Fair value through profit and loss	Fair value through other comprehensive income
Assets							
Lending to credit institutions			1,808	0	1,808		
Lending to the general public			13,488	-177	13,311		
Bonds and other fixed income securities	1,184			0		1,184	
Derivatives		-		-		-	

Classification and measurement

IFRS 9 retains a mixed-measurement model but simplifies this model in certain respects. There are three measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. How an instrument is classified depends on the company's business model and the instrument's characteristics. There are three business models for debt instruments that are financial assets which determine the measurement category that applies. To recognise a financial asset at amortised cost requires not only that it is consistent with business model, but also that the asset's contractual terms at any given time solely give rise to cash flows that are payments of principal and interest. Even if the financial asset meets the definition of busi ness model and the cash flows are solely payments of principal and interest, the company can, as with IAS 39, choose to apply recognition at fair value through profit and loss. Debt instruments that are financial assets and meet the definition of Solely Payment of Principal and Interest (SPPI) but whose business model does not lead to recognition at amortised cost are recognised at fair value through other comprehensive income or profit or loss depending on the business model. Investments in equity instruments are recognised at fair value through profit or loss, but there is also an option to initially measure the instrument at fair value through other comprehensive income.

Independent derivatives are recognised at fair value through profit or loss. The classification and measurement are not changed for financial liabilities except in cases where a liability is recognised at fair value through profit or loss based on the fair value alternative. Changes in value attributable to changes in own credit risk are recognised in other comprehensive income.

Hedge accounting

IFRS 9 changes the requirements to apply hedge accounting by replacing the 80–125 criteria with the requirement that there be an economic relationship between the hedging instrument and hedged item and that the hedge ratio be the same as that used in risk management. The hedging documentation also changes compared with IAS 39.

Impairment

IFRS 9 introduces a new model to calculate credit loss provisions based on expected credit losses. Consequently, recognition of credit losses is based on expected rather than actual default events. Financial assets are divided into three stages based on the risk of default. Stage 1 comprises assets that have not seen a significant increase in credit risk, stage 2 comprises assets where there has been a significant increase in credit risk and stage 3 comprises assets in default. In stage 1 the provisions correspond to expected credit losses in the coming 12 months. In stages 2 and 3 the provisions correspond to expected credit losses through remaining maturity. An important aspect that affects the size of the provisions according to IFRS 9 is the decisive factor for transferring an asset from stage 1 to stage 2.

Nordax's financial assets – classification and measurement

The majority of Nordax's assets consists of lending to the public. Nordax has defined its business model for these assets as being that the assets are held to collect contractual cash flows (Hold to Collect) and that the contract terms for the financial assets give rise to cash flows that are solely payments of principal and interest on the outstanding principal (according to the so-called SPPI test). This means that Nordax will measure its assets on the asset side at amortised cost. Since Nordax had already measured its lending in this way, in accordance with IAS 39, the transition to IFRS 9 does not change the recognition of these assets.

Lending to credit institutions consists of Nordax's holdings in the liquidity portfolio and are reported at amortised cost and therefore are not affected by the credit impairment model in IFRS 9. Bonds, other fixed income securities and derivatives are measured at fair value through profit and loss and are not affected by the transition to IFRS 9 as of 1 January 2018.

The table on the following page describes the effect on Nordax's assets in connection with the transition to IFRS 9 per 1 January 2018.

Hedge accounting

The Group currently does not apply hedge accounting and, as a result, is not affected by the change in rules.

Impairment

IFRS 9 also introduces a new model for calculating credit loss provisions based on expected credit losses and not solely on default events that have already occurred. The impairment rules in IFRS 9 are based on a three-stage model where recognition reflects changes in the credit risk.

Nordax's model for impairment according to IFRS 9

Nordax's model for impairment according to IFRS 9 consists of two parts: a quantitative cash flow model that calculates expected credit loss and a qualitative model that adjusts the result from the quantitative model based on a projected macro scenario.

In the qualitative model, the assumption is that there are two forward-looking macro scenarios for the impairment model: a "normal" scenario based on macroeconomic conditions which indicate that the countries relevant to Nordax are not in economic crisis and a "crisis scenario" that shows clear signs of an economic downturn for each country. The expected credit risk in the quantitative model is calculated based on the normal scenario and then adjusted monthly as needed for the estimated risk and the effect of the crisis.

In the quantitative model, a credit loss can arise from both write off (written off amount less expected recovery) and from the sale of overdue receivables (written off amount less sales proceeds).

The quantitative model is also a three-stage model that distinguishes between three types of receivables: receivables with normal risk (stage 1), receivables whose credit risk is elevated (stage 2) and receivables in default (stage 3). Nordax's definition of a default event is that the receivable is more than 90 days past due, forbearance and estates.

To determine whether a receivable has experienced a significant increase in credit risk, a method is used in which the receivable's twelve-month probability of default (PD) is compared to a certain threshold that is a function of the original risk class, according to Nordax risk level, and the time since the loan was granted. (The receivable's probability of default in 12 months is used as an approximation for the probability of default during the whole life of the receivable.) If the observed twelve-month PD for the receivable is below the threshold, the receivable is considered to have a normal risk (belongs to stage 1) and the expected credit loss is measured on a twelve-month horizon. This is done by calculating expected write off during the twelve-month period and subsequently the expected recovery/sales proceeds. The expected recovery is calculated based on cumulative recovery curves stretching over 20 years (15 years in Finland due to legal constraints on the collection of the receivable), while the sales proceeds are based on an agreed price. The expected write-off and expected recovery are both discounted back to the time of the provision by applying the receivable's current effective interest rate, with the provision consisting of the difference between them.

If, on the other hand, the receivable's PD (significant risk increase) within the next twelve months exceeds the above-mentioned limit, the receivable is considered to have an elevated risk (belongs to stage 2) and the expected credit loss is calculated for the receivable's expected life (provisions for all receivables that are between 30-89 days past due are by definition based on expected life [so-called backstop]). Expected life is determined by adjusting the receivable's remaining maturity downward by an expected utilisation factor. The receivable's lifetime PD is subsequently based on the receivable's current risk class, its expected life and a cumulative lifetime PD curve. Based on this expected life and lifetime PD curve, the receivable's expected credit loss can be estimated. This is done by calculating the expected write-off over the receivable's expected life and subsequently its expected recovery/sales proceeds. As for receivables with normal risk (stage 1), expected recovery is calculated based on cumulative recovery curves stretching over 20 years (15 years in Finland due to time constraints on the collection of the receivable), while the sales proceeds are based on an agreed price. Expected write-off and expected recovery are both discounted back to the time of the provision by the account's current effective interest rate, with the provision comprising the difference between them.

The third class is receivables where a default event has occurred (stage 3). This includes receivables more than 90 days past due and impaired receivables. For Nordax, a receivable is impaired when it is more than 180 days due.

The remaining receivables are receivables where a default event has occurred but which have not yet been written off (receivables between 90 and 180 days past due). For receivables, the expected credit loss is calculated as the expected write-off and subsequently the expected recovery. Expected recovery is calculated based on expected write off and cumulative recovery curves stretching over 20 years (15 years in Finland). Expected write-off and expected recovery are both discounted back to the time of the provision by the receivable's current effective interest rate, with the provision comprising the difference between them.

Corporate governance
Nordax has developed a governance framework tied to IFRS 9 that comprises a committee meeting chaired by the CFO and where all relevant functions are represented. Moreover, a control framework has been developed where controls for the material aspects of the IFRS 9 process are formalised. The purpose of these controls is to control and verify among other things inputs, outputs and that material prepared for committee meetings has been produced in line with the duality principle. Moreover, the risk control function has its own controls for two purposes: to control the controls in the first line, and to verify the results. The risk control function also performs quarterly validations of the impairment model according to IFRS 9.

		Provision according to IAS 39 s of 31 December 2017			**Provision according to IFRS 9 as of 1 January 2018**		
Distribution reserve	**Individual**	**Group**	**TOTAL**	**Stage 1**	**Stage 2**	**Stage 3**	**TOTAL**
Lending to general public	1,536	167	**1,703**	153	128	1,599	**1,880**

Expected effects of transition to IFRS 9
The transition to IFRS 9 gives rise to a one-off effect of increased provisions for expected credit losses amounting to 177 MSEK (equivalent to 1.3% of lending to the general public) and a corresponding reduction in equity before tax. The increase in credit losses is mainly because IFRS 9 also includes provisioning for current receivables. For capital adequacy reporting, Nordax has decided to use the transition rules for capital adequacy, which allow a gradual phasing of this effect. In the calculation of the capital base in capital adequacy the decrease in equity is accrued over the period 2018-2022 as follows:

- 2018 95% reversal of the initial negative effect on equity
- 2019 85% reversal of the initial negative effect on equity
- 2020 70% reversal of the initial negative effect on equity
- 2021 50% reversal of the initial negative effect on equity
- 2022 25% reversal of the initial negative effect on equity

Note 2 Credit risk

GROUP All amounts in MSEK	Q4 2018	Q3 2018	Q4 2017	JAN-DEC 2018	JAN-DEC 2017
Credit losses, net - lending to the general public					
Stage 1	3	-17	-	-52	-
Stage 2	4	-23	-	-22	-
Stage 3	-111	-62	-	-306	-
Total credit losses according to IFRS 9	**-104**	-102	-	**-380**	-
Total credit losses according to IAS39		-	-62	-	-209
Total credit losses during the period	**-104**	**-102**	**-62**	**-380**	**-209**

PARENT COMPANY All amounts in MSEK	Q4 2018	Q3 2018	Q4 2017	JAN-DEC 2018	JAN-DEC 2017
Credit losses, net - lending to the general public					
Stage 1	3	-17	-	-52	-
Stage 2	4	-23	-	-22	-
Stage 3	-111	-62	-	-306	-
Total credit losses according to IFRS 9	**-104**	-102	-	**-380**	-
Total credit losses according to IAS39		-	-62	-	-209
Total credit losses during the period	**-104**	**-102**	**-62**	**-380**	**-209**

As of 1 January 2018, the new reporting standard IFRS 9 is used to calculate credit loss provisions, which are based on credit losses, not only default events (see also pages 10-12). This has created greater volatility in the provisions. The main reasons for the higher credit losses are an increase in credit provisions in stage 1 due to IFRS 9 implementation and that the underlying credit quality has declined slightly, mainly in Norway and Germany.

Note 3 Lending to the general public

GROUP

31 December 2018[1]	Sweden	Norway	Denmark	Finland	Germany	TOTAL	Allocation of provision past due receivables	
Stage 1	4,847	4,241	30	3,236	981	13,336	-205	2%
Stage 2	268	299	1	257	41	866	-151	17%
Stage 3	931	1,203	327	541	162	3,164	-1,870	59%
Total	**6,045**	**5,744**	**359**	**4,034**	**1,184**	**17,365**	**-2,225**	**13%**
Reserve	-625	-792	-303	-331	-174	-2,225		
Total lending to the general public	**5,422**	**4,951**	**56**	**3,702**	**1,009**	**15,140**		

GROUP

31 December 2017[1]	Sweden	Norway	Denmark	Finland	Germany	TOTAL	Allocation of provision past due receivables	
Not yet past due	4,223	4,197	65	2,543	950	11,978		
Past due 30-60 days	75	164	3	103	22	367	-36	10%
Past due 60-90 days	47	127	3	64	14	255	-68	27%
Past due 90 days or more	816	873	313	440	86	2,528	-1,536	61%
Total past due	**938**	**1,164**	**319**	**607**	**122**	**3,150**	**-1,640**	**52%**
Total	**5,161**	**5,361**	**384**	**3,150**	**1,072**	**15,128**		
Reserve[2]	-476	-555	-297	-233	-79	-1,640		
Total lending to the general public	**4,685**	**4,806**	**87**	**2,917**	**993**	**13,488**		

1 Forward-flow sales to Lindorff began in the third quarter of 2017, whereby Nordax sells a portion of new past due receivables (+90 days) at an agreed price. Sales in the third quarter amounted to 70 MSEK in Sweden and 128 MSEK in Finland.

2 The provision for receivables more than 180 days past due, according to IAS 39 as of 31 December 2017, is estimated individually and amounted to -1,536 MSEK. The collective provision is -104 MSEK. The difference between the provision recognised according to the above and credit losses as per the income statement is due to exchange rate effects, which are accounted for under Net profit from financial transactions.

PARENT COMPANY

31 December 2018[1]	Sweden	Norway	Denmark	Finland	Germany	TOTAL	Allocation of provision past due receivables	
Stage 1	4,846	4,240	30	3,235	981	13,333	-205	2%
Stage 2	268	299	1	257	41	866	-151	17%
Stage 3	931	1,203	327	541	162	3,164	-1,870	59%
Total	**6,045**	**5,742**	**359**	**4,033**	**1,183**	**17,362**	**-2,225**	**13%**
Reserve	-625	-792	-303	-331	-174	-2,225		
Total lending to the general public	**5,420**	**4,950**	**56**	**3,701**	**1,009**	**15,137**		

PARENT COMPANY

31 December 2017	Sweden	Norway	Denmark	Finland	Germany	TOTAL	Allocation of provision past due receivables	
Not yet past due	4,214	4,197	65	2,543	950	11,969		
Past due 30-60 days	74	165	3	103	22	367	-36	10%
Past due 60-90 days	47	127	3	64	14	255	-68	27%
Past due 90 days or more	816	873	313	440	86	2,528	-1,536	61%
Total past due	**937**	**1,165**	**319**	**607**	**122**	**3,150**	**-1,640**	**52%**
Total	**5,151**	**5,362**	**384**	**3,150**	**1,072**	**15,119**		
Reserve[2]	-475	-555	-297	-233	-79	-1,639		
Total lending to the general public	**4,676**	**4,807**	**87**	**2,917**	**993**	**13,480**		

1 Forward-flow sales to Lindorff began in the third quarter of 2017, whereby Nordax sells a portion of new past due receivables (+90 days) at an agreed price. Sales in the third quarter amounted to 70 MSEK in Sweden and 128 MSEK in Finland.

2 The provision for receivables more than 180 days past due, according to IAS 39 as of 31 December 2017, is estimated individually and amounted to -1 536 MSEK. The collective provision is -104 MSEK. The difference between the provision recognised according to the above and credit losses as per the income statement is due to exchange rate effects, which are accounted for under Net profit from financial transactions.

For more information on IFRS 9 and the valuation of loans, see note 1 on page 10.

Note 4 Capital adequacy analysis

Capital adequacy information in this document refers to information whose disclosure is provided for in Chapter 6, Sections 3-4 of the Regulations and general recommendations (FFFS 2008:25) on the annual accounts of credit institutions and securities companies (investment firms) and to information in the General recommendations on capital adequacy and risk management (FFFS 2014:12) of the Swedish Financial Supervisory Authority. Other information required under FFFS 2014:12 is provided on the website, www.nordaxgroup.com.

Information on the Group structure
The top company in the consolidated situation is Cidron Humber 1 S.à r.l. The following companies are in the consolidated situation when calculating capital requirements: Cidron Humber 1 S.à r.l., Cidron Humber 2 S.à r.l., NDX Intressenter Invest Holding AB, NDX Intressenter Invest AB, NDX Intressenter Invest II AB, NDX Intressenter AB, Nordax Group AB, Nordax Bank AB (publ), Nordax Sverige AB, Nordax Nordic 4 AB (publ), Nordax Sverige 4 AB (publ) och Nordax Nordic 2 AB.

Changes were made in the consolidated situation as of 31 March 2018 as NDX Intressenter AB acquired Nordax Group AB (publ). NDX Intressenter's holding as of 31 December 2018 amounted to 100 percent of the shares.

All amounts in MSEK	Consolidated situation 31 December 2018	 31 December 2017	Parent Company 31 December 2018	 31 December 2017
OWN FUNDS				
Common Equity Tier 1 capital	6,229	2,135	2,308	1,781
Deduction from own funds	-3,712	-306	-26	-106
Total Common Equity Tier 1 capital	**2,518**	**1,829**	**2,282**	**1,675**
Tier 1 Capital, minority	81	-	-	-
Sum Tier 1 Capital	**2,599**	**1,829**	**2,282**	**1,675**
Tier 2 Capital[4]	216	247	249	247
Net own funds	**2,814**	**2,076**	**2,531**	**1,922**
Risk exposure amount for credit risk	13,320	10,828	12,362	10,741
Risk exposure amount for market risk	565	787	71	896
Risk exposure amount for operational risks	912	800	882	800
Total risk exposure amount (risk weighted assets)	**14,797**	**12,415**	**13,315**	**12,437**
Common Equity Tier 1 capital ratio	17.02%	14.72%	17.14%	13.46%
Tier 1 capital ratio	17.56%	14.72%	17.14%	13.46%
Total capital ratio	19.02%	16.72%	19.01%	15.45%
Total Common Equity Tier 1 capital requirement including buffer requirement	8.40%	8.41%	8.40%	8.41%
- of which, capital conservation buffer requirement	2.50%	2.50%	2.50%	2.50%
- of which, countercyclical capital buffers	1.40%	1.41%	1.40%	1.41%
Common Equity Tier 1 capital available for use as buffer[1]	11.02%	8.72%	11.14%	7.46%
Specification own funds				
Common Equity Tier 1 capital:				
Capital instruments and the related share premium accounts	4,324	847	78	76
-of wich share capital	43	111	50	50
- of wich other contributed capital	4,280	736	7	7
-of which other funds	-	-	22	19
Retained earnings	5	1,100	1,760	1,512
- Other transition adj. of common equity Tier 1 capital [5]	131	-	131	-
-Minority interest	1,749	-	-	-
Independently reviewed interim profits	20	409	338	432
Calculated dividend[2]	0	-221	0	-239
Common Equity Tier 1 capital before regulatory adj.	**6,229**	**2,135**	**2,308**	**1,781**
Regulatory adjustments:				
- Intangible assets	-3,710	-294	-25	-27
- Own shares	0	-11	0	-79
-Prudent valuation	-1	-1	-1	-1
Total regulatory adjustments to Common Equity Tier 1	**-3,712**	**-306**	**-26**	**-106**
Common Equity Tier 1	**2,518**	**1,829**	**2,282**	**1,675**
Tier 1 capital				-
Tier 1, minority	81	-	-	-
Tier 1 capital, total	**2 599**	**-**	**-**	**-**
Tier 2 capital:				
Tier 2 capital instrument	216	247	249	247
Tier 2 capital	**216**	**247**	**249**	**247**
Total capital	**2,814**	**2,076**	**2,531**	**1,922**
Specification of risk exposure amount[3]				
Institutional exposures	563	364	435	276
Covered bonds	51	51	51	51
Household exposures	11,095	9,372	10,375	9,365
Exposures secured by mortgages on immovable property	80	-	80	-
Past due items	1,331	993	1,221	993
Other items	200	48	200	56
Total risk exposure amount for credit risk, Standardised Approach	**13,320**	**10,828**	**12,362**	**10,741**
Exchange rate risk	565	787	71	896
Total risk exposure amount for market risk	**565**	**787**	**71**	**896**
Operative risk according to alternative Standardized Method	912	800	882	800
Total risk exposure amount for operational risks	**912**	**800**	**882**	**800**
LEVERAGE RATIO				
Exposure measure for calculating leverage ratio	16,906	16,278	18,873	16,033
Leverage ratio	**15.37%**	**11.23%**	**12.09%**	**10.44%**

[1] Common Equity Tier 1 capital available for use as a buffer refers to Common Equity Tier 1 capital after deducting own funds used to meet the capital adequacy requirement according to Pillar 1. Expressed as a percentage of total risk exposure amount.

[2] Calculated dividend consists of estimated dividend for the period of 0 MSEK. The Swedish Financial Supervisory Authority (SFSA) has approved Nordax's application to include earnings in the capital base on the condition that the responsible auditor has reviewed the surplus, that the surplus has been calculated in accordance with applicable accounting rules, that predicted costs and dividends have been deducted in accordance with Regulation (EU) No 575/2013 and that the calculation has been made in accordance with Regulation (EU) No 241/2014.

[3] The capital requirement is 8% of the risk exposure amount pursuant to Regulation (EU) No 575/2013 (CRR).

[4] A reinterpretation has been made in the calculation of the capital base for the consolidated situation according to the consolidated rules for banking businesses. As a result, Nordax Bank's subordinated loans of 249 MSEK can only be included in the consolidated situation's capital base proportionate to the amount required to cover Nordax Bank's capital requirements. Consequently, eligible Tier 2 capital amounts to 216 MSEK.

[5] Nordax has notified the SFSA that the bank, at the consolidated and parent company level, will apply the transition rules according to article 473a in 2017/2395/EU, paragraphs 2 and 4. Table according to "Final report on the guidelines on uniform disclosure of IFRS 9 transitional arangements", EBA, 12 January 2018 is included in the information published according to del 8 in 575/2013/EU on the bank's website www.nordaxgroup.com.

Internal capital requirement

As of 31 December 2018, the internal capital assessed capital requirement amounted to 170 MSEK (160 as of 31 December 2017). The total capital requirement for the period amounts to 1,930 MSEK and are solely covered by CET 1. The internal capital requirement is estimated using Nordax's internal models for economic capital.

Information on liquidity risk

The Group defines liquidity risk as the risk of failing to fulfil payment obligations at maturity without a significant increase in the cost of obtaining means of payment. The Group uses asset-backed borrowing in which parts of the Group's asset portfolios are pledged as collateral for the loans. The Group's long-term strategy is to match lending assets with the maturities of liabilities. The strategy is aimed at achieving a diversified funding platform comprising equity, subordinated debt, asset backed securities ("ABS"), bank warehouse funding facilities, deposits from the general public and senior unsecured bonds.
The goal is to use funding sources which:

• Provide a high degree of matching – of currencies and interest periods as well as maturities – between assets and liabilities.
• Offer diversification in terms of markets, investors, instruments, maturities, currencies, counterparties and geography.
• Carry a low liquidity risk and offer a strong possibility of refinancing at maturity, as evidenced by price stability, regularity of issuance and a broad investor base.
• Provide access to relatively large volumes, to meet the funding requirements of a growing balance sheet.

The Group has an independent function for liquidity risk control. The function reports directly to the Board and CEO.

Liquidity risk is measured on a daily basis and reported to the Company's management. Liquidity risk is reported at each board meeting. Cash flows that are expected to arise from the liquidation of all assets, liabilities and off-balance sheet items are calculated. Key ratios from the balance sheet (such as the cash ratio, loan-to-deposit ratio, liquidity coverage ratio, net stable funding ratio and deposit usage) are calculated and monitored over time to illustrate the financial structure and the Group's liquidity risk. Liquidity risk is measured monthly under various scenarios and events (such as less favourable advance rates and changed cash flows) and specified separately and collectively.

The contingency plan contains a clear division of responsibilities and instructions on how the Group should respond in a liquidity crisis. The plan specifies appropriate actions to manage the consequences of various types of crises and contains definitions of events that trigger and escalate the contingency plan. The contingency plan has been tested and updated.

As of 31 December Nordax had a liquidity coverage ratio (LCR, EBA's definition) of 194 per cent (616). On the same date, the net stable funding ratio (NSFR) was 117 per cent (113), calculated in accordance with the Basel Committee's definition, which may be modified when introduced by the EU. LCR and NSFR are calculated based on the previous consolidated situation.

Nordax had a liquidity reserve at 31 December 2018 of 3,509 MSEK (2,610). Of these investments, 66 per cent (55) was in Nordic banks, 15 per cent (19) in Swedish covered bonds and 19 per cent (26) in Swedish municipal paper. All investments had a credit rating ranging from AAA to A+ from Standard & Poor's, with an average rating of AA (except 29 MSEK in exposure to Avanza Bank AB). The average maturity was 220 days (256). All bank holdings are highly liquid and all securities are repoable with central banks.

At 31 December 2018 Nordax's funding sources comprised 2,107 MSEK (3,074) through the asset-backed securities market (securitized), 487 MSEK (500) in senior unsecured bonds, 2,836 MSEK (3,130) in warehouse funding facilities provided by international banks and 11,260 MSEK (7,506) in deposits from the general public. The figures refer to the nominal amounts.

Note 5 Classification of financial assets and liabilities

GROUP

31 December 2018	Amortised cost	Fair value through profit and loss resultaträkningen	Fair value through comprehensive income	Total
Assets				
Lending to credit institutions	2,681	-	-	2,681
Lending to the general public	15,140	-	-	15,140
Bonds and other fixed-income securities	-	1,187	-	1,187
Total assets	**17,821**	**1,187**	**-**	**19,008**
Liabilities				
Liabilities to credit institutions	2,831	-	-	2,831
Deposits from the general public	11,278	-	-	11,278
Issued securities	2,581	-	-	2,581
Derivatives	-	-	-	-
Subordinated liabilties	249	-	-	249
Total liabilities	**16,939**	-	-	**16,939**

GROUP

31 December 2017	Financial instruments measured at fair value through profit and loss		Loans and receivables	Other financial liabilities	Total
	Held for trading	Designated at initial recognition			
Assets					
Lending to credit institutions	-	-	1,795	-	1,795
Lending to the general public	-	-	13,488	-	13,488
Bonds and other fixed-income securities	-	1,184	-	-	1,184
Derivatives	7	-	-	-	7
Total assets	**7**	**1,184**	**15,283**	**-**	**16,474**
Liabilities					
Liabilities to credit institutions	-	-	-	3,054	3,054
Deposits from the general public	-	-	-	7,511	7,511
Issued securities	-	-	-	3,547	3,547
Subordinated liabilties	-	-	-	247	247
Total liabilities	**-**	-	-	**14,359**	**14,359**

The classification of financial assets and liabilities is presented as per the second quarter according to IFRS 9 and the figures for 31 December 2017 have been reported according to IAS 39.

PARENT COMPANY

31 December 2018	Amortised cost	Fair value through profit and loss resul-taträkningen	Fair value through com-prehensive income	Total
Assets				
Lending to credit institutions	2,167	-	-	2,167
Lending to the general public	15,137	-	-	15,137
Bonds and other fixed-income securities	-	1,187	-	1,187
Total assets	**17,304**	**1,187**	**-**	**18,491**
Liabilities				
Deposits from the general public	11,278	-	-	11,278
Issued securities	487	-	-	487
Derivatives	249	-	-	249
Subordinated liabilties	0	-	-	-
Total liabilites	**12,014**	**-**	**-**	**12,014**

PARENT COMPANY

31 December 2017	Financial instruments measured at fair value through profit and loss		Loans and receivables	Other financial liabilities	Total
	Held for tra-ding	Designated at initial recogni-tion			
Assets					
Lending to credit institutions	-	-	1,365	-	1,365
Lending to the general public	-	-	13,480	-	13,480
Bonds and other fixed-income securities	-	1,184	-	-	1,184
Derivatives	7	-	-	-	7
Total assets	**7**	**1,184**	**14,845**	**-**	**16,036**
Skulder					
Deposits from the general public	-	-	-	7,511	7,511
Issued securities	-	-	-	498	498
Subordinated liabilties	-	-	-	247	247
Total liabilites	**-**	**-**	**-**	**8,256**	**8,256**

The classification of financial assets and liabilities is presented as per the second quarter according to IFRS 9 and the figures for 31 December 2017 have been reported according to IAS 39.

Note 6 Fair values of financial assets and liabilities

GROUP

31 December 2018	Carrying amount	Fair value	Delta
Assets			
Lending to credit institutions[1]	2,681	2,681	-
Lending to the general public[2,4]	15,140	19,669	4,529
Bonds and other fixed-income securities	1,187	1,187	-
Total assets	**19,008**	**23,537**	**4,529**
Liabilites			
Liabilities to credit institutions[1]	2,831	2,831	-
Deposits from the general public[2]	11,278	11,278	-
Issued securities[3]	2,581	2,583	2
Subordinated liabilties[3]	249	254	5
Total liabilities	**16,939**	**16,946**	**7**

GROUP

31 December 2017	Carrying amount	Fair value	Delta
Assets			
Lending to credit institutions[1]	1,795	1,795	-
Lending to the general public[2,4]	13,488	16,052	2,564
Bonds and other fixed-income securities	1,184	1,184	-
Derivatives	7	7	-
Total assets	**16,474**	**19,038**	**2,564**
Liabilites			
Liabilities to credit institutions[1]	3,054	3,054	-
Deposits from the general public[1]	7,511	7,511	-
Issued securities[3]	3,547	3,554	7
Subordinated liabilties[3]	247	260	13
Total liabilities	**14,359**	**14,380**	**21**

1 Fair value is deemed to be the same as the carrying amount, as these are of a short-term nature.
2 The measurement includes significant non-observable inputs.
3 Fair value data for issued securities and debenture loans are based directly or indirectly on quoted prices
4 Fair value data for lending to the general public is calculated after tax.

PARENT COMPANY

31 December 2018	Carrying amount	Fair value	Delta
Assets			
Lending to credit institutions[1]	2,167	2,167	-
Lending to the general public[2,4]	15,137	19,669	4,532
Bonds and other fixed-income securities	1,187	1,187	-
Total assets	**18,491**	**23,023**	**4,532**
Liabilites			
Deposits from the general public[1]	11,278	11,278	-
Issued securities[3]	487	487	
Subordinated liabilties[3]	249	254	5
Total liabilities	**12,014**	**12,019**	**5**

PARENT COMPANY

31 December 2017	Carrying amount	Fair value	Delta
Assets			
Lending to credit institutions[1]	1,365	1,365	-
Lending to the general public[2,4]	13,480	16,052	2,572
Bonds and other fixed-income securities	1,184	1,184	-
Derivatives	7	7	-
Total assets	**16,036**	**18,608**	**2,572**
Liabilites			
Deposits from the general public[1]	7,511	7,511	-
Issued securities[3]	498	498	-
Subordinated liabilties[3]	247	260	13
Total liabilities	**8,256**	**8,269**	**13**

1 Fair value is deemed to be the same as the carrying amount, as these are of a short-term nature.
2 The measurement includes significant non-observable inputs.
3 Fair value data for issued securities and debenture loans are based directly or indirectly on quoted prices
4 Fair value data for lending to the general public is calculated after tax.

Calculation of fair value

The fair values of financial instruments traded in an active market are based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices from an exchange, broker, industry group, pricing service or regulatory authority are easily and regularly available, and these prices represent actual and regularly occurring arm's length market transactions. The quoted market price used for the Group's financial assets is the current bid price. These instruments fall into Level 1.

The fair values of financial instruments not traded in an active market are determined with the help of valuation techniques. Market data is used as far as possible when such data is available. If all significant inputs required for the fair value measurement of an instrument are observable, the instrument falls into Level 2.

In cases where one or several significant inputs are not based on observable market information, the instrument is classified as Level 3.

The table below shows financial instruments at fair value based on the classification in the fair value hierarchy. The different levels are defined as follows:
• Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
• Inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly in the form of quoted prices or indirectly, i.e. derived from quoted prices (Level 2).
• Inputs for the asset or liability which are not based on observable market data (non-observable inputs) (Level 3).

In 2018 there have not been any transfers between the levels.

GROUP

31 December 2018	Level 1	Level 2	Level 3	Total
Assets				
Bonds and other fixed-income securities	562	625	-	1,187
Total assets	**562**	**625**	**-**	**1,187**

GROUP

31 December 2017	Level 1	Level 2	Level 3	Total
Assets				
Bonds and other fixed-income securities	509	676	-	1,184
Derivatives	-	7	-	7
Total assets	**509**	**682**	**-**	**1,191**

PARENT COMPANY

31 December 2018	Level 1	Level 2	Level 3	Total
Assets				
Bonds and other fixed-income securities	562	625	-	1,187
Total assets	**562**	**625**	**-**	**1,187**

PARENT COMPANY

31 December 2017	Level 1	Level 2	Level 3	Total
Assets				
Bonds and other fixed-income securities	509	676	-	1,184
Derivatives	-	7	-	7
Total assets	**509**	**682**	**-**	**1,191**

Note 7 Operating segments

Segment information is presented based on the chief operating decision-maker's perspective, and the segments are identified based on the internal reporting to the CEO, who is identified as the chief operating decision-maker. Nordax has the following operating segments: Sweden, Norway, Finland, Denmark and Germany, which reflects Nordax's lending portfolio. Profit/loss that cannot be attributed to a single segment is allocated using a distribution matrix according to internal principles that management believes to provide a fair allocation to the segments.

Q4 2018	Sweden	Norway	Denmark	Finland	Germany	TOTAL
Income statement						
Interest income[1]	129	151	1	107	26	414
Interest expenses	-17	-36	0	-14	-4	-71
Total net interest income	**112**	**115**	**1**	**93**	**22**	**343**
Commission income	2	2	0	0	0	4
Net profit from financial transactions	-1	-19	0	-16	25	-11
Total operating income	**113**	**98**	**1**	**77**	**47**	**336**
General administrative expenses	-53	-42	-1	-27	-10	-133
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	-1	-2	0	-1	-1	-5
Other operating expenses	-19	-11	0	-8	-2	-40
Total operating expenses	**-73**	**-55**	**-1**	**-36**	**-13**	**-178**
Profit before credit losses	**40**	**43**	**0**	**41**	**34**	**158**
Net credit losses	-34	-39	1	-21	-11	-104
Operating profit	**6**	**4**	**1**	**20**	**23**	**54**
Balance sheet						
Lending to the general public	**5,422**	**4,951**	**56**	**3,702**	**1,009**	**15,140**

Q3 2018	Sweden	Norway	Denmark	Finland	Germany	TOTAL
Income statement						
Interest income[1]	122	152	1	104	28	407
Interest expenses	-20	-32	-1	-15	-4	-72
Total net interest income	**102**	**120**	**0**	**89**	**24**	**335**
Commission income	1	1	0	1	0	3
Net profit from financial transactions	-1	14	1	-30	31	15
Total operating income	**102**	**135**	**1**	**60**	**55**	**353**
General administrative expenses	-37	-29	-1	-16	-8	-91
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	-4	-1	0	-1	0	-6
Other operating expenses	-13	-11	0	-7	-2	-33
Total operating expenses	**-54**	**-41**	**-1**	**-24**	**-10**	**-130**
Profit before credit losses	**48**	**94**	**0**	**36**	**45**	**223**
Net credit losses	-27	-33	1	-24	-19	-102
Operating profit	**21**	**61**	**1**	**12**	**26**	**121**
Balance sheet						
Lending to the general public	**4,965**	**5,265**	**66**	**3,596**	**1,062**	**14,954**

Q4 2017	Sweden	Norway	Denmark	Finland	Germany	TOTAL
Income statement						
Interest income[1]	118	144	1	82	25	370
Interest expenses	-17	-33	0	-13	-4	-67
Total net interest income	**101**	**111**	**1**	**69**	**21**	**303**
Commission income	2	2	0	0	0	4
Net profit from financial transactions	0	-11	0	0	1	-10
Total operating income	**103**	**102**	**1**	**69**	**22**	**297**
General administrative expenses	-26	-29	0	-15	-5	-74
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	-4	-2	0	0	0	-6
Other operating expenses	-7	-8	0	-6	-5	-26
Total operating expenses	**-37**	**-39**	**0**	**-21**	**-10**	**-106**
Profit before credit losses	**66**	**63**	**1**	**48**	**12**	**191**
Net credit losses	-13	-42	-1	3	-9	-62
Operating profit	**53**	**21**	**0**	**51**	**3**	**129**
Balance sheet						
Lending to the general public	**4,685**	**4,806**	**87**	**2,917**	**993**	**13,488**

Q1-Q4 2018	Sweden	Norway	Denmark	Finland	Germany	TOTAL
Income statement						
Interest income[1]	487	598	4	397	109	1,595
Interest expenses	-69	-131	-1	-53	-16	-270
Total net interest income	**418**	**467**	**3**	**344**	**93**	**1,325**
Commission income	9	5	0	4	0	18
Net profit from financial transactions	-2	17	1	33	-12	37
Total operating income	**425**	**489**	**4**	**381**	**81**	**1,380**
General administrative expenses	-154	-135	-3	-86	-33	-411
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	-10	-7	0	-4	-2	-23
Other operating expenses	-46	-42	0	-31	-18	-137
Total operating expenses	**-210**	**-184**	**-3**	**-121**	**-53**	**-571**
Profit before credit losses	**215**	**305**	**1**	**260**	**28**	**809**
Net credit losses	-95	-141	3	-76	-71	-380
Operating profit	**120**	**164**	**4**	**184**	**-43**	**429**
Balance sheet						
Lending to the general public	**5,422**	**4,951**	**56**	**3,702**	**1,009**	**15,140**

Q1-Q4 2017	Sweden	Norway	Denmark	Finland	Germany	TOTAL
Income statement						
Interest income[1]	462	593	6	300	94	1,455
Interest expenses	-63	-142	-1	-41	-14	-261
Total net interest income	**399**	**451**	**5**	**259**	**80**	**1,194**
Commission income	9	7	0	3	0	19
Net profit from financial transactions	0	-25	0	-1	2	-24
Total operating income	**408**	**433**	**5**	**261**	**82**	**1,189**
General administrative expenses	-90	-114	-3	-58	-24	-289
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	-13	-8	0	-2	-1	-24
Other operating expenses	-32	-36	0	-31	-29	-127
Total operating expenses	**-135**	**-158**	**-3**	**-91**	**-54**	**-440**
Profit before credit losses	**273**	**275**	**2**	**170**	**28**	**749**
Net credit losses	-61	-106	0	-6	-36	-209
Operating profit	**212**	**169**	**2**	**164**	**-8**	**540**
Balance sheet						
Lending to the general public	**4,685**	**4,806**	**87**	**2,917**	**993**	**13,488**

[1] Interest income refers to revenues from external customers.
[2] Nordax open currency positions to protect capital adequacy relations from exchange rate fluctuations are replaced by derivatives. The effect of currency movements on regulatory capital that had a corresponding effect on the net profit from financial transactions in the income statement will further on be close to 0.

Note 8 Pledged assets

All amounts are in MSEK	GROUP 31 DECEMBER 2018	GROUP 31 DECEMBER 2017	PARENT COMPANY 31 DECEMBER 2018	PARENT COMPANY 31 DECEMBER 2017
Pledged assets for own liabilities				
Lending to the general public	7,361	9,130	-	-
Lending to credit institutions	515	427	-	-
Total	**7,876**	**9,558**	**-**	**-**

Pledged assets relate to subsidiary securitisation.
The Group has no contingent liabilities or commitments.

Note 9 Transactions with related parties

The Group did not have any transactions with related parties during the period.

Note 10 Important events after the balance sheet date

In January 2019 Nordax finalized the acquisition of Svensk Hypotekspension AB, experts in so-called equity release mortgages. Through the Hypotekspension® product, the Swedish pensioners with equity tied up in their homes are offered an opportunity to free up this capital without having to sell the home. Svensk Hypotekspension AB thereby became a wholly owned subsidiary of Nordax Bank.

Through the acquisition, Nordax strengthens its position as a challenger in the mortgage market. As with Nordax's mortgage offer, which was launched in 2018, Svensk Hypotekspension meets an important and growing customer need, where an increasing number of creditworthy customers do not fit into the standardized credit assessments of the major banks.

At year-end Svensk Hypotekspension's total lending amounted to just over SEK 4 billion divided among nearly 6,000 customers (households).

Note 11 Changes in reporting in the Parent Company

Changes in reporting for the Parent Company, Nordax Bank AB, stem from discussions on an accounting adjustment according to article 17 of IAS 39. As a result, the Parent Company Nordax Bank AB has now assumed the credit risk from the subsidiaries. The change affects loans where the risk has not been assumed in its entirety after the sale of the loans to the subsidiaries in connection with securitisation. Thus, the loans are still reported in the Parent Company. The adjustment has no impact on capital adequacy or reporting for the Group in Nordax Bank AB and solely refers to the Parent Company, Nordax Bank AB. Nordax considers the change a correction of an error in accordance with IAS 8 and not a change in accounting policies in previously published quarterly reports and annual reports. The change means that lending to the public increases in the Parent Company and that all items attributable to the securitization are also reported in the Parent Company, as specified below. The change was implemented on 1 October 2017.

All amounts are in MSEK	Before adjustments Q4 2017	Adjustments	After adjust-ments Q4 2017
Income statement			
Interest income	133	238	371
Interest expenses	-46	-238	-284
Total net interest income	87	0	87
Commission income	1	0	1
Net profit from financial transactions	-9	-1	-10
Other operating income	167	51	218
Total operating income	245	51	296
Operating expenses			
General administrative expenses	-73	1	-72
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	-3	0	-3
Other operating expenses	-23	-1	-24
Total operating expenses	-99	0	-99
Profit before credit losses	146	51	197
Net credit losses	-11	-51	-62
Operating profit	135	0	135
Tax on profit for the period	-32	0	-32
Net profit for the period	103	0	103

All amounts are in MSEK	Before adjustments Jan-Dec 2017	Adjustments	After adjust-ments Jan-Dec 2017
Income statement			
Interest income	741	720	1,461
Interest expenses	-393	-720	-1,113
Total net interest income	348	0	348
Commission income	5	0	5
Net profit from financial transactions	-23	0	-23
Other operating income	700	157	857
Total operating income	1,030	157	1,187
Operating expenses			
General administrative expenses	-280	0	-280
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	-12	0	-12
Other operating expenses	-126	-1	-127
Total operating expenses	-418	-1	-419
Profit before credit losses	612	156	768
Net credit losses	-53	-156	-209
Operating profit	559	0	559
Tax on profit for the period	-127	0	-127
Net profit for the period	432	0	432

All amounts are in MSEK	Before adjustments 31 December 2017	Adjustment	After adjustments 31 December 2017
ASSETS			
Lending to credit institutions	1,365	-	1,365
Lending to the general public	4,292	9,188	13,480
Bonds and other fixed-income securities	1,184	-	1,184
Shares in subsidiaries	115	-113	2
Tangible assets	6	-	6
Intangible assets	27	-	27
Other assets	4,168	-4,112	56
Prepaid expenses and accrued income	23	-	23
TOTAL ASSETS	11,180	4,963	16,143
LIABILITIES, PROVISIONS AND EQUITY			
Liabilities			
Liabilities to credit institutions	-	-	-
Deposits from the general public	7,511	-	7,511
Issued securities	498	-	498
Liabilities to securitisation firms	631	4,963	5,594
Current tax liability	55	-	55
Deferred tax liability	24	-	24
Other liabilities	146	-	146
Accrued expenses and deferred income	49	-	49
Subordinated liabilities	247	-	247
Total liabilities	9,161	4,963	14,124
Equity			
Share capital	50	-	50
Other reserves	7	-	7
Other funds	19	-	19
Retained earnings, incl. profit for the year	1,943	-	1,943
Total equity	**2,019**	**-**	**2,019**
TOTAL LIABILITIES, PROVISIONS AND EQUITY	**11,180**	**4,963**	**16,143**

Financial Calendar

Week 15 - Annual Report for Nordax Bank AB will be published.

Definitions

The Group considers the key figures to be relevant to users of the financial report as a complement in assessing the financial performance of the Group.

Adjusted operating income[1]
Total operating income excluding foreign exchange gains/losses.

Adjusted cost to income ratio (C/I ratio) [1]
Adjusted operating expenses excluding marketing costs as a percentage of adjusted operating income. The adjusted cost to income ratio is presented on a 12-month rolling basis.

Adjusted operating expenses[1]
Total operating expenses excluding amortization of acquired intangible assets and non-recurring items

Adjusted operating profit [1]
Operating profit excluding amortization of acquired intangible assets, foreign exchange gains/losses and non-recurring items.

Adjusted profit[1]
Profit excluding amortization of acquired intangible assets, foreign exchange gains/losses and non-recurring items as well as the tax effect thereof.

Adjusted return on average net loans[1]
Adjusted operating profit as a percentage of average loan portfolio. Return on average net loans is presented on a 12-month rolling basis

Adjusted return on tangible equity[1]
Adjusted net profit in relation to average tangible equity on a 12-month rolling basis

Average loan portfolio
The average of lending to the general public at the beginning of the period and the end of the period.

C/I ratio
Operating expenses as a percentage of operating income

Common Equity Tier 1 capital [2]
Shareholders' equity excluding proposed dividend, deferred tax assets, intangible assets and certain other regulatory adjustments defined in Regulation (EU) No 575/2013 (CRR).

Common Equity Tier 1 capital ratio[2]
Common Equity Tier 1 capital as a percentage of risk exposure amount.

Credit loss level
Net credit losses as a percentage of average lending to the public.

Earnings per share
Net profit attributable to the shareholders in relation to the average number of shares.

Leverage ratio[2]
Tier 1 capital as a percentage of total assets including off-balance-sheet items with conversion factors defined in Regulation (EU) No 575/2013 (CRR).

Liquidity Coverage Ratio (LCR)[2]
High-quality liquid assets in relation to estimated net cash outflows over the next 30 calendar days, as defined by Swedish regulations (SFSA code FFFS 2012:6).

Liquidity reserve
A separate reserve of high-quality liquid assets that can be used to secure the company's short-term ability to pay for losses or in the event of reduced access to commonly available funding sources.

Net interest margin
Total net interest income as a percentage of the average loan portfolio.

Own funds[2]
The sum of Tier 1 and Tier 2 capital.

Return on equity
Net profit attributable to the shareholders in relation to average shareholders' equity

Risk exposure amount[2]
Total assets and off balance sheet items, weighted in accordance with capital adequacy regulation for credit and market risks. Operational risks are measured and added as risk exposure amount.

Tangible equity
Shareholders' equity less intangible assets.

Tier 1 capital ratio[2]
Tier 1 capital as a percentage of the risk exposure amount.

Tier 1 capital[2]
Common Equity Tier 1 capital plus qualifying forms of subordinated loans.

Tier 2 capital[2]
Mainly subordinated loans that do not qualify as Tier 1 capital.

Total capital ratio[2]
Total own funds as a percentage of the risk exposure amount

1 The adjusted numbers are presented to show the underlying performance of the business
2 These are reported with respect SFSA´s regulations and general recommendations see note 4, capital adequacy analysis.

Board of Directors' affirmation

The Board of Directors declares that the interim report for January-December 2018 provides a fair overview of the Parent Company's and the Group's operations, financial position and results and describes material risks and uncertainties facing the Parent Company and the Group

Stockholm February 21 2019

Hans-Ole Jochumsen	**Christopher Ekdahl**	**Christian Frick**
Chairman	Non-Executive Director	Non-Executive Director
Heikki Kapanen	**Henrik Källén**	**Ville Talasmäki**
Non-Executive Director	Non-Executive Director	Non-Executive Director