Nordea

# Annual Report 2018

Nordea Hypotek AB (publ)

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# Board of Directors’ report

The Board of Directors and the President of Nordea Hypotek AB (publ) (corp. id no. 556091–5448), hereby present the Annual Report for 2018. The company is a wholly owned subsidiary of Nordea Bank Abp (corp. id no. 2858394-9).

# 5 year overview

## Income statement

| SEKm | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Net interest income | 7,667 | 8,786 | 7,828 | 6,687 | 5,393 |
| Net fee and commission income | –10 | 4 | 18 | 23 | –76 |
| Net result from items at fair value | –160 | –283 | –145 | –140 | –130 |
| **Total operating income** | **7,497** | **8,507** | **7,701** | **6,570** | **5,187** |
| General administrative expenses: | | | | | |
| - Staff costs | –27 | –26 | –10 | –7 | –7 |
| - Other expenses | –1,140 | –1,477 | –521 | –511 | –490 |
| **Total operating expenses** | **–1,167** | **–1,503** | **–531** | **–518** | **–497** |
| **Profit before loan losses** | **6,330** | **7,004** | **7,170** | **6,052** | **4,690** |
| Net loan losses | –37 | –11 | –9 | –22 | –52 |
| **Operating profit** | **6,293** | **6,993** | **7,161** | **6,030** | **4,638** |
| Income tax expense | –1,389 | –1,551 | –1,575 | –1,326 | –1,020 |
| **Net profit for the year** | **4,904** | **5,442** | **5,586** | **4,704** | **3,618** |

## Balance sheet

| SEKm | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Loans to credit institutions | 5,299 | 7,274 | 3,274 | 2,602 | 91 |
| Loans to the public | 548,759 | 536,933 | 531,061 | 500,852 | 474,904 |
| Interest-bearing securities | 21,084 | — | — | — | — |
| Derivatives | 4,762 | 6,176 | 9,642 | 9,792 | 13,297 |
| Fair value changes of he hedged items in portforlio hedge of interest rate risk | 20 | –71 | –26 | 57 | 563 |
| Current tax assets | 29 | 342 | 87 | 153 | 358 |
| Other assets | 2,798 | 1,154 | 2,466 | 2,485 | 1,476 |
| Prepaid expenses and accrued income | 691 | 698 | 644 | 550 | 437 |
| **Total assets** | **583,442** | **552,506** | **547,148** | **516,491** | **491,126** |
| **Liabilities** | | | | | |
| Deposits by credit institutions | 222,065 | 194,469 | 168,609 | 157,977 | 150,702 |
| Debt securities in issue | 324,984 | 319,801 | 336,900 | 320,934 | 301,859 |
| Derivatives | 351 | 498 | 686 | 1,715 | 1,463 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 3,721 | 4,796 | 6,936 | 6,450 | 9,998 |
| Other liabilities | 7,021 | 7,833 | 6,912 | 6,747 | 5,847 |
| Accrued expenses and prepaid income | 40 | 39 | 39 | 171 | 163 |
| Deferred tax liabilities | 6 | 15 | 155 | 139 | 89 |
| Provisions | 4 | — | — | — | — |
| Subordinated liabilities | 800 | 1,800 | 3,101 | 4,702 | 4,703 |
| Equity | 24,450 | 23,255 | 23,810 | 17,655 | 16,302 |
| **Total liabilities and equity** | **583,442** | **552,506** | **547,148** | **516,491** | **491,126** |

# Ratios and key figures

| SEKm | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Return on average shareholders equity, % | 19.6 | 21.7 | 24.9 | 26.2 | 21.0 |
| Return on assets, % | 0.8 | 1.0 | 1.0 | 0.9 | 0.7 |
| Investment margin, %[1] | 1.5 | 1.6 | 1.4 | 1.3 | 1.1 |
| Cost/income ratio, % | 15.6 | 17.8 | 7.0 | 8.2 | 10.6 |
| Risk-weighted exposure amount, SEKm[3,4] | 161,402 | 37,362 | 34,362 | 34,765 | 35,234 |
| Capital base, SEKm[1] | 25,120 | 24,899 | 26,176 | 21,795 | 20,536 |
| Total capital ratio, %[2,3,4] | 15.6 | 8.9 | 9.6 | 8.6 | 8.7 |
| Tier 1 capital ratio, %[2,3,4] | 15.1 | 8.3 | 8.5 | 6.7 | 6.7 |
| Average number of employees (recalculated to FTEs) | 20 | 22 | 5 | 3 | 3 |

1) The comparative figures for 2015 have been restated, for more information see Note 1 "Accounting Policies".
2) Including profit for the period.
3) Change compared to the previous year as the risk weight floor has moved from Pillar II to Pillar I, due to the re-domiciliation of the Parent Company to Finland.
4) Basel I floor is not applicable for 2018, due to the re-domiciliation of the Parent Company to Finland. The comparative figures have not been restated.

# Definitions

| | |
|---|---|
| **Return on average shareholders' equity** | Net profit for the year as percentage of equity, quarterly average. |
| **Return on assets** | Net profit for the year as a percentage of total assets at end of the year. |
| **Cost/income ratio** | Total operating expenses divided by total operating income. |
| **Capital base** | The capital base consitutes the numerator in calculating the capital ratio. It consists of the sum of tier 1 capital (equity) and supplementary capital (subordinated debenture loans). |
| **Total capital ratio** | Capital base as a percentage of risk-weighted amounts. |
| **Investment margin** | Net interest income as a percentage of average total assets, monthly average. |
| **Tier 1 capital ratio** | Tier 1 capital as a percentage of risk-weighted amounts. |
| **Risk-weighted amount** | Total assets as shown in balance sheet and off-balance-sheet items valued on the basis of credit and market risks in accordance with regulations governing capital adequacy. |

# Our operations 2018

## Operations

The Company operates in the Swedish market and grants loans, primarily long-term in nature, to households, sole business proprietors, municipalities and other legal entities through the parent bank's distribution network. The purpose of the lending is primarily to finance properties, tenant-owned apartments, agriculture and forestry, and municipal operations. The key emphasis is on financing homes. Collateral consists mainly of mortgages on residential properties and tenant-owned apartments, or municipal guarantees.

## Profit/loss

Operating profit amounted to SEK 6,293m (6,993), which is a decrease of 10.0% from the previous year. When comparing earnings with the previous year, account should mainly be taken of the following major items affecting comparability:

- Net interest income amounted to SEK 7,667m (8,786); a decrease of 12.7%. The decrease in net interest income can primarily be explained by lower average lending margins and higher funding costs, due to factors such as maturities on intragroup loans during the year having been extended to meet tightened legal liquidity requirements.
- The net result from items at fair value rose by SEK 123m. This is chiefly attributable to financial instruments under hedge accounting, which positively affected the item by SEK 74m, lower premature loan redemption penalties, which had a negative impact on the item in the amount of SEK 10m, and to the repurchase of issued bonds entered at amortised cost, which had a positive effect of SEK 60m on the item.
- Net commission income declined by SEK 14m, primarily explained by reduced commission income related to lending and increased commission expense related to funding.
- The volume of loans past due that are not classified as impaired amounted to 0.08% (0.07) for household lending, and to 0.24% (0.52) for corporate lending.
- Credit losses amounted to a net SEK -38m (-11), of which SEK -23m is entirely attributable to one corporate exposure and SEK -15m is related to household lending.
- Return on equity, after standard tax, was 19.6% (21.7).
- Operating expenses at the end of the year were SEK 1,167m (1,503), decrease of SEK 336m compared to 2017. This is mainly due to the fact that costs for Personal Banking decreased during the year, mainly driven by lower costs for the branch network and the fact that more loan applications are now processed online and through the Mortgage Centre. Also, an upward adjustment was made to the amount of remuneration to Personal Banking of approximately SEK 73m concerning 2016 in the first quarter of 2017.

## Loans

Lending to the public increased during the year by 2.2% (1.1) to SEK 548,759m (536,933) at year-end.

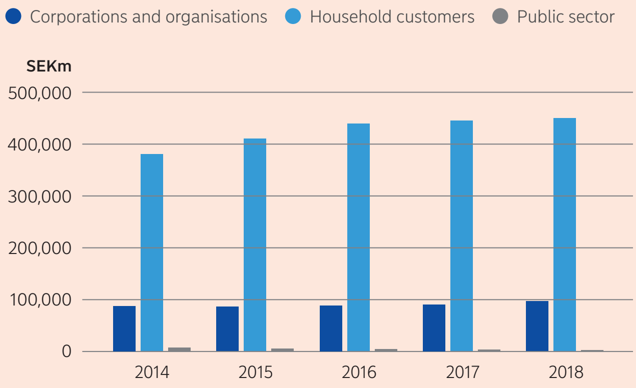
### Lending to companies, organisations and municipalities

Lending to legal entities increased by SEK 6,428m (6.9%) to SEK 99,026m (92,599) at the end of the financial year.

### Household lending

Household lending increased by SEK 5,398m (1.2%) to SEK 449,733m (444,335) at year-end.

**Distribution of the loan portfolio**




## Net loan losses

New incurred and expected losses exceeded recoveries of impaired claims and reversals of provisions in previous years to a net amount of SEK -38m (-11).

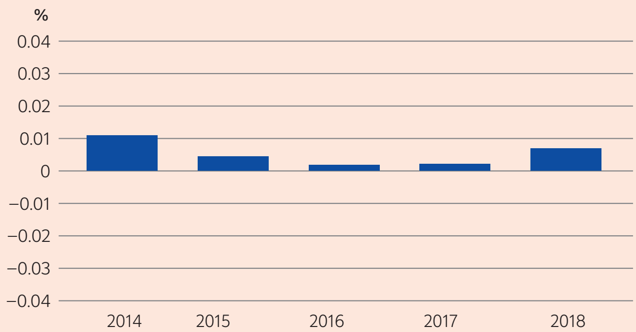
### Foreign exchange risk

The Company's policy is to hedge foreign exchange risk exposure. Liabilities are essentially hedged through FX swaps.

### Funding

In 2018, all long-term funding, with the exception of subordinated debenture loans, was in the form of covered bonds. A covered bond is a funding instrument, regulated under the Covered Bonds (Issuance) Act (SFS 2003:1223), which gives investors special priority in the event the borrower's bankruptcy. Covered bonds may only be issued upon special permission from the Financial Supervisory Authority and on the basis of high-quality assets. Covered bonds and received

**Net loan losses in relation to lending**




credit ratings provide the Company with access to a broader base of funding sources.

In the Swedish market, in 2018 the Company issued bonds with maturities exceeding one year to the amount of SEK 93.6bn (39.1), of which SEK 90.6bn was fixed-rate and SEK 3bn was floating-rate. The issues take place regularly in existing and new series, with the majority being so-called benchmark bonds. In 2018 the Company held agreements with five banks regarding the distribution of the bonds in the benchmark series. During the year the Company did not issue any subordinated debenture loans (0.0).

Total outstanding covered bonds at year-end amounted to a nominal SEK 316.6bn (310.5). In addition, the Company had outstanding subordinated debenture loans of SEK 0.8bn (1.8).

Besides long-term funding as above, the Company regularly arranged short-term funding with the Parent Company during the year. At the end of the year the outstanding amount from such funding was SEK 222.1bn (194.6).

## Rating

The Company is 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.

## Counterparty risk and exposures

In total, risk-weighted assets for counterparty risk amounted to SEK 1,368m (0). The reason for the large increase from 2017 is that the risk weight on internal exposures increased from 0 to 20% due to the re-domiciliation of the Parent Company to Finland. Until a new authorisation has been obtained from the ECB, the risk weight on internal exposures will be 20%. The risk-weighted assets for other off-balance sheet exposures were SEK 1,888m (1,354) and chiefly relate to credit commitments.

## Derivatives

Derivative instruments primarily pertain to interest payment exchange contracts (rate swaps) and forward currency exchange contracts (FX swaps). The item "Derivative instruments" in the balance sheet recognises derivative contracts at fair value. The nominal value of derivative contracts is provided in Note 12.

## Capital adequacy

Since 1 January 2014, Basel III has applied in the EU. It is described in detail in the section Risk, Liquidity and Capital Management. The section also provides numerical data for assessing Nordea Hypotek's capital adequacy.

## CSR

In accordance with the Nordea Group's Corporate Social Responsibility (CSR), Nordea Hypotek is committed to sustainable development by combining financial activity with responsibility for the environment and society. During the year, Nordea Hypotek launched green mortgages to retail customers with attractive pricing, to reward customers who own homes that are classed as energy-efficient. Further information about how the Nordea Group works with CSR is available at www.nordea.com, where Nordea publishes its Sustainability Report.

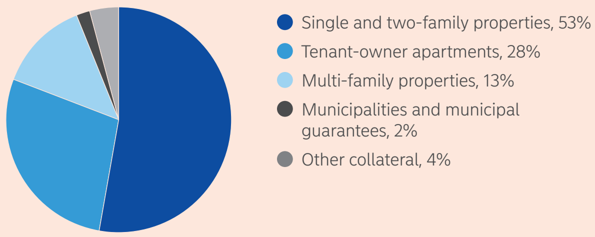
## Legal proceedings

There are no outstanding disputes or legal proceedings in which material claims have been lodged against the Company.

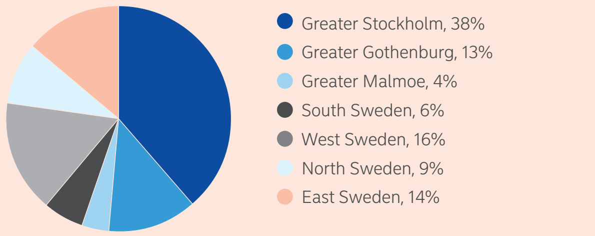
## 2019 outlook

In line with market practice, Nordea Hypotek has decided not to publish any forecasts for 2019.

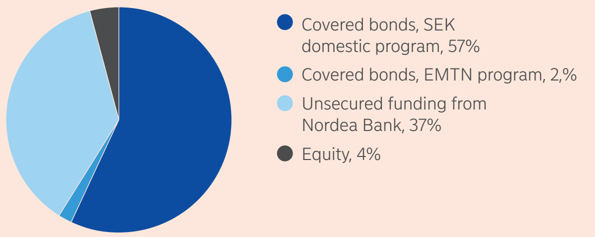
### Breakdown of lending by collateral




### Geographical distribution of loans in the covered pool




### Nordea Hypotek's funding structure




## Corporate governance

The Company has chosen to prepare a separate corporate governance report. It will be available at www.nordea.com.

## Change in the Board of Directors

Anna Storåkers, Head of Personal Banking SE left the Board in September 2018. Nicklas Ilebrand, Head of Products in Personal Banking, replaced Anna Storåkers as Chairman of the Board.

For further information about personnel matters, see Note 6 "Staff costs" and Note 29 "Related party transactions".

## Substantial changes after the end of the financial year

No major events have occurred since 31 December 2018.

## Distribution of earnings

After the Company has paid group contributions of SEK 4,719,545,013, profit for the year of SEK 4,904,197,886 and retained earnings of SEK 19,423,698,306 as well as other reserves of SEK 12,411,875, are available for distribution by the annual meeting of shareholders. The proposed distribution of earnings is provided in Note 31 on page 65.

# Risk, liquidity and capital management

## The Company's organisational structure

### Part of the Nordea Group

Nordea Hypotek is a wholly owned subsidiary of Nordea Bank Abp ("the Bank") and does not have its own subsidiaries or ownership in other companies. The Company's business is conducted in close integration with the Bank and its branch business in Sweden. Through outsourcing agreements between the Company and the Bank, all credit decisions are delegated to the Bank within the bounds of the credit instructions decided by the Company's Board of Directors and other internal and external rules and regulations.

Different units within the Bank conduct, according to outsourcing agreements, on the Company's behalf, sale, funding, accounting and reporting, allocation of the Company's capital in accordance with prevailing regulations, IT system administration, internal credit and quality control, credit administration, vault management and HR functions.

The Company's business consists of being the product-responsible unit (PRU), which entails responsibility for, and ownership of, the mortgage process with related products, a number of other loan products and requisite related systems/applications. Through the close cooperation with the Bank, it has been possible to limit the workforce of the Company to comprise only requisite staff for product and system development, management, risk management as well as analysis- and information-related work. As at year end, the Company has 20 employees (22).

### Funding the Company's business

The Company funds its business by issuing bonds in both Sweden and abroad. The Company also obtains funding from the Bank. The Company is authorised by Finansinspektionen (the Swedish financial supervisory authority) to issue covered bonds under the Covered Bonds (Issuance) Act (2003:1223). All of the Company's bond loans outstanding as at year end have the status of covered bonds. The Company may, if so required, issue new bond loans with or without covered bond status.

### The Company's administrative and management body

#### The Board of Directors

The composition of the Board of Directors is as follows:

- Nicklas Ilebrand (born 1980), Chairman, Head of Products at Nordea Bank Abp
- Peter Dalmalm (born 1968), Deputy Chairman, Head of Business Banking Sweden at Nordea Bank Abp
- Nils Lindberg (born 1947). Senior Partner Ekonans AB. Formerly Senior Advisor and CFO of Pandox AB (publ). Thirteen years of prior experience as Senior Vice President
- Maria Härdling (born1972), Head of Analytics in Treasury & Asset Liability Management (TALM), Nordea Bank Abp
- Elisabeth Olin (born 1961), Head of Business Risk Management Personal Banking Sweden at Nordea Bank Abp
- Michael Skytt (born 1959), Managing Director, Nordea Hypotek AB (publ.)

#### Executive management

- Chief Executive Officer – Michael Skytt (born 1959)
- Chief Operating Officer/Deputy CEO – Lena Sjöberg Svensson (born 1964)
- Head of Credit – Lars Andersson (born 1959)
- Chief Financial Officer – Johan Arenander (born 1967)
- Chief Risk Officer – Mats Bergström (born 1981)
- Representative from Group Compliance – Fredrik Andersson (born 1979)

The address of the executive management's office is as follows: Nordea Hypotek AB (publ), L 8300, 105 71 Stockholm. Correspondence to Board members can be sent to the aforementioned address.

#### *Conflicts of interest*

The aforementioned persons are or may become customers and be granted mortgage loans with the Company. As far as the Company is aware, there are no conflicts between the Company's interests and the private interests of the aforementioned persons.

In order to avoid conflicts of interest and demonstrate how an individual shall act in the event of a conflict of interest, several guidelines established by the Nordea Group apply at the Company, such as ethical guidelines, guidelines for employee engagements beyond their position with the bank, and rules for employees' securities and foreign exchange dealings. In addition, Board members are subject to the rules regarding bias stipulated by the Swedish Companies Act.

#### Auditors

Öhrlings PricewaterhouseCoopers AB (re-elected by the AGM 2017). The Chief Auditor is Catarina Ericsson, member of the Swedish Association of Authorised Public Accountants (FAR).

#### Independent auditor

Finansinspektionen has appointed Jan Palmqvist, Deloitte AB, as independent auditor of the Company in accordance with the Covered Bonds (Issuance) Act (2003:1223). The term of the appointment runs from 1 January 2016 to 1 March 2019, when Malin Lüning, Deloitte AB, will take over the assignment.

## The Company's risk management

Maintaining risk awareness in the organisation is engrained in the Nordea Group's business strategies. Nordea Hypotek has clear risk, liquidity and capital management frameworks, including policies and instructions for different risk types, capital adequacy and capital structure.

### Management principles and control

#### The Board of Directors

The Board of Directors has the ultimate responsibility for deciding on Nordea Hypotek's risk appetite, for all risk types, and for setting capital adequacy targets. The Board of Directors is also responsible for the risk strategy, setting the overall risk appetite limits and overseeing that Nordea Hypotek has an adequate and effective Internal Control Framework. The Board of Directors also decides on the Company directives on risk and on risk appetite as well as the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP).

Risk is measured, managed and reported according to common principles further covered by Company instructions approved by the Managing Director or the Board of Directors. Nordea Hypotek has delegated powers-to-act to Nordea Bank to decide on authorisations regarding credit decisions. In the Company directive on risk, powers-to-act for the Business Areas' most important credit committees are regulated. These powers-to-act vary for different decision-making levels, mainly in terms of the size of limits but also depending on the internal risk categorisation of customers.

### The responsibility of the Managing Director and management

Nordea Hypotek's senior management (the management) consists of the Managing Director, Chief Operating Officer (COO), Credit Manager, Chief Financial Officer (CFO), Chief Risk Officer (CRO) and a Compliance Officer appointed by Group Compliance in accordance with outsourcing agreements. The Managing Director has the overall responsibility for developing and maintaining effective risk, liquidity and capital management principles and control of Nordea Hypotek. The management has established a specific forum, the Non-Financial Risk Forum (headed by the COO), and a specific committee, the Finance Committee, as support in matters within their respective areas of expertise.

The Managing Director and management regularly inspect risk exposure reports and prepare important matters regarding risks, financial operations and balance sheet for decisions by the Managing Director or Board of Directors. The management furthermore decides, within the scope of resolutions adopted by the Board of Directors, on the allocation of credit risk limits, market risk limits as well as the liquidity risk limits for the risk-taking units. These risk limits are based on the risk appetite adopted by the Board of Directors.

### Governance of risk management and compliance

The Risk Management and Control (RMC) function and – according to outsourcing agreements – Group Compliance, are the second line of defence. RMC receives, according to an outsourcing agreement, support from Group Risk Management & Control (GRMC) of the Nordea Group in the performance of their duties. The flow of information regarding risks from the risk-taking units to the Board of Directors goes through the management. Reporting from Group Compliance is presented directly to the Board of Directors and is also discussed in the Subsidiary Audit Committee.

The flow of information starts with GRMC and CRO, which monitor and analyse information on the respective risk type. The risks are presented and discussed within the management and, if so needed, in existing forums or committees. Information about risk status is then presented to the Board of Directors.

Group Compliance adds value to Nordea Hypotek and its stakeholders by providing an independent view on compliance with applicable rules and regulations, based to a great extent on conducted monitoring activities. Furthermore, Group Compliance advises and supports the first line of defence on ways to effectively and efficiently manage compliance obligations.

### Risk appetite

Risk appetite at Nordea Hypotek is defined as the level and nature of risk that the Bank is willing to assume within the risk capacity, and in line with its business model, to achieve its strategic objectives. Risk appetite is defined by constraints reflecting the views of shareholders, debt holders, regulators and other stakeholders.

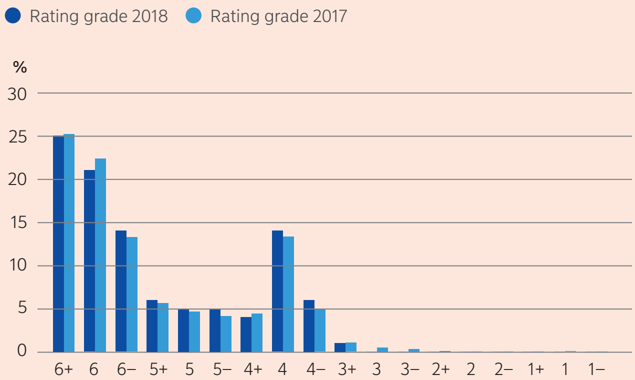
The Board of Directors is ultimately responsible for the risk strategy and Risk Appetite Framework, and for adopting and following up on Nordea Hypotek's actual and future risk appetite and risk strategy.

Nordea Hypotek's RAF refers to the overall approach, including the internal rules framework, processes, controls, and systems through which risk appetite is established, communicated, and monitored. It includes a risk appetite statement (RAS), risk limits, and describes the roles and responsibilities of those overseeing the implementation and monitoring of the RAF. The RAS articulates the Board-approved risk appetite and is comprised of high-level statements that link closely to the risk strategy. Nordea Hypotek's Risk Appetite Framework is approved each year by the Board of Directors.

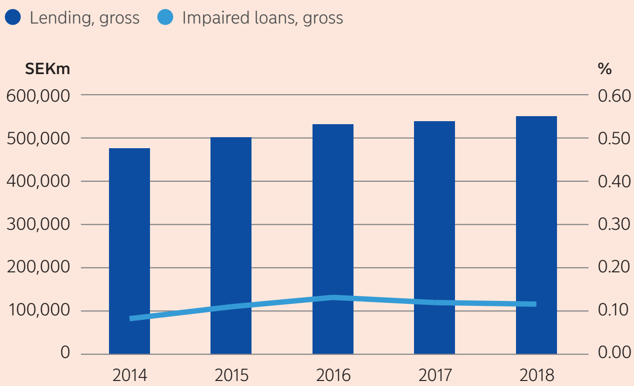
The starting point for defining risk appetite is the aligning of overall risk with the financial and capital planning process, based on Nordea Hypotek's risk strategy. Risk appetite is allocated to risk types, including risk appetite limits for the main

**Risk grade distribution for the Retail portfolio**


**Rating distribution for the Corporate portfolio**




**Lending to the public and impaired loans**



risk types to which Nordea Hypotek is or could be exposed. Risk appetite triggers are also set for these main risk types, to act as early indicators for key decision-makers that the risk profile for a particular risk type is approaching its risk appetite limit.

Regular controlling and monitoring of risk exposures compared to risk limits for financial risks are carried out to ensure that risk-taking activity remains within risk appetite as follows:

- **Green**: Risk level is within the defined risk appetite – no action to be taken
- **Amber**: Within risk appetite but the risk appetite trigger has been breached – a trigger level for further monitoring, investigation, or analysis
- **Red**: Outside the risk appetite and remediation action must be taken. The breach is escalated and status of remediation actions is followed up until the risk exposure is within appetite.

The Risk Appetite Framework encompasses material risks of relevance to Nordea Hypotek's business activity. At aggregate level, these are formulated as credit risk, market risk, liquidity risk, operational risk, solvency risk and compliance risk, including risk measures for covered bonds. The Nordea Group's Risk Appetite Framework is further presented in the Capital and Risk Management Report.

### Monitoring and reporting

The "Company Directive on Internal Governance" is Nordea Hypotek's internal control framework. The framework is designed to ensure effective and efficient operations, adequate identification, measurement and mitigation of risks, prudent conduct of business, sound administrative and accounting procedures, reliability of financial and non-financial information reported or disclosed (both internally and externally) and compliance with laws, regulations, supervisory requirements and Nordea Hypotek's and the Nordea Group Internal Rules.

The internal control process is carried out by the Board of Directors, senior management, risk management functions and other staff at Nordea Hypotek, or at the Nordea Group through outsourcing agreements, and is based on five main components: control environment, risk assessment, control activities, information and communication as well as monitoring. The internal control process aims to create the necessary fundamentals for the entire organisation to contribute to the effectiveness and high quality of internal control through, for instance, clear definitions, assignments of roles and responsibilities and common tools and procedures.

Management of risks includes all activities aiming at identifying, measuring, assessing, monitoring and controlling risks as well as measures to limit and mitigate the consequences of the risks. Management of risk is proactive, emphasising training and risk awareness. Nordea Hypotek maintains a high standard of risk management by means of applying available techniques and methodology to its needs. In order to support all employees in managing risks, the Nordea Group has gathered relevant e-learnings, policies and guidelines into a so called "Licence to Work". Licence to Work entails an obligation for all employees to fulfil adapted knowledge requirements regarding risk and compliance, with annual updates.

The control environment is, among other aspects, based on the principles for segregation of duties and independence. Monitoring and reporting of risk are conducted on a daily basis for market risk, counterparty risk (where relevant), liquidity risk and on a monthly and quarterly basis for credit risk, operational risk, IT risk and overall capital adequacy.

Detailed risk reports, covering all risks as well as capital adequacy, are regularly submitted to the management and the Board of Directors. In addition to this Nordea Hypotek's compliance with regulatory requirements is reported to the management and Board of Directors.

### Disclosure requirements of the CRR – Capital and Risk Management Report 2018

Additional information on risk and capital management is presented in the Nordea Hypotek's Capital and Risk Management Report 2018, in accordance with the Capital Requirements Regulation (CRR), which is based on the Basel III framework issued by the Basel Committee on Banking Supervision. The report is available at www.nordea.com.

## Risk management

### Credit Risk management

As regards credit risk, all credits granted within Nordea Hypotek shall conform to the common principles established for the Nordea Group. Nordea Hypotek endeavours to have a well-diversified mortgage portfolio that (largely) consists of lending to households, companies and municipalities, adapted to the conditions prevailing on the domestic market.

The key principles for managing Nordea Hypotek's credit risk are:

- the three lines of defence, described in the "Company Directive for Internal Governance"
- independence, i.e. the risk control function shall be independent of the business it controls; and
- risk-based approach, i.e. the risk control functions shall be aligned with the nature, size and complexity of the business, ensuring that efforts undertaken are proportional to the risks in question.

The Credit Manager in the first line of defence is responsible for the credit process and guidelines, and credit-risk standard operating procedures, and is in this work supported by Group Credit Risk Management, according to outsourcing agreements. RMC in the second line of defence, which according to outsourcing agreements is supported by GRMC, is responsible for the credit risk management framework, which contains instructions for Nordea Hypotek. RMC is also responsible for controlling and monitoring the quality of the credit portfolio and the credit process.

The basis of credit risk management in Nordea Hypotek is limits for customers and customer groups that are aggregated and assigned to units responsible for their continuous monitoring. Limits are also allocated for concentration risk based on industries, segments, products or regions. These too shall be aggregated and assigned to units responsible for their monitoring, which shall ensure that the limits are not surpassed. Each division/unit is primarily responsible for managing the credit risks in its operations within the applicable framework and limits, including identification, control and reporting.

Within the powers to act granted by Nordea Bank's Board of Directors, internal credit risk limits are approved by credit decision-making authorities on different levels in the organisation. These credit risk limits equal Nordea's maximum risk appetite in relation to the customer concerned. Individual

## Minimum capital requirement and REA

| | 31 Dec 2018 | | 31 Dec 2017 | |
|---|---|---|---|---|
| SEKm | Minimum Capital requirement | REA | Minimum Capital requirement | REA |
| **Credit risk** | **3,407** | **42,584** | **2,208** | **27,594** |
| - of which counterparty credit risk | 109 | 1,368 | — | — |
| IRB | 3,176 | 39,695 | 2,208 | 27,594 |
| - sovereign | — | — | 29 | 359 |
| - corporate | 1,722 | 21,520 | 828 | 10,352 |
| - advanced | 1,722 | 21,520 | 828 | 10,352 |
| - foundation | — | — | — | — |
| - institutions | 74 | 926 | — | — |
| - retail | 1,345 | 16,818 | 1,317 | 16,455 |
| - secured by immovable property collateral | 1,291 | 16,137 | 1,255 | 15,686 |
| - other retail | 54 | 681 | 62 | 769 |
| - other | 35 | 431 | 34 | 428 |
| Standardised | 231 | 2,889 | — | — |
| - central governments or central banks | — | — | — | — |
| - regional governments or local authorities | — | — | — | — |
| - public sector entities | — | — | — | — |
| - multilateral development banks | — | — | — | — |
| - international organisations | — | — | — | — |
| - institutions | 231 | 2,889 | — | — |
| - corporate | — | — | — | — |
| - retail | — | — | — | — |
| - secured by mortgages on immovable properties | — | — | — | — |
| - in default | — | — | — | — |
| - associated with particularly high risk | — | — | — | — |
| - covered bonds | — | — | — | — |
| - institutions and corporates with a short-term credit assessment | — | — | — | — |
| - collective investments undertakings (CIU) | — | — | — | — |
| - equity | — | — | — | — |
| - other items | — | — | — | — |
| Credit Value Adjustment Risk | — | — | — | — |
| **Market risk** | — | — | — | — |
| - trading book, Internal Approach | — | — | — | — |
| - trading book, Standardised Approach | — | — | — | — |
| - banking book, Standardised Approach | — | — | — | — |
| **Operational risk** | **916** | **11,447** | **781** | **9,768** |
| Standardised | 916 | 11,447 | 781 | 9,768 |
| **Additional risk exposure amount related to Finnish RW floor due to Article 458 CRR** | | | | |
| **Additional risk exposure amount related to Swedish RW floor due to Article 458 CRR** | **8,589** | **107,371** | **—** | **—** |
| **Additional risk exposure amount due to Article 3 CRR** | **—** | **—** | **—** | **—** |
| **Sub total** | **12,912** | **161,402** | **2,989** | **37,362** |
| **Adjustment for Basel I floor** | | | | |
| Additional capital requirement according to Basel I floor | — | — | 19,343 | 241,787 |
| **Total** | **12,912** | **161,402** | **22,332** | **279,149** |

credit decisions within the approved internal credit risk limit are taken within the customer responsible unit (CRU).

The risk categorisation and the exposure of the customer decide at what level the decision will be made. Responsibility for a credit risk lies with a customer responsible unit. Customers are risk categorised by a rating or scoring in accordance with the Group's rating and scoring guidelines. The purpose of the risk classification is to determine probability of default, and customers are classified accordingly. Rating and scoring are used as integral parts of the credit risk management and decision-making process. Representatives from 1st LoD credit organisation approve the rating independently.

### Credit risk definition and identification

Credit risk is defined as the potential for loss due to failure of a borrower(s) to meet its obligations to clear a debt in accordance with agreed terms and conditions. The potential for loss is lowered by credit risk mitigation techniques. For Nordea Hypotek, the risk is mainly attributable to different types of mortgages. Credit risk includes counterparty risk.

Nordea Hypotek's loan portfolio is furthermore broken down by segment and industry. Because Nordea Hyoptek only has business operations on the Swedish credit market, no geographic breakdown is needed. Industry policies are established for those industries that have a significant weight in the portfolio and are either very volatile or require special industry expertise.

Credit decisions are made according to an assessment of the credit risk based on principles that are consistently established throughout the Nordea Group. These principles emphasise the need to adjust the depth and scope of the assessment according to the risk. The same credit risk assessments are used as input for determining the internal ratings. Credit decisions in Nordea Hypotek reflect the Nordea Group's view of both the customer relationship and credit risk.

All credit assessments in the Nordea Group shall adequately reflect a consideration of relevant environmental, social and governmental risks and conform to the Nordea Sustainability Policy. The total credit risk assessment shall be a combined risk conclusion on the obligor's repayment capacity and Nordea Hypotek's recovery position. The risk conclusion must be sufficiently forward-looking as compared to the risk profile of the customer and maturity of the transaction.

In addition to credit risk assessment in conjunction with new or changed exposure towards a customer, an annual credit review process is in place. The annual review process is an important part of the ongoing credit analysis. If credit weakness is identified in relation to a customer exposure, the customer is categorised as "High Risk" and receives special attention in terms of more frequent review. In addition to continuous

### Summary of items included in own funds

| SEKm | 31 Dec 2018[3] | 31 Dec 2017[3] |
|---|---|---|
| **Calculation of own funds** | | |
| Equity in the consolidated situation | 24,459 | 23,255 |
| Proposed/actual dividend | — | — |
| Common Equity Tier 1 capital before regulatory adjustments | 24,459 | 23,255 |
| Deferred tax assets | — | — |
| Intangible assets | — | — |
| IRB provisions shortfall (–) | –110 | –107 |
| Deduction for investments in credit institutions (50%) | — | — |
| Pension assets in excess of related liabilities[1] | –6 | — |
| Other items, net | –44 | –73 |
| Total regulatory adjustments to Common Equity Tier 1 capital | –160 | –180 |
| **Common Equity Tier 1 capital (net after deduction)** | **24,299** | **23,075** |
| Additional Tier 1 capital before regulatory adjustments | — | — |
| **Total regulatory adjustments to Additional Tier 1 capital** | **—** | **—** |
| Additional Tier 1 capital | — | — |
| **Tier 1 capital (net after deduction)** | **24,299** | **23,075** |
| Tier 2 capital before regulatory adjustments | 800 | 1,800 |
| IRB provisions excess (+) | 21 | 24 |
| Deduction for investments in credit institutions (50%) | — | — |
| Deductions for investments in insurance companies | — | — |
| Pension assets in excess of related liabilities | — | — |
| Other items, net | — | — |
| **Total regulatory adjustments to Tier 2 capital** | **21** | **24** |
| **Tier 2 capital** | **821** | **1,824** |
| **Own funds (net after deduction)[2]** | **25,120** | **24,899** |

1) Based on conditional FSA approval.
2) Own Funds adjusted for IRB provision, i.e. adjusted own funds equal SEK 25,209m by 31 Dec 2018.
3) Including profit of the period.

monitoring, an action plan is established outlining as to how to minimise the potential credit loss. If necessary, a work-out team is set up to support the customer responsible unit.

### Credit risk mitigation

Credit risk mitigation is an inherent part of the credit decision process. In every credit decision and review, the valuation of collaterals is considered as well as municipal guarantees and other risk mitigations. Pledging collateral in the form of real estate or tenant-owner rights is the main credit risk mitigation technique and collaterals are always sought to minimise the potential for credit losses. In every credit decision and review the value of collaterals must be considered.

On the corporate side, collateral coverage for real estate is higher for financially weaker customers. Limit decisions are taken independently of collateral coverage.

The collateral value shall always be based on the market value. The market value is defined as the estimated amount for which the asset would exchange between a willing buyer and willing seller under current market conditions. From this market value a haircut is applied. The haircut is defined as a percentage by which the asset's market value is reduced ensuring a margin against loss. The margin reflects the adjustments needed to assess the cash proceeds when the collateral is liquidated in a forced sale situation. A maximum collateral ratio is set for each collateral type.

The same principles of calculation must be used for all exposures. For High Risk customers, the foreclosure value may differ from the maximum collateral values and should be based on a realistic assessment for the particular asset at that time. Risk transfer to other creditworthy parties, through guarantees and insurance, shall be based on legally enforceable documentation.

### Individual and collective assessment of impairment

Since 1 Jan 2018 Nordea Hypotek has adhered to IFRS 9 for impairment of financial instruments. The impairment requirements in IFRS 9 are based on an expected credit loss model and replace the IAS 39 incurred loss model. IFRS 9 introduces a three-stage model for impairment where Stage 1 is considered as the Good book, Stage 2 as the Deteriorated book, and Stage 3 as the Bad book. Collective and individual credit loss provisions will be based on three scenarios. These scenarios will be probability-weighted and forward-looking.

Throughout the process of identifying and mitigating credit impairments, Nordea Hypotek continuously reviews the quality of the credit exposures. Weak and impaired exposures are closely and continuously monitored and reviewed at least on a quarterly basis in terms of current performance, business outlook, future debt service capacity and the possible need for provisions.

### Individual provisons

Individual provisions are made if credit events and observable data indicate that it is likely that a customer's future cash flow is affected negatively to such an extent that full repayment (with collateral included) is no longer probable.

Claims with individual reservations are considered as credit impaired. The size of the provision corresponds to the expected loss, i.e. the difference between the reported value of the outstanding receivable and the present value of the expected future cash flows, including the value of pledged property.

Nordea Hypotek only reports specific credit risk adjustments. Credit risk adjustments cover individual and collective adjustments. Credit risk adjustments during the year are reported as loan losses in the income statement. In the balance sheet, they are reported as provisions.

### Defaults

Customers with loans that have been past due for more than 90 days and which are subject to bankruptcy proceedings, or are unable to pay for another reason, are regarded as having failed. The exposures can either be loans which customers are continuing to pay (servicing) or loans which customers are not paying (non-servicing).

If a customer recovers from default, the customer is considered to be re-established on a sound basis. This situation occurs if the customer has managed to achieve equilibrium in its finances. To be considered as re-established on a sound basis, the recovery must cover all of the customer's debts in Nordea Hypotek and elsewhere. There must also be a satisfactory repayment schedule and an assessment which says that recovery has started.

### Collective provisions

The group assessment is done quarterly and for each legal entity/branch. One important driver for the size of provisions is the trigger for transferring an asset from stage 1 to stage 2. For assets reported from 1 January 2018 onwards, changes to the lifetime Probability of Default (PD) are used as the trigger. In addition, customers with forbearance measures and customers with payments more than 30 days past due will also be transferred to stage 2. In stage 1, the provisions correspond to expected loan losses during the coming 12 months. In stages 2 and 3, the provisions correspond to the expected loan loss during the entire remaining period to payment. The result is supplemented with an expert analysis to ensure adequate provision. Defaulting customers without individual provisions are covered by collective provisions.

### Forborne exposures

Forbearance comprises negotiated terms or restructuring due to the borrower experiencing or about to experience financial difficulties. The intention with granting forbearance for a limited period of time is to ensure full repayment of the outstanding debt. Examples of negotiated terms are changes in amortisation profile, repayment schedule, customer margin as well as ease of financial covenants. Forbearance is undertaken on a selective and individual basis and followed by impairment testing. Loan loss provisions are recognised if necessary.

More information about credit risk can be found in Note 30.

### Credit portfolio

Credit risk is measured, monitored and segmented in different ways. On-balance lending constitutes the major part of the credit portfolio and is the basis for impaired loans and loan losses. Credit risk in lending is measured and presented as the principle amount of on-balance sheet claims, i.e. loans to credit institutions and to the public, and off balance sheet potential claims on customers and counterparts, net after allowances. Credit risk exposure also includes the risk related to derivative contracts and (where relevant) securities financing. The total credit risk exposure, including off-balance sheet items, amounted to SEK 618bn (580) at year end. The total on-balance sheet credit risk exposure amounted to SEK 557bn (538) at year end. See more information and breakdown of exposure according to the CRR definition in Note 30 and in the Capital and Risk Management Report for the Nordea Group.

Nordea Hypotek's lending to the public increased by 2.2% in 2018 to SEK 549bn (537). Lending to legal entities increased by 6.9% and household lending increased 1.2% The overall credit quality is solid with strongly rated customers and a positive effect from rating migration in total in the portfolio. Out of lending to the public, 18.0% (17.3) referred to companies and the public sector, and 82.0% (82.7) referred to household customers.

### Lending to corporate customers and the public sector

Lending to corporate customers amounted to SEK 99bn (93) at the end of 2018. Real estate is, for natural reasons, the biggest sector in Nordea Hypotek's credit portfolio, representing SEK 90bn. The real estate portfolio is dominated by tenant-owner associations that are financially strong, and properties with a relatively low leverage level. 98.7% (97.9) of lending is in rating class 4– and higher.

### Lending to household customers

For 2018, lending to household customers amounted to SEK 450bn (444). Lending to household customers refers exclusively to mortgages.

### Geographic breakdown

Due to Nordea Hypotek's business strategy, customers who are tax residents of Sweden largely account for the Company's entire lending to the public.

### Rating and scoring distribution

One way of assessing credit quality is through analysis of the distribution across rating grades, for rated corporate customers and institutions, as well as risk grades for scored household and small business customers, i.e. household exposures. The share of lending to customers in the higher rating/scoring range increase somewhat in 2018, in both the corporate and household customer portfolio. 98.7% (97.9%) of corporate lending was rated 4- or higher.

Institutions and household customers on the other hand exhibit a distribution that is biased towards the higher rating grades. 98.9% (98.7%) of the household exposure is scored C– or higher, which indicates a probability of default of 1% or lower. Impaired loans are not included in the rating/scoring distributions.

### Loan-to-value ratio

Another way of assessing the risk in the credit portfolio is to compare loan volumes with collateral values, and calculate the loan-to-value ratio (LTV). Nordea Hypotek performs regular LTV follow-up in both the household and corporate portfolios, and also for individual exposures.

The LTV in the household portfolio increased to 56% (53) due to a decline in the market value of collateral. Prices on the Swedish housing market (Valueguard HOX index) rose 2.0% (down 2.5%) despite an increased supply of mainly newly built apartments.

The LTV in the corporate portfolio increased to 32% (31) due to growth in the corporate portfolio thanks to favourable interest rates and numerous transactions on the real estate market.

In total, the LTV was 51% (49) at the end of the year.

### Impaired loans

Nordea Hypotek's impaired loans (gross) increased to SEK 582m (579), equalling 11 bps (11) of total lending. 9.3% of impaired loans (gross) are servicing and 90.7% are non-servicing. Impaired loans (net), after allowances for individually assessed impaired loans, amounted to SEK 545m (562), or 10 points (10) of total lending. Allowances for individually assessed loans increased to SEK 37m from SEK 16m. Allowances for collectively assessed loans decreased to SEK 45m from SEK 51m.

The increase in impaired loans was mainly attributable to household customers. The sector in corporate lending with the greatest impaired loans was the construction and engineering industry. Past due loans (6 days or more) to corporate customers that are not considered impaired decreased to SEK 240m (478), and past due loans to household customers increased to SEK 343m (330).

### Loan losses

Loan losses increased by 245% (from a low level) to SEK 38m (11). This corresponded to a loan loss ratio of 0.7 points (0.2). SEK 23m (0) referred to corporate customers and SEK 15m (11) to household customers. Within corporates the main net loan losses were in the industries Energy, Industrial commercial services, and in Retail trade.

### Counterparty credit risk

Counterparty credit risk is the risk that Nordea Hypotek's counterpart in an FX, interest, commodity, equity or credit derivative contract defaults prior to maturity of the contract and that Nordea Hypotek at that time has a claim on the counterpart. Counterparty credit risk can also exist in repurchasing agreements and other securities financing transactions. Nordea Hypotek's only counterparties are companies in the Nordea Group.

## Market risk

Market risk is the risk of losses attributable to Nordea Hypotek's holdings and transactions ensuing from changes in risk factors that affect the market value of these positions, such as changes in interest rates, credit spreads, exchange rates or share prices.

Nordea Hypotek's market risk appetite level is set out in the Board's risk appetite statements. The risk appetite statements refer to assets in the banking operations as Nordea Hypotek lacks assets in the trading book. The second line of defence ensures that the management correctly translates the risk appetite into specific risk limits for the risk-taking units.

In accordance with the overarching Risk Appetite Framework, holistic and specifically adapted stress tests are used to calibrate risk appetite and set limits for following up on and verifying all material market risk factors affecting Nordea Hypotek.

### Market risk in the banking operations

Market risk primarily arises in Nordea Hypotek's core operations, through hedging thereof and through the requirements of laws or other external provisions. According to outsourcing agreements, Group Treasury & ALM (TALM) is responsible for the comprehensive risk management of all non-trade-related market risk in the balance sheet. For the sake of openness and a clear allocation of responsibilities within TALM, the comprehensive risk management has been divided into four parts – each with a clear risk mandate and specific limits and controls.

Nordea Hypotek's market risks comprise interest-rate risk, credit-spread risk, foreign-exchange risk, equity risk and structural foreign exchange risk. The interest-rate risk in the operations is the current or future risk in Nordea Hypotek's capital and earnings attributable to unfavourable changes in interest rates. Market risks are managed, for the sake of efficiency, centrally in the Nordea Group, and comprise matching risk, spread risk, base risk, credit-spread risk, behavioural risk and non-linear risk. These risks are also described on a per-currency basis.

Due to the lending structure on Nordea Hypotek's domestic market, most contractual interest rates consist of the floating rate, which means that interest payments on funding are also switched to the floating rate via swaps. The repricing risk that arises is managed on a per-currency basis. The direct interest-rate risk, net, attributable to the repricing gap, together with the limited fixed-interest-rate risk, is hedged using interest-rate swaps (IRS) and overnight index swaps (IOS).

Liquid assets are managed in accordance with the liquidity buffer and collateral framework. The majority of the risk of changes in interest rates attributable to bond holdings is hedged using maturity-matched IRS agreements (payer swaps) and, to a lesser extent, OIS agreements (payer swaps). FRAs and exchange-traded forward contracts are also used to hedge credit-spread and interest-rate-determination risk.

The Nordea group also uses hedges of unexpected risk events (known as tail hedging), with a portfolio of risk hedges consisting of exchange-traded equity forwards/options, larger credit indexes, interest-rate swaps and interest-rate options.  Tail hedging is used in other banking operations throughout the Nordea Group, for instance for the liquid bond and derivative portfolios, strategic equity investments and structural risks.

## Measurement of market risk

The Nordea Group uses several statistical measurement methods for market risk: value-at-risk, stress tests, sensitivity analyses, parametric methods and Monte Carlo simulation. Not all of them are relevant to Nordea Hypotek's operations.

Monte Carlo simulation is used in capital requirements models – the incremental risk charge model and the comprehensive risk charge model – for measuring the risk of default and a deterioration in credit quality among holdings in government and corporate bonds.

The value-at-risk (VaR) models – VaR with stress scenario, equity event risk, capital requirements in the event of incremental risk charge and comprehensive risk charge – have all been approved by the Swedish Financial supervisory authority for calculating capital requirements for market risk using internal models. The ECB has granted the Nordea Group, which is now part of the banking union, temporary authorisation to continue to use internal models during a transitional period until a new application has been approved by the ECB. All models, with the same calibration and settings as for the capital requirement according to the regulations, are used for the internal risk management.

Stress tests of economic value measure the change in the economic value of assets, liabilities and interest-bearing derivatives in other operations as result of changes in interest rates, independently of the accounting classification and without reference to margins. The measures show the changes in economic value of the assets in the banking operations according to the six standard scenarios established by the Basel Committee on Banking Supervision. The limit for exposures is the highest of these values.

The same six standard scenarios as above are used for the result measure, which measures the change in net interest income in other operations in relation to a base-case scenario, which provides a structural interest income risk (SIIR) on a one-year horizon. The model assumes a constant balance sheet and uses realised forward rate curves with behavioural modelling for all deposits without a contractual maturity.

| SEKm | Measure | 31 Dec 2018 | 2018 High | 2018 Low | 2018 avg | 31 Dec 2017 |
|---|---|---|---|---|---|---|
| Total risk | VaR | 72.4 | 102.2 | 28.5 | 66.9 | 63.8 |
| Interest rate risk | VaR | 72.4 | 102.2 | 28.5 | 66.9 | 63.8 |
| Equity risk | VaR | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Credit spread risk | VaR | 0.0 | 10.9 | 0.0 | 1.9 | 0.0 |
| Foreign exchange risk | VaR | 0.0 | 0.2 | 0.0 | 0.0 | 0.0 |
| Inflation risk | VaR | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Diversification effect | VaR | 0% | 14% | 0% | 2% | 0% |

## Market risk, VaR

Market risk, measured as VaR, amounted to SEK 72.4m (63.8) for Nordea Hypotek at the end of 2018. The entire risk is attributable to interest-rate risk, which is shown in the table above.

## Market risk, Structural Interest Income Risk (SIIR)

The market risk SIIR measures the amount by which the Company's accumulated net interest income would change during the next 12 months in a situation of interest-rate stress if all interest rates were to change by 50 points. In the 2018 Annual Report, Nordea Hypotek is switching to a 50-point change in interest rates from 100 points previously, which gives an inaccurate comparison between years.

At the end of the year, SIIR, for an increase in market interest rates of 50 points, was SEK 30m, and to SEK -36m for an equivalent decline in market interest rates.

## Other market risks

### *Pension risk*

Pension risk (including market and longevity risk) arises in connection with defined benefit pensions for former and current employees. The pension plans' capacity for coping with planned pension disbursements is upheld by way of investments and ongoing contributions to the plans.

Pension risks include a rise in the value of liabilities, or a decline in the value of assets. These risks are low in Nordea Hypotek, which has few employees and is only followed up and reported at Group level in Nordea. Pension risks also include different subcomponents of market risk, such as interest-rate, inflation, credit-spread, real-estate and equity risk. With a view to limiting the risks of the Nordea Group, there are limits for potential losses under severe yet reasonable stress events, and limits for capital utilisation. In addition, regular inspections are performed of the plans' strategic asset allocation to ensure that the investment focus reflects the risk appetite of the Nordea Group.

## Operational risk

Operational risk is defined in the Nordea Group as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk. The risk of loss includes direct or indirect financial loss, for example impacts from regulatory sanctions, legal exposure, reputational damage and critical business process disruption.

Operational risks are inherent in all of Nordea Hypotek's business and operations. That means that managers at Nordea Hypotek are responsible for the operational risks in their respective areas. The counterparties of the outsourcing agreements in the Nordea Group (such as the business areas) are responsible for managing these risks, within prevailing limits and risk appetite, in accordance with the operational risk management framework.

RMC is the second line of defence for operational risk and is responsible for preparing and maintaining the overarching operational risk management framework, and for monitoring and control of operational risk management in the first line of defence. RMC monitors and verifies that the operational risks are appropriately identified, assessed and mitigated, compares the risk level with risk appetite as well as assesses the adequacy and effectiveness of the operational risk management framework at Nordea Hypotek. The CRO reports regularly on operational risk to the Managing Director, management and Board of Directors.

The risk appetite statements for operational risk, which are adopted by the Board, consist of:

1) outstanding risk level and risk management

2) total loss amount for incidents as well as incident management

### Management of operational risk

Nordea Hypotek's Company directive on risks and internal governance sets forth the principles for operational risk management. Based on these principles, Nordea Hypotek has prepared Company instructions and guidelines as a framework for managing operational risk and compliance risk. Management of operational and compliance risks includes all activities aimed at identifying, assessing, mitigating, monitoring, controlling and reporting risks. Risk exposures are governed by limits set within the boundaries of the risk appetite

Risks are identified through various processes. Examples are detailed in the following section and include the reporting of incidents, approval of changes, as well as regular risk assessment. An assessment is then performed of the probability of them transpiring, and the consequences this would have.

Appropriate measures are established based on the severity of the risk. Monitoring and control are important, and shall ensure for example that risks are appropriately identified and mitigated, that risk exposures are kept within limits, that risk management procedures are efficient and to ensure adherence to internal and external rules.

New and amended rules are identified though forward-looking analyses. The effect of new and amended rules is considered, and appropriate measures to introduce them are taken in accordance with the Change Risk Management and Approval process.

In order to ensure sufficient and cohesive efforts for training and increased awareness in risk management and compliance, a specific unit has been established in the Nordea Group – Risk & Compliance Training & Culture Governance. There is also a knowledge area known as Risk & Compliance within Group Learning, which has a mandate to prepare and introduce training that helps create a healthy risk culture in the Nordea Group.

### Key risk management processes

#### *Risk and Control Self-Assessment and Compliance Independent Risk Assessment.*

The risk and control self-assessment, RCSA, provides a good overview of the operational risks and compliance risks in Nordea Hypotek's business operations. It includes both compliance risks and operational risks. For risks identified in the RCSA, the levels of risk exposure, as well as the controls in place to mitigate the risks, are assessed. If mitigating actions are needed to reduce the risk, these are identified and implemented.

RMC follows up RCSA and tests the identified risks and management thereof. For compliance risks, Compliance Officers also perform their own independent risk assessment, besides that carried out in RCSA.

#### *Change risk management*

The purpose of change risk management is to ensure that non-financial risks are detected and limited when changes are implemented. 'Change' refers to all new or changed products, services, markets, processes or IT systems or substantial changes to the operations or the organisation or company structure, including exceptional transactions and decommissioning.

To this end, the Change Risk Management and Approval (CRMA) process is used, consisting of an initial materiality assessment and a subsequent risk identification, assessment and mitigation. Subject matter experts participate to ensure thorough risk identification, assessment and management before implementing a change.

#### *Incident management and reporting*

Nordea Hypotek's incident management and reporting shall ensure that incidents are appropriately managed to minimise the consequences and prevent incident recurrence. This is done by means of a structured and proactive documentation and action process.

When an incident is detected, managing the incident takes highest priority with a view to minimising the consequences. Some incidents also require reporting to the relevant supervisory authorities within a specified period. Unit managers are responsible for the proper handling, documentation and reporting of incidents. Incident reporting is done in a common database for the entire Nordea Group. Incident reporting also contributes to a healthy risk culture in the day-to-day operations and to requisite documentation for preventing incident recurrence.

#### *Business continuity and crisis management*

Business continuity and crisis management (BC&CM) aim to maintain appropriate contingency for a large number of operational risk events with a view to minimising the consequences for Nordea Hypotek's operations, were they to occur. BC&CM comprises risk analysis, continuity planning and tests that are to protect Nordea Hypotek's customers, resources (such as employees, premises, technology and information), supply chain, stakeholders and reputation from the consequences that a risk event with operational disruption would otherwise cause. As most services rely on IT systems, disaster contingency for technical infrastructure and IT systems is an essential part of this work.

The BC&CM framework consists of a Company directive with general principles, Company instructions with guiding principles and the Nordea Group's guidelines that set minimum levels and requirements.

### *Third-party risk management*

Third-party risk management (TPRM) aims to ensure that risks and legal requirements with respect to external parties, including outsourcing agreements, are appropriately managed before and during such relationships. The TPRM framework of the Nordea Group sets out the requirements for risk management, background checks and follow-up of all third-party relationships. TPRM shall be applied before and during the relationship with an external party to protect Nordea and to understand and control the risks posed by the relationship.

While Nordea Hypotek may delegate day-to-day operational activities to third parties, it still has responsibility for maintaining effective oversight and governance of the outsourced activities and of third-party relationships.

### *Reputational risk*

Reputational risk is defined as the risk of damage to trust in Nordea from customers, employees, authorities, investors, partners and general public with the potential for adverse economic impact.

Reputational risk often results from, or causes, other types of risks inherent in the operations, such as credit, liquidity, market, operational, compliance and legal risks. Nordea Hypotek has developed a reputational risk framework that includes guiding principles for managing reputational risk.

The framework is strongly linked with the operational risk management framework but also includes separate processes targeting the specific nature of reputational risk or impact on reputation.

### *Compliance risk*

The Nordea Group defines compliance risk as the risk of failing to comply with statutes, laws, regulations, business principles, ethical standards, sound business practice and equivalent internal provisions governing the Bank in a country in which Nordea operates.

The key principle for the management of compliance risk is the three lines of defence. The first line of defence consists of Nordea Hypotek employees, who are risk owners and responsible for their own daily risk management and control of compliance risks. Management on all levels is responsible for operating the business within defined limits for risk exposure and in accordance with decided directives, instructions and risk management processes. Group compliance constitutes, according to outsourcing agreements, the second line of defence at Nordea Hypotek. The unit coordinates, promotes and monitors the efficiency and integrity of compliance risk management.

Group Compliance performs an independent evaluation of Nordea Hypotek's compliance with prevailing rules and regulations, and also advises, supports and trains the first line on various ways to effectively and efficiently handle compliance obligations. On a quarterly basis, Group Compliance reports on all significant compliance risks to management and the Board in order to inform of Nordea Hypotek's current risk exposure in relation to the predefined risk appetite.

Group Internal Audit constitutes the third line of defence and performs audits and provides assurance to stakeholders on internal controls and risk management processes. It is important that prevailing laws and provisions are adhered to, and that controls are carried out to ensure this, partly because Nordea Hypotek is a responsible corporate citizen, and partly to prevent the banking system from being used for criminal activity. Through the classification of Nordea Hypotek into the category "other systemically important institution" (O-SII) and the relocation of the Parent Company to Finland, Nordea Hypotek is subject to a set of stringent standards, under the supervision of both the Swedish financial supervisory authority and the European Central Bank.

The ethical guidelines and the Nordea Group's values reinforce the corporate culture and establish how employees shall act. The overarching principles, governing how the operations are to be run, how customers are to be treated and how employees are expected to act, are set out in our ethical guidelines. Acting the right way does not just mean that we ask ourselves "can we do it?", but also "should we do it?". By asking these questions, we consider the potential consequences of a decision for our stakeholders. Each year, each employee must undergo compulsory training on our ethical guidelines, thus ensuring requisite awareness and knowledge of the ethical principles. Besides, all new employees must undergo compulsory training in Nordea's ethical guidelines.

## Liquidity management

In 2018, Nordea Hypotek continued to benefit from the Nordea Group's prudent liquidity risk management. The liquidity buffer was established as a consequence of the relocation of the Parent Company to Finland and the fact that the Swedish liquidity group, in which Nordea Hypotek was included, was dissolved. As of 1 October 2018, Nordea Hypotek has an independent liquidity arrangement.

Through its strong funding base, Nordea Hypotek had access to all relevant financial markets and was able to actively use its funding programme. Nordea Hypotek issued SEK 93.6bn in non-current liabilities (covered bonds), SEK 89.0bn of which was in benchmark bonds and SEK 4.6bn in private placements.

Throughout 2018, Nordea Hypotek fulfilled the liquidity coverage ratio (LCR) requirement according to the EBA Delegated Act, in all currencies combined.

### Liquidity risk definition and identification

Liquidity risk is the risk of Nordea Hypotek being unable to service its cash flow obligations when they fall due, or unable to meet its cash flow obligations without incurring significant additional funding costs. Nordea Hypotek is exposed to liquidity risk within lending, funding and off-balance-sheet commitments, which can give a deficit in cash flow.

Cash flow mismatches can occur at the end of a day or intraday.

### Management principles and control

Liquidity risk is managed through three lines of defence:

The first line of defence consists of TALM, according to outsourcing agreements, and the CFO. TALM is responsible for the day-to-day management of the Nordea Group's liquidity positions, including liquidity buffers, external and internal funding including the mobilisation of cash around the Nordea Group, and Funds Transfer Pricing (FTP).

The second line of defence, which includes RMC (supported by GRMC according to outsourcing agreements) and Group Compliance (according to outsourcing agreements), is responsible for providing independent oversight of and challenge to the first line of defence.

The third line of defence includes Group Internal Audit (GIA), which is responsible for providing independent oversight of the first and second lines of defence.

The Board of Directors defines the liquidity risk appetite by setting limits for applied liquidity risk metrics. The most central metric is the internal survival horizon, which defines the risk appetite by setting a minimum survival of three months under institution-specific and market-wide stress scenarios with limited mitigation actions.

A framework of limits and monitoring metrics is in place to ensure Nordea Hypotek keeps within various risk parameters including the risk appetite.

### Liquidity risk management strategy

The Nordea Group's strategy for liquidity management is based on risk appetite statements which in turn result in various liquidity risk measures, limits and procedures. Risk appetite statements stipulate that the Nordea Group's liquidity management shall feature a prudent attitude towards liquidity risk.

Nordea Hypotek strives to diversify its sources of funding and seeks to establish and maintain relationships with investors in order to ensure market access. Trust is fundamental in the funding market, and Nordea Hypotek and the Nordea Group therefore periodically publish information on liquidity situation. Furthermore, Nordea Hypotek regularly performs stress testing of the liquidity position and, together with the Nordea Group, has put in place contingency plans for liquidity crisis management.

### Liquidity risk measurement

To ensure funding in situations when the business in urgent need of cash and the normal funding sources do not suffice, Nordea Hypotek holds a liquidity buffer. The liquidity buffer consists of highly liquid securities of good credit quality that are central-bank-eligible as collateral. The liquidity buffer and other tools for managing the liquidity risk as a company independent of the Nordea Group were developed during 2018. Comparability with 2017 is absent as Nordea Hypotek was included in a liquidity group with the other Swedish companies in the Nordea Group.

Liquidity risk management focuses on both short-term liquidity risk and long-term structural liquidity risk. Liquidity risk is limited by the Board of Directors via internal liquidity coverage and survival horizon metrics stipulating that the liquidity buffer needs to be sufficient to cover peak cumulative stressed outflows experienced over the first three months of a combined stress event, whereby Nordea Hypotek is subject to market-wide stress similar to what many banks experienced in 2007–08; and an idiosyncratic stress corresponding to a three-notch credit rating downgrade. This metric forms the basis for Nordea Hypotek's liquidity risk appetite, which is reviewed and approved by the Board at least annually.

Furthermore, short-term funding risk is measured using the Liquidity Coverage Ratio (LCR) and a funding gap risk metric. The funding gap risk metric expresses the expected maximum accumulated need for raising liquidity in the course of the next 30 days. Cash flows from both on-balance sheet and off-balance sheet items are included. The funding gap is measured and limited for each individual currency, and for all currencies combined.

Structural liquidity risk of Nordea is measured using many metrics of which the Net Stable Funding Ratio (NSFR) and the internally defined Net Balance of Stable Funding (NBSF) are very important, as well as various external credit ratings.

### Liquidity risk analysis

Nordea Hypotek maintains a clear and prudent liquidity risk profile with a strong funding base. At year-end 2018, the total volume utilised in covered bond programmes was SEK 316.6bn (310.5) with an average time to maturity of 2.8 years (2.6).

The liquidity risk position remained at a low level throughout 2018. The internal survival horizon was 4.7 months at the end of 2018. The limit is not below three months.

The yearly average for the funding gap was SEK 27bn. Nordea Hypotek's liquidity buffer (which was formed on 1 October 2018) amounted in the fourth quarter of 2018 to between SEK 20.6bn and SEK 21.3bn, with an average of SEK 20.9bn. Both NSFR and NBSF remained comfortably above 100% throughout 2018.

The combined LCR, which measures liquidity risk according to the EBA Delegated Act, amounted to 249% for Nordea Hypotek at the end of 2018, and the average for the fourth quarter of 2018 was 1,748%.

## Capital management

Nordea Hypotek strives to be efficient in its use of capital and therefore actively manages its balance sheet with respect to different assets, liabilities and risks. The goal is to enhance returns to shareholders while maintaining a prudent capital structure. The Board of Directors ultimately decides on the targets for capital ratios, capital policy and the overall capital management framework at Nordea Hypotek. The ability to fulfil objectives and minimum capital adequacy requirements is regularly inspected by management.

### Capital requirements

The capital requirement and the own funds described in this section follow the CRR rules and not accounting standards, see Note 23 for details.

### Capital policy

The current capital policy states that Nordea Hypotek under normal business conditions should have minimum levels for common equity tier 1 (CET1) capital ratio, tier 1 ratio and total capital ratio that exceeds the capital requirements set out by the competent authorities. Nordea Hypotek shall, on top of this, also hold a capital buffer.

### Minimum capital requirements

Risk exposure amount (REA) is calculated in accordance with the requirements in the Capital Requirements Regulation. Nordea Hypotek had 93.2% of the credit risk exposure amount covered by internal rating based (IRB) approaches at the end of 2018. The Nordea Group is authorised to use internal VaR models for calculating the capital requirement for the majority of the market risk in the trading book; Nordea Hypotek has no such risk, however. For operational risk the standardised approach is applied.

## Internal capital requirement

Nordea Hypotek's internal capital requirement (ICR) was SEK 7.4bn at the end of the year. The ICR should be compared to the own funds, which amounted SEK 25.1bn for the same period. The internal capital requirement is calculated based on Nordea Hypotek's internal Pillar I equivalent, plus an additional amount for other risks, and includes an economic stress buffer. On top of the internal capital requirement, the supervisory authority requires Nordea Hypotek to hold capital for the regulatory Pillar I risks and for the risks identified in connection with the annual supervisory review and evaluation process (SREP).

For more details see the Nordea Capital and Risk Management Report.

## Own funds

Own funds are the sum Tier 1 and Tier 2 capital. Tier 1 capital consists of both Common Equity Tier 1 and additional Tier 1 capital. CET1 capital is considered to be capital of the highest quality with ultimate loss-absorbing characteristics and consists predominately of paid-in capital and retained earnings. Profit may only be included after permission from the financial supervisory authority and after deduction of proposed dividend. Additional Tier 1 and Tier 2 capital consist mostly of undated and dated subordinated loans, respectively.

Holdings of other financial sector entities' subordinated loans are deducted from the corresponding tier.

## Additional information

Further information on capital management and capital adequacy is presented in Note 23 Capital adequacy and in the Capital and Risk Management Report at www.nordea.com.

## New regulations

The Capital Requirement Directive IV (CRD IV) and Capital Requirement Regulation (CRR) entered into force on 1 January 2014 followed by the Bank Recovery and Resolution Directive (BRRD) on 15 May 2014. The CRR became applicable in all EU countries from 1 January 2014 while the CRD IV and BRRD were implemented through national law within all EU member states from 2014.

In November 2016, the European Commission published a proposal amending the BRRD, the CRD IV and the CRR. The amendments to the CRR, being a regulation, will be directly applicable in all EU countries once implemented whereas the amendments to the CRD IV and BRRD, being directives, need to be implemented into national legislation before being applicable. The proposal contains, among others, review to the Minimum Requirement for own funds and Eligible Liabilities (MREL), review to the market risk requirements (Fundamental Review of the Trading Book, FRTB), introduction of a binding Net Stable Funding Ratio (NSFR), introduction of a strict leverage ratio requirement of 3% to be met by Tier 1 capital and amendments to the pillar 2 and macro prudential framework.

In November 2017, an agreement was reached on some of the proposals in the review in a so called fast tracking process, i.e. creditor hierarchy and transitional arrangements for IFRS 9, which entered into force from 1 January 2018. However Nordea has decided not to use those transitional arrangements related to own funds. In December 2018 a political agreement was reached on the remaining parts of the review. The review will enter into force after it has been published in the Official Journal which can be made after it is formally adopted, which is expected during spring 2019. Application of the revised requirement will generally start 2 years after entry into force with some parts having a separate implementation date and some parts being phased-in.

On 14 March 2018 the European Commission submitted a proposal to the European Council to amend the CRR with regards to minimum loss coverage for new Non-Performing Exposures (NPEs). On 18 December 2018 co-legislators reached a provisional agreement which resulted in a final compromise text. The prioritisation of the remaining regulatory process indicates that an entry into force may take place early in 2019.

On 19 October the Swedish FSA identified Nordea Hypotek AB as an other systemically important institution (O-SII). However, the company is not required to hold any O-SII buffer on solo level. The reason is that Nordea Hypotek AB is included in Nordea´s consolidated situation which are required to hold an O-SII buffer on group level.

On 19 September the Swedish FSA decided to raise the buffer from 2.0% to 2.5%. The amended buffer enters into force on 19 September 2019.

## Finalised Basel III framework ("Basel IV")

Basel III is the global, regulatory framework on bank capital adequacy, stress testing, and liquidity risk. In December 2017, the finalised Basel III framework, often called the Basel IV package, was published. The Basel IV package will be implemented in 2022 and includes revisions to credit risk, operational risk, credit valuation adjustment (CVA) risk, leverage ratio and introduces a new output floor. In addition, revisions to market risk (the so called Fundamental Review of the Trading Book) was initially agreed in 2016, with a revision published on 14 January 2019, will be implemented together with the Basel IV package in 2022.

On credit risk, the package includes revisions to both the internal ratings based (IRB) approach, where restrictions to the use of IRB for certain exposures are implemented, as well as to the standardised approach. For operational risk, the three approaches currently existing will be removed and replaced with one standardised approach to be used by all banks. On CVA risk, the internally modelled approach is removed, and the standardised approach is revised. The package also includes the implementation of a minimum leverage ratio requirement of 3% to be met with Tier 1 capital with an additional leverage ratio buffer requirement for Global systemically important banks (G-SIB) of half the size of G-SIB capital buffer requirement.

The output floor is to be set to 72.5% of the standardised approaches on an aggregate level, meaning that the capital requirement under the floor will be 72.5% of the total pillar 1 REA calculated with the standardised approaches for credit-, market- and operational risk. The floor will be phased-in, starting with 50% from 2022 to be fully implemented at 72.5% from 1 January 2027.

Before being applicable to Nordea, the Basel IV package needs to be implemented into EU regulations and will therefore be subject to negotiations between the European Commission, Council and Parliament which might change the implementation and potentially also the timetable. In May 2018 the European Commission made a 'Call for Advice' to EBA on the impact of an implementation of the Basel IV package into EU regulations to which the EBA will answer by 30 June 2019.

# Financial statements

# Income statement

| SEK (000s) | Note | 2018 | 2017 |
|---|---|---|---|
| **Operating income** | | | |
| Interest income calculated using the effective interest rate method | | 8,022,666 | 8,874,229 |
| Other interest income | | 3,165 | – |
| Interest expense | | –358,984 | –87,790 |
| **Net interest income** | 3 | **7,666,847** | **8,786,439** |
| Fee and commission income | | 50,168 | 55,506 |
| Fee and commission expense | | –60,342 | –52,021 |
| **Net fee and commission income** | 4 | **–10,174** | **3,485** |
| Net result from items at fair value | 5 | –159,622 | –283,049 |
| **Total operating income** | | **7,497,051** | **8,506,875** |
| **Operating expenses** | | | |
| *General administrative expenses:* | | | |
| Staff costs | 6 | –26,615 | –25,689 |
| Other expenses | 7 | –1,140,109 | –1,477,150 |
| **Total operating expenses** | | **–1,166,724** | **–1,502,839** |
| **Profit before loan losses** | | **6,330,327** | **7,004,036** |
| Net loan losses | 8 | –37,600 | –11,051 |
| **Operating profit** | | **6,292,727** | **6,992,985** |
| Income tax expense | 9 | –1,388,529 | –1,550,771 |
| **Net profit for the year** | | **4,904,198** | **5,442,214** |

## Statement of comprehensive income

| SEK (000s) | 2018 | 2017 |
|---|---|---|
| **Net profit for the year** | **4,904,198** | **5,442,214** |
| **Items that may be reclassified subsequently to the income statement** | | |
| *Cash flow hedges:* | | |
| Valuation gains/losses during the year | 233,382 | –784,039 |
| Tax on valuation gains/losses during the year | –51,344 | 172,488 |
| Transferred to the income statement during the year | –273,126 | 144,543 |
| Tax on transfers to the income statement during the year | 60,088 | –31,799 |
| *Fair value through other comprehensive income[1]:* | | |
| Valuation gains/losses during the year | –10,902 | – |
| Tax on valuation gains/losses during the year | 2,398 | – |
| **Other comprehensive income, net of tax** | **–39,504** | **–498,807** |
| **Total comprehensive income** | **4,864,694** | **4,943,407** |

1) Valuation gains/losses realted to hedged risks under fair value hedged risks under fair value hedge accounting are accounted for directly in the income statement.

# Balance sheet

| SEK (000s) | Note | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|---|
| **Assets** | | | |
| Loans to credit institutions | 10 | 5,299,092 | 7,273,948 |
| Loans to the public | 10 | 548,759,159 | 536,933,355 |
| Interest-bearing securities | 11 | 21,083,561 | – |
| Derivatives | 12 | 4,762,400 | 6,175,780 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | | 20,305 | −70,702 |
| Current tax assets | 9 | 29,106 | 341,743 |
| Other assets | 13 | 2,798,059 | 1,154,598 |
| Prepaid expenses and accrued income | 14 | 690,356 | 697,728 |
| **Total assets** | | **583,442,038** | **552,506,450** |
| **Liabilities** | | | |
| Deposits by credit institutions | 15 | 222,064,980 | 194,468,518 |
| Debt securities in issue | 16 | 324,984,129 | 319,801,341 |
| Derivatives | 12 | 351,211 | 498,009 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | | 3,721,108 | 4,796,241 |
| Other liabilities | 17 | 7,020,512 | 7,832,848 |
| Accrued expenses and prepaid income | 18 | 40,032 | 39,266 |
| Deferred tax liabilities | 9 | 5,899 | 14,643 |
| Provisions | 19 | 3,723 | – |
| Subordinated liabilities | 20 | 800,136 | 1,800,248 |
| **Total liabilities** | | **558,991,730** | **529,251,114** |
| **Equity** | | | |
| Share capital | | 110,000 | 110,000 |
| Fair value reserves | | 12,412 | 51,916 |
| Retained earnings | | 19,423,698 | 17,651,206 |
| Net profit for the year | | 4,904,198 | 5,442,214 |
| **Total equity** | | **24,450,308** | **23,255,336** |
| **Total liabilities and equity** | | **583,442,038** | **552,506,450** |

## Other Notes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# Statement of changes in equity

| | Restricted equity | Unrestricted equity | | | |
|---|---|---|---|---|---|
| SEK (000s) | Share capital[1] | Cash flow hedges | Fair value through other comprehensive income: | Retained earnings | Total equity |
| **Balance at 1 Jan 2018** | **110,000** | **51,916** | **–** | **23,093,420** | **23,255,336** |
| Effects from changed accounting policy, net of tax | – | – | – | 11,523 | 11,523 |
| Restated open balance at 1 Jan 2018 | 110,000 | 51,916 | – | 23,104,943 | 23,266,859 |
| Net profit for the year | – | – | – | 4,904,198 | 4,904,198 |
| Items that may be reclassified subsequently to the income statement | | | | | |
| *Fair value through other comprehensive income:* | | | | | |
| Valuation gains/losses during the year | – | – | −10,902 | – | −10,902 |
| Tax on valuation gains/losses during the year | – | – | 2,398 | – | 2,398 |
| *Cash flow hedges:* | | | | | |
| Valuation gains/losses during the year | – | 233,382 | – | – | 233,382 |
| Tax on valuation gains/losses during the year | – | −51,344 | – | – | −51,344 |
| Transferred to the income statement during the year | – | −273,126 | – | – | −273,126 |
| Tax on transfers to the income statement during the year | – | 60,088 | – | – | 60,088 |
| **Other comprehensive income, net of tax** | **–** | **−31,000** | **−8,504** | **–** | **−39,504** |
| **Total comprehensive income** | **–** | **−31,000** | **−8,504** | **4,904,198** | **4,864,694** |
| Group contribution paid | – | – | – | −4,719,545 | −4,719,545 |
| Tax on Group contribution payed | – | – | – | 1,038,300 | 1,038,300 |
| **Balance at 31 Dec 2018** | **110,000** | **20,916** | **−8,504** | **24,327,896** | **24,450,308** |

1) Total number of shares registered were 100,000.

| | Restricted equity | Unrestricted equity | | |
|---|---|---|---|---|
| SEK (000s) | Share capital[1] | Cash flow hedges | Retained earnings | Total equity |
| **Balance at 1 Jan 2017** | **110,000** | **550,723** | **23,149,394** | **23,810,117** |
| Net profit for the year | – | – | 5,442,214 | 5,442,214 |
| Items that may be reclassified subsequently to the income statement | | | | |
| *Cash flow hedges:* | | | | |
| Valuation gains/losses during the year | – | −784,039 | – | −784,039 |
| Tax on valuation gains/losses during the year | – | 172,488 | – | 172,488 |
| Transferred to the income statement during the year | – | 144,543 | – | 144,543 |
| Tax on transfers to the income statement during the year | – | −31,799 | – | 31,799 |
| **Other comprehensive income, net of tax** | **–** | **−498,807** | **–** | **−498,807** |
| **Total comprehensive income** | **–** | **−498,807** | **5,442,214** | **4,943,407** |
| 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** |

1) Total number of shares registered were 100,000.

# Cash flow statement

| SEK (000s) | 2018 | 2017 |
|---|---|---|
| **Operating activities** | | |
| Operating profit | 6,292,727 | 6,992,985 |
| Adjustment for items not included in cash flow | –1,346,530 | –798,877 |
| Income taxes paid | –37,593 | –254,276 |
| **Cash flow from operating activities before changes in operating assets and liabilities** | **4,908,604** | **5,939,832** |
| **Changes in operating assets** | | |
| Change in treasury bills | –11,064 | – |
| Change in loans to the public | –11,865,323 | –5,885,940 |
| Change in interest-bearing securities | –21,083,828 | – |
| Change in derivatives, net | 1,235,780 | 570,553 |
| Change in other assets | –1,643,458 | 1,311,817 |
| **Changes in operating liabilities** | | |
| Change in deposits by credit institutions | 27,513,000 | 25,867,999 |
| Change in debt securities in issue | 5,503,314 | –16,376,025 |
| Change in other liabilities | –5,531,881 | –6,128,752 |
| **Cash flow from operating activities** | **–974,856** | **5,299,484** |
| **Financing activities** | | |
| Amortised subordinated liabilities | –1,000,000 | –1,300,000 |
| **Cash flow from financing activities** | **–1,000,000** | **–1,300,000** |
| **Cash flow for the year** | **–1,974,856** | **3,999,484** |
| Cash and cash equivalents at the beginning of year | 7,273,948 | 3,274,464 |
| Cash and cash equivalents at the end of year | 5,299,092 | 7,273,948 |
| **Change** | **–1,974,856** | **3,999,484** |

## Comments on the cash flow statement

The cash flow statement shows inflows and outflows of cash and cash equivalents during the year for total operations. Nordea Hypotek's cash flow has been prepared in accordance with the indirect method, whereby operating profit is adjusted for effects of non-cash transactions such as depreciation and loan losses. The cash flows are classified by operating and financing activities.

## Operating activities

Operating activities are the principal revenue-producing activities and cash flows are mainly derived from the operating profit for the year with adjustment for items not included in cash flow and income taxes paid. Adjustment for non-cash items includes:

| SEK (000s) | 2018 | 2017 |
|---|---|---|
| Loan losses | 39,519 | 13,128 |
| Unrealised gains/losses | 42,132 | 2,068,023 |
| Change in accruals and provisions | –234,058 | –925,394 |
| Change in fair value of the hedge items, assets/liabilities (net) | –1,166,141 | –2,095,323 |
| Other | –27,982 | 140,689 |
| **Total** | **–1,346,530** | **–798,877** |

Changes in operating assets and liabilities consist of assets and liabilities that are part of normal business activities, such as loans and debt securities in issue. Changes in derivatives are reported net.

Cash flow from operating activities includes interest payments received and interest expenses paid with the following amounts:

| SEK (000s) | 2018 | 2017 |
|---|---|---|
| Interest payments received | 8,034,572 | 8,894,514 |
| Interest expenses paid | –596,160 | –819,114 |

## Financing activities

Financing activities are activities that result in changes in equity and subordinated liabilities, such as issued/amortised subordinated liabilities.

## Cash and cash equivalents

The following items are included in Cash and cash equivalents:

| SEK (000s) | 2018 | 2017 |
|---|---|---|
| Loans to credit institutions, payable on demand | 5,299,092 | 7,273,948 |

Loans to credit institutions, payable on demand include liquid assets not represented by bonds or other interest-bearing securities.

# Notes to the financial statements

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# Note 1. Accounting policies

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## 1. Basis for presentation

The financial statements for Nordea Hypotek AB (publ), are prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (1995:1559), the accounting regulations of the Swedish Financial Supervisory Authority (FFFS 2008:25 including amendments) and the accounting recommendation RFR 2 Accounting for legal entities issued by the Swedish Financial Reporting Board. This means that Nordea Hypotek AB (publ) applies International Financial Reporting Standards (IFRS) as endorsed by the European Commission to the extent possible within the framework of Swedish accounting legislation and considering the close tie between financial reporting and taxation.

The disclosures, required in the standards and legislation above, have been included in the notes, the Risk, Liquidity and Capital management section or in other parts of the “Financial statements”.

On 22 February 2019 the Board of Directors approved the annual report, subject to final approval of the Annual General Meeting on 11 March 2019.

In all material respects, the accounting policies, basis for calculations and presentation are unchanged from the 2017 Annual Report, with the exception of changed accounting policies and presentation described in the section below, “Changed accounting policies and presentation”. The comparative figures for 2017 are presented in accordance with IAS 39, for further information see Note 1 in the 2017 Annual Report.

## 2. Changed accounting policies and presentation

The new accounting requirements implemented in 2018 and their effects on Nordea Hypotek’s financial statements are described below.

### IFRS 9 “Financial instruments”

The new standard IFRS 9 “Financial instruments” covers classification and measurement, impairment and general hedge accounting and replaces the existing requirements covering these areas in IAS 39. The requirements in IFRS 9 regarding classification, measurement and impairment were applied at Nordea Hypotek on 1 January 2018. Nordea Hypotek continues to apply the hedge accounting requirements according to IAS 39.

Overall, IFRS 9 gives a positive impact on equity equalling SEK 12m after tax (in Note 1 of the 2017 annual report, SEK 11m was stated, which was corrected to SEK 12m in the first quarter of 2018), which was recognised as an adjustment to the opening balance at 1 January 2018. See below for more information about the transition effects of IFRS 9 on 1 January 2018. Nordea Hypotek has not restated the comparative figures for 2017.

### Classification and measurement

The classification and measurement requirements in IFRS 9 state that financial assets should be classified as, and measured at, amortised cost, fair value through profit and loss or fair value through other comprehensive income. The classification of a financial instrument is dependent on the business model for the portfolio in which the instrument is included and on whether the cash flows are solely payments of principal and interest (SPPI).

In order to assess the business model, Nordea Hypotek has divided its financial assets into portfolios and/or sub-portfolios based on how groups of financial assets are managed together to achieve a particular business objective. To derive the right level on which portfolios are determined, the current business area structure has been considered. When determining the business model for each portfolio, Nordea Hypotek has analysed the objective with the financial assets as well as for instance past sales behaviour and management compensation.

Nordea Hypotek has analysed the cash flows from the financial assets held as at 31 December 2017 in order to determine whether they are SPPI compliant. This has been performed by grouping contracts which are homogeneous from a cash flow perspective and conclusions have been drawn for all contracts within that group. For agreements signed after 1 January 2018, only restructured agreements may contain cash flows that are not SPPI-compliant, and for restructured agreements this analysis shall be performed for each individual agreement.

The new classification and measurement requirements in IFRS 9 resulted in the following classification of assets and liabilities at transition on 1 January 2018, see table "Classification of assets and liabilities under IFRS 9 on page 28.

The new classification and measurement requirements in IFRS 9 resulted in the following reclassification and revaluation of assets and liabilities at transition on 1 January 2018, see table "Reclassification of assets and liabilities at transition" on page 28.

The new requirements have not had any significant impact on Nordea Hypotek’s capital adequacy, large exposures, risk management or alternative performance measures in the period of initial application.

### Impairment

The impairment requirements in IFRS 9 are based on an expected loss model as opposed to the current incurred loss model in IAS 39. The scope of IFRS 9 impairment requirements is also broader than IAS 39. IFRS 9 requires all assets measured at amortised cost and fair value through other comprehensive income, as well as off-balance commitments including guarantees and loan commitments, to be included in the impairment test. Under IAS 39, Nordea Hypotek did not calculate collective allowances for off-balance-sheet items or for financial instruments classified into the measurement category Financial assets at fair value through other comprehensive income.

The assets to test for impairment will be divided into three groups depending on the stage of credit deterioration. Stage 1 includes assets where there has been no significant deterio-

# Note 1. Accounting policies, cont.

## Classification of assets and liabilities under IFRS 9

### Assets

| 1 Jan 2018, SEKm | Amortised cost (AC) | Fair value through profit or loss (FVPL) Mandatorily | Fair value through profit or loss (FVPL) Designated at fair value through profit or loss (Fair value option) | Fair value through profit or loss (FVPL) Derivatives used for hedging | Fair value through other comprehensive income | Non-financial assets | Total |
|---|---|---|---|---|---|---|---|
| Loans | 544,221 | – | – | – | – | – | 544,221 |
| Derivatives | – | – | – | 6,176 | – | – | 6,176 |
| Fair value changes of the hedged item in portfolio hedge of interest rate risk | -71 | – | – | – | – | – | -71 |
| Current tax assets | – | – | – | – | – | 342 | 342 |
| Other assets | 1,154 | – | – | – | – | – | 1,154 |
| Prepaid expenses and accrued income | 698 | – | – | – | – | – | 698 |
| **Total assets** | **546,002** | **–** | **–** | **6,176** | **–** | **342** | **552,520** |

### Liabilities

| 1 Jan 2018, SEKm | Amortised cost (AC) | Fair value through profit or loss (FVPL) Mandatorily | Fair value through profit or loss (FVPL) Designated at fair value through profit or loss (Fair value option) | Fair value through profit or loss (FVPL) Derivatives used for hedging | Fair value through other comprehensive income | Non-financial liabilities | Total |
|---|---|---|---|---|---|---|---|
| Deposit by credit institutions | 194,469 | – | – | – | – | – | 194,469 |
| Debt securities in issue | 319,801 | – | – | – | – | – | 319,801 |
| Derivatives | – | – | – | 498 | – | – | 498 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 4,796 | – | – | – | – | – | 4,796 |
| Other liabilities | 7,832 | – | – | – | – | 1 | 7,833 |
| Accrued expenses and prepaid income | 39 | – | – | – | – | – | 39 |
| Deferred tax liabilities[1] | – | – | – | – | – | 18 | 18 |
| Subordinated liabilities | 1,800 | – | – | – | – | – | 1,800 |
| **Total liabilities** | **528,737** | **–** | **–** | **498** | **–** | **19** | **529,254** |

1) Increase in the net tax liability, SEK 3m. The amount has been classified as a non-financial liability.

## Reclassification of assets and liabilities at transition

| Assets, SEKm | Amortised cost (AC) | Fair value through profit or loss (FVPL) Mandatorily | Fair value through profit or loss (FVPL) Designated at fair value through profit or loss (Fair value option) | Fair value through profit or loss (FVPL) Derivatives used for hedging | Fair value through other comprehensive income | Non-financial assets | Total |
|---|---|---|---|---|---|---|---|
| Balance at 31 Dec 2017 under IAS 39 | 545,988 | – | – | 6,176 | – | 342 | 552,506 |
| Remeasurement | 15 | – | – | – | – | – | 15 |
| Balance at 1 Jan 2018 under IFRS 9 | 546,003 | – | – | 6,176 | – | 342 | 552,521 |

| Liabilities, SEKm | Amortised cost (AC) | Fair value through profit or loss (FVPL) Mandatorily | Fair value through profit or loss (FVPL) Designated at fair value through profit or loss (Fair value option) | Fair value through profit or loss (FVPL) Derivatives used for hedging | Non-financial liabilities | Total |
|---|---|---|---|---|---|---|
| Balance at 31 Dec 2017 under IAS 39 | 528,737 | – | – | 498 | 16 | 529,251 |
| Remeasurement[1] | – | – | – | – | 3 | 3 |
| Balance at 1 Jan 2018 under IFRS 9 | 528,737 | – | – | 498 | 19 | 529,254 |

1) Increase in the net tax liability, SEK 3m. The amount has been classified as a non-financial liability.

## Note 1. Accounting policies, cont.

ration in credit risk, stage 2 includes assets where there has been a significant deterioration and stage 3 includes defaulting assets. Assets of substantial value in stage 3 are individually impairment tested, while assets of a negligible value are subject to a collective assessment. In stage 1, the provisions equal the 12-month expected loss. In stage 2 and 3, the provisions equal the lifetime expected losses.

One important driver for size of provisions under IFRS 9 is the trigger for transferring an asset from stage 1 to stage 2. For assets held at transition, Nordea Hypotek has decided to use internal changes in rating and scoring data to determine whether or not a significant increase in credit risk has occurred. For assets added after transition, changes to the lifetime Probability of Default (PD) are used as the trigger. Nordea Hypotek has concluded it is not possible to calculate the lifetime PDs at origination without the use of hindsight for assets already recognised on the balance sheet at transition. For assets evaluated based on lifetime PDs, Nordea Hypotek has decided to use a mix of absolute and relative changes in PD as the transfer criterion. In addition, customers with forbearance measures and customers with payments more than thirty days past due are also transferred to stage 2.

Nordea Hypotek's model for calculating collective provisions according to IAS 39 defines a loss event as one notch of deterioration in rating/scoring, while the triggering event for moving items from stage 1 to stage 2 under IFRS 9 requires several notches of deterioration.

The provisions under IFRS 9 are calculated as the exposure at default, times the probability of default, times the loss given default. For assets in stage 1 this calculation is only based on the coming 12 months, while for assets in stage 2 it is based on the expected lifetime of the asset.

For assets for which there has been a significant increase in credit risk, Nordea Hypotek previously (under IAS 39) held provisions equal to the losses expected to emerge from the date when the loss event occurred to the date when the loss event is identified on an individual basis – the emergence period, while IFRS 9 requires provisions equal to the lifetime of the expected credit losses.

When calculating lifetime losses under IFRS 9, including the staging assessment, the calculation is based on probability-weighted forward-looking information. Nordea Hypotek has decided to apply three macroeconomic scenarios to address the non-linearity in expected credit losses. The different scenarios are used to adjust the relevant parameters for calculating expected losses and a probability-weighted average of the expected losses under each scenario is recognised as a provision.

The quantitative impact from the new impairment requirements on total allowances and provisions for on- and off-balance exposures, was a reduction of SEK 15m (in the annual report for 2017, SEK 14m was stated, which was corrected to SEK 15m in 2018). Equity increased by SEK 12m (in the 2017 annual report, SEK 11m was stated, which was changed to SEK 12m in 2018). The impact on the Common Equity Tier 1 capital ratio, after adjustment of the shortfall deduction and before transition rules, was insignificant. Nordea Hypotek has not applied the transition rules issued by the EU which allow phasing in the effect on Common Equity Tier 1 capital ratio. Large exposures were not materially affected. The effect on provisions is shown in the table below.

Impairment calculations under IFRS 9 require more experienced credit judgements by the reporting entities than was required by IAS 39 and a higher subjectivity is thus introduced. The inclusion of forward-looking information adds complexity and makes provisions more dependent on management's view of the future economic outlook. Impairment calculations under IFRS 9 are expected to be more volatile and cyclical compared with the calculation under IAS 39, mainly due to the high degree of subjective judgement in future scenarios.

### 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 lease contracts. The standard was introduced by Nordea Hypotek on 1 January 2018 and it has not had any significant impact on Nordea Hypotek's financial reporting.

### Other amended requirements

The following new and amended standards and interpretations were implemented by Nordea Hypotek on 1 January 2018 but have not had any significant impact on the financial statements of Nordea Hypotek:

- Annual Improvements to IFRS, 2014–2016

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

In addition, the Swedish Financial Supervisory Authority has amended regulation FFFS 2008:25 by issuing FFFS 2017:18 and the Swedish Financial Reporting Board has amended the accounting recommendation for legal entities by issuing "RFR 2 Accounting for Legal Entities – January 2018". These amendments have been implemented on 1 January 2018 but

#### Reclassification of provisions at transition

| SEKm | Held to maturity | Loans and receivables | Amortised cost (AC) | Available for sale | Fair value through other comprehensive income | Off balance | Total |
|---|---|---|---|---|---|---|---|
| **Balance at 31 Dec 2017 under IAS 39** | **–** | **67** | **–** | **–** | **–** | **–** | **67** |
| Reclassification to AC | – | –67 | 67 | – | – | – | – |
| Reclassification to FVPL | – | – | – | – | – | – | – |
| Remeasurement under IFRS 9, collective provisions | – | – | –15[1] | – | – | – | –15 |
| Remeasurement under IFRS 9, individually provisions | – | – | – | – | – | – | – |
| **Balance at 1 Jan 2018 under IFRS 9** | **–** | **–** | **52** | **–** | **–** | **–** | **52** |

1) The main reason for Nordea Hypotek's low collective provisions is the company's historically low credit losses. The latter have, in the IFRS9 model, had a greater impact than before, and this, together with a bright future outlook for the value of collateral pledged for the company's loans, explains the change in collective provisions.

# Note 1. Accounting policies, cont.

have not had any significant impact on the financial statements.

## 3. Changes in IFRSs not yet applied

### IFRS 9 "Financial instruments" – hedge accounting

The new standard IFRS 9 "Financial instruments" covers classification and measurement, impairment and general hedge accounting and replaces the existing requirements covering these areas in IAS 39. The requirements in IFRS 9 regarding classification, measurement and impairment, as set out above, were applied at Nordea Hypotek on 1 January 2018. However, Nordea Hypotek has chosen not to apply the hedge accounting requirements in IFRS 9 in 2018 but continues instead to use the hedge accounting requirements in IAS 39.

The main change to the general hedge accounting requirements is that the standard aligns hedge accounting more closely with the risk management activities. As Nordea Hypotek generally uses macro (portfolio) hedge accounting, Nordea Hypotek's assessment is that the new requirements will not have any significant impact on Nordea Hypotek's financial statements, capital adequacy, large exposures, risk management or alternative performance measures in the period of initial application.

### 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 changes in IFRS

The IASB has published the following new or amended standards that are assessed to have no material impact on Nordea's financial statements, capital adequacy or large exposures in the period of initial application:

- Amendments to IFRS 9: Prepayment features with negative compensation
- Annual Improvements to IFRS, 2015–2017
- Amendments to references to the conceptual framework in IFRS standards
- Amendments to IAS 1 and IAS 8: Definition of material

## 4. Critical judgements and estimation uncertainty

The preparation of financial statements in accordance with generally accepted accounting principles requires, in some cases, the use of judgements and estimates by management. Actual outcome can later, to some extent, differ from the estimates and the assumptions made. In this section Nordea Hypotek describes:

- the sources of estimation uncertainty at the end of the reporting period, which involve a significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next financial year, and
- the judgements made when applying accounting policies (apart from those involving estimations) that have the most significant effect on the amounts recognised in the financial statements.

Critical judgements and estimates are in particular associated with:

- impairment testing of loans to the public/credit institutions
- the effectiveness testing of cash flow hedges

### Impairment testing of loans to the public/credit institutions

Nordea Hypotek's accounting policy for impairment testing of loans is described in section 11 "Loans to the public/credit institutions".

Management is required to exercise critical judgements and estimates when calculating loan impairment allowances on both individually assessed and collectively assessed loans. Nordea Hypotek's total lending before impairment allowances was SEK 554,141m (SEK 544,274) at the end of the year. For more information, see Note 10 "Loans and impairment".

For individually assessed loans, judgements are made to estimate the amount and the time of the expected cash flows from customers in different scenarios, including valuation of any collateral received. Judgements are also made to derive the probability of the various scenarios transpiring.

For collective provisions, judgements are made to evaluate when an exposure has resulted in a material increase in credit risk. When such is the case, the allowance shall reflect lifetime expected loss, unlike exposures with credit risk that has not increased substantially, for which the allowance refers to the 12-month expected loss. Judgements are also made in the choice of models that use other parameters in the calculation of expected losses, such as the expected duration used in stage 2, and in the assessment of whether the parameters that use historical data are relevant for estimating future losses.

The collective allowances are based on macroeconomic scenarios, which requires management to make judgements when devising such scenarios and specifying the probability of the various scenarios transpiring. Judgements are also made to establish the extent to which the parameters for the various scenarios, which have been based on historical data, are relevant to estimating future losses.

### Effectiveness testing of cash flow hedges

Nordea Hypotek's accounting policies for cash flow hedges are described in section 8 "Hedge accounting".

One important judgement in connection to cash flow hedge accounting is the choice of method used for effectiveness testing.

Where Nordea Hypotek applies cash flow hedge accounting, the hedging instruments used are predominantly cross currency interest rate swaps, which are always held at fair value. The currency component is designated as a cash flow hedge of currency risk and the interest component as a fair value hedge of interest rate risk. The hypothetical derivative method is used when measuring the effectiveness of these cash flow hedges, meaning that the change in a perfect hypothetical swap is used as a proxy for the present value of the cumulative change in expected future cash flows on the hedged transaction (the currency component). Critical judgement has to be exercised when defining the characteristics of the perfect hypothetical swap.

## 5. Recognition of operating income and impairment

### Net interest income

Interest income and expense are calculated and recognised based on the effective interest rate method or, if considered appropriate, based on a method that results in an interest income or interest expense that is a reasonable approximation of using the effective interest rate method as a basis for the calculation. The effective interest includes fees considered to be an integral part of the effective interest rate of a financial instrument (generally fees received as compensation for risk). The effective interest rate equals the rate that discounts

## Note 1. Accounting policies, cont.

the estimated future cash flows to the net carrying amount of the financial asset or financial liability.

Interest income and expenses from financial instruments are, with the exceptions described below, classified as "Net interest income".

The interest component in FX swaps, and the interest paid and received in interest rate swaps plus changes in accrued interest, are classified as "Net result from items at fair value", apart from derivatives used for hedging, including economical hedges of Nordea Hypotek's funding, where such components are classified as "Net interest income".

Interest income is disclosed in two lines of the income statement, Interest income from using the effective interest rate method, and Other interest income. In the line Interest income from using the effective interest rate method, Nordea Hypotek presents interest income from financial assets measured at amortised cost and at fair value through other comprehensive income. This line also includes the effect of hedge accounting related to these assets. All other interest income is disclosed in the income statement in the line Other interest income.

### Net fee and commission income

Nordea Hypotek earns commission income from services related to lending to customers. Commission income and commission expenses are normally transaction-based and recognised in the period when the services were provided and obtained.

### Net result on items at fair value

Realised and unrealised gains and losses on financial instruments measured at fair value through profit or loss are recognised in the item "Net result from items at fair value". Realised and unrealised gains and losses originate from:

- Interest-bearing securities and other interest-related instruments
- Foreign exchange gains/losses
- Other financial instruments

The ineffective component of cash flow hedges is recognised in "Net result from items at fair value".

Realised gains and losses on financial instruments measured at amortised cost, such as interest differential compensation received and realised gains/losses on buybacks of own debt issued, are also recognised in "Net result from items at fair value".

### Net loan losses

Impairment losses from financial assets classified into the category Loans and receivables (see section 10 "Financial instruments"), in the items "Loans to credit institutions" and "Loans to the public" on the balance sheet, are reported as "Net loan losses". Losses are reported net of any collateral and other credit enhancements. The accounting policies for the calculation of impairment losses on loans can be found in section 11 "Loans to the public/credit institutions".

Counterparty losses attributable to financial instruments classified into the category Financial assets at fair value through profit or loss are reported under "Net result from items at fair value".

### 6. Recognition and derecognition of financial instruments on the balance sheet

Derivative instruments, issued securities and foreign exchange spot transactions are recognised on and derecognised (reclassified to the items "Other assets" or "Other liabilities" on the balance sheet between trade date and settlement date) from the balance sheet on the trade date. Other financial instruments are recognised on the balance sheet on the settlement date.

Financial assets, other than those for which trade accounting is applied, are derecognised from the balance sheet when the contractual rights to the cash flows from the financial asset expire or are transferred to another party. The rights to the cash flows normally expire or are transferred when the counterpart has performed by e.g. repaying a loan to Nordea Hypotek, i.e. on the settlement date.

In some cases, Nordea Hypotek enters into transactions where it transfers assets that are recognised on the balance sheet, but retains either all or a portion of risks and rewards from the transferred assets.

If all or substantially all risks and rewards are retained, the transferred assets are not derecognised from the balance sheet. If Nordea Hypotek's counterpart can sell or repledge the transferred assets, the assets are reclassified to the item "Financial instruments pledged as collateral" on the balance sheet. Transfers of assets with retention of all risks and rewards include reversed repurchase agreements.

Financial liabilities are derecognised from the balance sheet when the liability is extinguished. This usually occurs when Nordea Hypotek fulfils its part of the agreement, i.e. on the settlement date. Financial liabilities under trade date accounting are generally reclassified to "Other liabilities" on the balance sheet on trade date.

For further information, see section 10 "Financial instruments" (Reverse repurchase agreements).

### 7. Translation of assets and liabilities denominated in foreign currencies

Nordea Hypotek's functional currency and presentation currency is Swedish kronor (SEK).

Foreign currency is defined as a currency other than the functional currency of the entity. Transactions in foreign currency are recognised at the price on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate on the balance sheet date.

Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction, and unrealised translation differences on unsettled foreign currency monetary assets and liabilities, are recognised in the income statement in the item "Net result from items at fair value".

### 8. Hedge accounting

When a hedging relationship meets the specified hedge accounting criteria set out in IAS 39, Nordea Hypotek applies one of three types of hedge accounting:

- Fair value hedge accounting
- Cash flow hedge accounting
- Hedges of net investments

Hedges of net investments in foreign operations do not occur at Nordea Hypotek.

Nordea Hypotek has elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with the carve out version of IAS 39.

The EU carve out version enables a group of derivatives (or proportions thereof) to be viewed in combination and be designated as the hedging instrument. It also removes some of the limitations in fair value hedge accounting relating to hedging core deposits and under-hedging strategies.

At inception, Nordea Hypotek formally documents how the hedging relationship meets the hedge accounting criteria,

## Note 1. Accounting policies, cont.

including the economic relationship between the hedged item and the hedging instrument, the nature of the risk, the risk management objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship on an ongoing basis.

The application of hedge accounting requires the hedge to be highly effective. A hedge is regarded as highly effective if at inception and throughout its life it can be expected that changes in fair value of the hedged item, as regards the hedged risk can be essentially offset by changes in fair value of the hedging instrument. The result should be within a range of 80–125 per cent.

Transactions that are entered into in accordance with Nordea Hypotek's hedging objectives but do not qualify for hedge accounting, are economic hedge relationships.

### Fair value hedge accounting

Fair value hedge accounting is used when derivatives are hedging changes in fair value of a recognised asset or liability attributable to a specific risk. The risk of changes in fair value of assets and liabilities in Nordea Hypotek's financial statements originates mainly from loans, securities and fixed-rate borrowings, causing interest rate risk. Changes in fair value from derivatives as well as changes in fair value of the hedged item attributable to the risks being hedged are recognised separately in the income statement in the item "Net result from items at fair value". Given an effective hedge, the two changes in fair value will more or less balance, meaning the net result is close to zero. The changes in fair value of the hedged item attributable to the risks hedged with the derivative instrument are reflected in an adjustment to the carrying amount of the hedged item, which is also recognised in the income statement. The fair value change of the hedged item held at amortised cost in a portfolio hedge of interest rate risks is reported separately from the portfolio in the item "Fair value changes of the hedged items in portfolio hedge of interest rate risk" on the balance sheet.

At Nordea Hypotek, fair value hedging is applied predominantly on a portfolio basis. Any ineffectiveness is recognised in the income statement in the item "Net result from items at fair value".

### Hedged items

A hedged item in a fair value hedge can be a recognised single asset or liability, an unrecognised firm commitment, or a portion thereof. The hedged item can also be a group of assets, liabilities or firm commitments with similar risk characteristics. Hedged items in Nordea Hypotek consist of both individual assets or liabilities and portfolios of assets and/or liabilities.

### Hedging instruments

The hedging instruments used in Nordea Hypotek are interest rate swaps and cross currency interest rate swaps, which are always held at fair value.

### Cash flow hedge accounting

Cash flow hedge accounting can be used for the hedging of exposure to variations in future interest payments on instruments with variable interest rates and for the hedging of currency exposures. The portion of the gain or loss on the hedging instrument, that is determined to be an effective hedge, is recognised in other comprehensive income and accumulated in the fair value reserve in equity. The ineffective portion of the gain or loss on the hedging instrument is recycled to the item "Net result from items at fair value" in the income statement.

Gains or losses on hedging instruments recognised in the fair value reserve in equity through other comprehensive income are recycled and recognised in the income statement in the same period as the hedged item affects profit or loss, normally in the period that interest income or interest expense is recognised.

### Hedged items

A hedged item in a cash flow hedge can be highly probable floating interest rate cash flows from recognised assets or liabilities or from future assets or liabilities. Nordea Hypotek uses cash flow hedges when hedging currency risk in future payments of interest and principal in foreign currency.

### Hedging instruments

The hedging instruments used in Nordea Hypotek are predominantly cross currency interest rate swaps, which are always held at fair value, where the currency component is designated as a cash flow hedge of currency risk and the interest component as a fair value hedge of interest rate risk.

### Hedge effectiveness

The application of hedge accounting requires the hedge to be highly effective. A hedge is regarded as highly effective if at inception and throughout its life it can be expected that changes in fair value of the hedged item as regards the hedged risk can be essentially offset by changes in fair value of the hedging instrument. The outcome shall be in the range of 80–125 per cent.

When assessing hedge effectiveness retrospectively Nordea Hypotek measures the fair value of the hedging instruments and compares the change in fair value of the hedging instrument to the change in fair value of the hedged item. Effectiveness is measured accumulatively. The hypothetical derivative method is used when measuring the effectiveness of cash flow hedges, meaning that the change in a perfect hypothetical swap is used as a proxy for the present value of the cumulative change in expected future cash flows for the hedged transaction (the currency component).

If the hedge relationship does not fulfil the requirements, hedge accounting is terminated. For fair value hedges the hedging instrument is reclassified to a trading derivative and the change in the fair value of the hedged item, up to the point when the hedge relationship is terminated, is amortised to the income statement on a straight-line basis over the remaining maturity of the hedged item.

In cash flow hedges, changes in the unrealised value of the hedging instrument will prospectively from the last time it was proven effective be accounted for in the income statement. The cumulative gain or loss on the hedging instrument that has been recognised in the fair value reserve in equity through other comprehensive income from the period when the hedge was effective is reclassified from equity to "Net result from items at fair value" in the income statement if the expected transaction is no longer expected to occur. If the expected transaction is no longer highly probable, but could still be expected to occur, the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income from the period when the hedge was effective remains in other comprehensive income until the transaction occurs or is no longer expected to occur.

### 9. Determination of fair value of financial instruments

Financial assets and liabilities classified into the categories Financial assets/liabilities measured at fair value through profit or loss (including derivative instruments) are recorded at fair value on the balance sheet. Changes in fair values are recognised in the income statement in the item "Net result from items at fair value".

Fair value is defined as the price that, at the measurement

## Note 1. Accounting policies, cont.

date, would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants under current market conditions in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability.

The existence of published quoted prices in an active market is the best evidence of fair value and when they exist they are used to measure financial assets and financial liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. The absolute level for liquidity and volume required for a market to be considered active varies with the instrument classes. For some classes low price volatility is seen, also for those instruments within the class for which trade frequency is high. For instruments in such a class the liquidity requirements are lower and, correspondingly, the age limit for the prices used for establishing fair value is higher.

Whether markets are active or non-active is assessed regularly. The trade frequency and volume are monitored daily.

If quoted prices for a financial instrument fail to represent actual and regularly occurring market transactions or if quoted prices are not available, fair value is established by using an appropriate valuation technique. The adequacy of the valuation technique, including an assessment of whether to use quoted prices or theoretical prices, is monitored on a regular basis.

Valuation models are designed to apply observable market prices and rates as input whenever possible, but can also make use of unobservable model parameters. Nordea Hypotek predominantly uses valuation techniques to determine the fair value of derivative instruments (OTC derivatives).

For financial instruments, for which fair value is estimated by a valuation technique, it is investigated whether the variables used in the valuation model are predominantly based on data from observable markets. By data from observable markets, Nordea Hypotek considers data that can be collected from generally available external sources and where this data is judged to represent realistic market prices.

If non-observable data has a significant impact on the valuation, the instrument cannot be recognised initially at the fair value estimated by the valuation technique and any upfront gains are thereby deferred and amortised through the income statement over the contractual life of the instrument. The deferred upfront gains are subsequently released to income if the non-observable data becomes observable.

A breakdown of fair values of financial instruments measured on the basis of quoted prices in active markets for the same instrument (level 1), valuation technique using observable data (level 2), and valuation technique using non-observable data (level 3), is provided in Note 25 “Assets and liabilities at fair value”.

The valuation models applied by Nordea Hypotek are consistent with accepted economic methodologies for pricing financial instruments and incorporate the factors that market participants consider when setting a price.

New valuation models are subject to approval by a model risk management committee at Nordea Bank Abp and all models are reviewed on a regular basis.

For further information, see Note 25 “Assets and liabilities at fair value”.

### 10. Financial instruments

#### Classification of financial instruments

Each financial instrument has been classified into one of the following categories:

Financial assets:
- Amortised cost
- Financial assets at fair value through profit or loss:
  - Mandatorily measured at fair value through profit or loss
- Financial assets at fair value through other comprehensive income.

Financial liabilities:
- Amortised cost
- Financial liabilities at fair value through profit or loss:
  - Mandatorily measured at fair value through profit or loss

The classification of a financial asset is dependent on the business model for the portfolio in which the instrument is included and on whether the cash flows are solely payments of principal and interest (SPPI).

Financial assets with cash flows that are not solely payments of principle and interest (SPPI) are measured at fair value through profit and loss. All other assets are classified based on the business model. Instruments included in a portfolio with a business model for which the intention is to keep the instruments and collect contractual cash flows are measured at amortised cost. Instruments included in a business model for which the intention is to both keep the instruments to collect the contractual cash flows and sell the instruments are measured at fair value through other comprehensive income. Financial assets included in any other business model are measured at fair value through profit and loss.

In order to assess the business model, Nordea Hypotek has divided its financial assets into portfolios and/or sub-portfolios based on how groups of financial assets are managed together to achieve a particular business objective. To derive the right level on which portfolios are determined, the current business area structure has been considered. When determining the business model for each portfolio Nordea Hypotek has analysed the objective with the financial assets as well as for instance past sales behaviour and management compensation.

All financial assets and liabilities are initially measured at fair value. The classification of financial instruments into different categories forms the basis for how each instrument is subsequently measured on the balance sheet and how the change in its value are recognised. In Note 24 “Classification of assets and liabilities under IFRS 9", the classification of the financial instruments on Nordea Hypotek’s balance sheet into the different categories under IFRS 9 is presented.

#### Amortised cost

Financial assets and liabilities measured at amortised cost are initially recognised on the balance sheet at fair value, including transaction costs. After initial recognition, instruments in this category are measured at amortised cost. In an amortised cost measurement, the difference between acquisition cost and redemption value is amortised in the income statement over the remaining term using the effective interest rate method. Amortised cost is defined as the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and for financial assets, adjusted for any loss allowance. For more information about the effective interest rate method see Note 3 “Net interest income”, section 5, “Net interest income”. Information on impairment under IFRS 9 is provided in section 11 below under “Impairment testing of individually/collectively assessed loans”.

Interest on assets and liabilities classified at amortised cost is recognised in the item “Interest income” and “Interest expense” in the income statement.

This category mainly consists of all lending and deposits, with the exception of reverse repurchase agreements.

# Note 1. Accounting policies, cont.

### Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities at fair value through profit or loss are measured at fair value, excluding transaction costs. All changes in fair values are recognised directly in the income statement in the item "Net result from items at fair value".

This category has two subcategories: "Mandatorily measured at fair value through profit and loss", and "Designated at fair value through profit or loss" (fair value option); the latter subcategory does not occur at Nordea Hypotek.

The subcategory "Mandatorily measured at fair value through profit and loss" mainly contains interest-bearing securities included in part of the liquidity buffer and derivatives.

### Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income are measured at fair value plus transaction costs. This category mainly consists of the interest-bearing securities included in part of the liquidity buffer. Changes in fair values, except for interest, foreign exchange effects and impairment losses, are recognised in the fair value reserve in equity through other comprehensive income. Interest is recognised in the item "Interest income" and foreign exchange effects and impairment losses in the item "Net result from items at fair value" in the income statement. When an instrument is disposed of, the fair value changes previously accumulated in the fair value reserve in other comprehensive income are removed from equity and recognised in the income statement in the item "Net result from items at fair value". Information about impairment under IFRS 9 is provided in section 11, under "Impairment testing of individually/collectively assessed loans".

### Other financial liabilities

Other financial liabilities are measured at amortised cost. Interest on Other financial liabilities is recognised in the item "Interest expense" in the income statement.

### Reverse repurchase agreements

Securities received under reverse repurchase agreement are not recognised in the balance sheet. In the cases where the counterpart has the right to resell or repledge the securities, the securities are recognised in the balance sheet as "Financial instruments pledged as collateral".

Cash delivered under reverse repurchase agreements is recognised on the balance sheet as "Loans and receivables to credit institutions" or as "Loans and receivables to the public".

### Derivatives

All derivatives are recognised on the balance sheet and measured at fair value. Derivatives with total positive fair values, including any accrued interest, are recognised as assets in the item "Derivatives". Derivatives with total negative fair values, including any accrued interest, are recognised as liabilities in the item "Derivatives" on the liability side.

Realised and unrealised gains and losses from derivatives are recognised in the income statement in the item "Net result from items at fair value".

### Offsetting of financial assets and liabilities

Nordea Hypotek offsets financial assets and liabilities on the balance sheet if there is a legal right to offset, in the ordinary course of business and in case of bankruptcy, if the intent is to settle the items net or realise the asset and settle the liability simultaneously. This is generally achieved through the central counterparty clearing houses that Nordea Hypotek has agreements with.

Exchange-traded derivatives are generally accounted for as settled on a daily basis when cash is paid or received and the instrument is reset to market terms.

### Issued debt and equity instruments

A financial instrument issued by Nordea Hypotek is either classified as a financial liability or equity. Issued financial instruments are classified as a financial liability if the contractual arrangement results in Nordea Hypotek having a present obligation to either deliver cash or another financial asset, or a variable number of equity instruments to the holder of the instrument. If this is not the case, the instrument is generally an equity instrument and classified as equity, net of transaction costs. Where issued financial instruments contain both liability and equity components, these are accounted for separately.

## 11. Loans to the public/credit institutions

### Scope

Financial instruments classified as "Amortised cost" or "Fair value through other comprehensive income" are in scope for recognising impairment due to credit risk. This includes assets recognised on the balance sheet as "Loans to credit institutions", "Loans to the public" and "Interest-bearing securities". These balance sheet items also include assets that have been classified as "Fair value through profit or loss", which are not in scope for impairment calculations. See section 6 above and Note 24 "Classification of financial instruments".

Off-balance sheet commitments, contingent liabilities and loan commitments are also in scope for impairment calculations.

### Recognition and presentation

Amortised cost assets are recognised gross with an offsetting allowance for the expected credit losses if the loss is not regarded as final. The allowances are disclosed net on the face of the balance sheet, but are disclosed separately in the notes. Changes in allowances are recognised in the income statement and classified as "Net loan losses".

If the impairment loss is regarded as final, it is reported as a realised loss and the carrying amount of the loan and the related allowance for impairment loss are derecognised. An impairment loss is regarded as final when the obligor is filed for bankruptcy and the administrator has declared the economic outcome of the bankruptcy procedure, or when Nordea forgives its claims either through a legal-based or voluntary reconstruction or when Nordea Hypotek, for other reasons, deems it unlikely that the claim will be recovered.

Provisions for off-balance sheet exposures are classified as "Provisions" on the balance sheet, with changes in provisions classified as "Net loan losses".

Assets classified as "Fair value through other comprehensive income" are recognised at fair value on the balance sheet. Impairment losses calculated in accordance with IFRS 9 are recognised in the income statement and classified as "Net result from items at fair value". Any fair value adjustments are recognised in "Other comprehensive income".

### Impairment testing

Nordea Hypotek classifies all exposures into sages on an individual basis. The purpose of the impairment tests is to find out if the exposures have become credit impaired (stage 3). Nordea monitors whether there are indicators of exposures being credit impaired by identifying events that have a detri-

## Note 1. Accounting policies, cont.

mental impact on the estimated future cash flows (loss event). Nordea applies the same definition of default as the Capital Requirements Regulation. More information on the identification of loss events can be found in the Risk, Liquidity and Capital management section. Exposures that are not individually assessed as credit impaired will be part of the collective impairment calculation.

For significant exposures that have been individually identified as credit impaired, the measurement of the impairment loss is made on an individual basis. The carrying amount of the exposure is compared with the sum of the net present value of expected future cash flows. If the carrying amount is higher, the difference is recognised as an impairment loss. The expected cash flows are discounted by the original effective interest rate and include the fair value of the collaterals and other credit enhancements. The estimate is based on three different forward-looking scenarios that are probability-weighted to derive the net present value.

For insignificant exposures that have been individually identified as credit impaired, the measurement of the impairment loss is measured using the collective model described below, but based on the fact the exposures are already in default.

### Model based allowance calculation

For exposures not impaired on an individual basis, a collective model is used for calculating impairment losses. The provisions are calculated as the exposure at default times the probability of default times the loss given default. For assets in stage 1, this calculation is only based on the coming 12 months, while for assets in stage 2 it is based on the expected lifetime of the asset.

Provisions for exposures for which there has been no significant increase in credit risk since initial recognition are based on the 12-month expected loss (stage 1). Provisions for exposures for which there has been a significant increase in credit risk since initial recognition, but that are not credit impaired, are based on the lifetime expected losses (stage 2).

Nordea uses two different models to identify whether there has been a significant increase in credit risk or not. For assets held at transition on 1 January 2018, the change in internal rating and scoring data is used to determine whether there has been a significant increase in credit risk or not. Internal rating/scoring information is used to assess the risk of the customers and a deterioration in rating/scoring indicates an increase in the credit risk of the customer. Nordea has concluded it is not possible to calculate the lifetime PDs at origination without undue cost or effort and without the use of hindsight for assets already recognised on the balance sheet at transition. Changes to the lifetime Probability of Default (PD) is used as the trigger for assets recognised after transition.

For assets evaluated based on lifetime PDs, Nordea uses a mix of absolute and relative changes in PD as the transfer criterion. Assets for which the relative increase in lifetime PD is more than 250 per cent are considered as having a significant increase in credit risk, or if the absolute increase in lifetime PD is more than 150 basis points. For assets for which rating and scoring models are used, the change in rating/scoring notches is calibrated to match the significant increase in credit risk based on lifetime PD. In addition, customers with forbearance measures and customers with payments more than thirty days past due are also transferred to stage 2, unless already identified as credit impaired (stage 3). Exposures more than 90 days past due will normally be classified as stage 3, but this classification will occasionally be rebutted if there is evidence the customer has not defaulted. Such exposures will be classified as stage 2.

When calculating provisions, including the staging assessment, the calculation is based on probability-weighted forward-looking information. Nordea applies three macro-economic scenarios to address the non-linearity in expected credit losses. The different scenarios are used to adjust the relevant parameters for calculating expected losses and a probability-weighted average of the expected losses under each scenario is recognised as provisions.

### Write-offs

Write-offs involve the derecognition of loans or receivables from the balance sheet, and the simultaneous realisation of a corresponding provision for loss. When receivables are considered impossible to recover, they shall be written off at the earliest, irrespective of whether or not a legal claim remains. A write-off can be made before any legal action against the obligor, in order to recover the debt, is complete. Even if a non-recoverable receivable is written off or derecognised from the balance sheet, the customer has a legal obligation to repay the outstanding debt. When assessing whether impaired loans are recoverable, and whether write-offs are needed, it is mainly loans with the following characteristics that are in focus (the list is not exhaustive):

- Loans more than 90 days past due. If a loan, or part thereof, is considered impossible to recover following this assessment, it is written off.
- Loans included in insolvency proceedings and that have low collateral cover.
- Loans for which legal expenses are expected to consume the amount from the bankruptcy proceedings, resulting in low recovered values.
- A partial right-off might be merited if there is reasonable financial evidence to show that the obligor cannot repay the entire amount, i.e. a considerable part of the debt cannot reasonably be considered recoverable, due to forbearance measures or collateral realisation.
- Cases of reconstruction.

### Discount rate

The discount rate used to measure impairment is the original effective interest rate for loans attached to an individual customer or, if applicable, to a group of loans. If considered appropriate, the discount rate can be based on a method that results in an impairment that is a reasonable approximation of using the effective interest rate method as basis for the calculation.

### Restructured loans and modifications

In this context a restructured loan is defined as a loan for which Nordea Hypotek has granted concessions to the obligor due to its deteriorated financial situation, and this concession has resulted in an impairment loss for Nordea Hypotek. After a reconstruction the loan is normally regarded as not impaired if it performs according to the new conditions. In the event of a recovery the payment is reported as a recovery of loan losses.

Modifications of the contractual cash flows for loans to customers in financial distress (forbearance) reduce the gross carrying amount of the loan. Normally this reduction is less than the existing provision and no loss is recognised in the income statement due to modifications. If significant, the gross amounts (loan and allowance) are reduced.

# Note 1. Accounting policies, cont.

### 12. Taxes

Income tax consists of current tax and deferred tax. Income tax expense is recognised in the income statement, unless it relates to items recognised in other comprehensive income or directly in equity, in which case the tax effect is also recognised in other comprehensive income or in equity, respectively.

Current tax is the expected tax expense on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognised, using the balance sheet method, for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets are recognised for the carry forward of unused tax losses and unused tax credits.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences, tax losses carried forward and unused tax credits can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced insofar that it is no longer probable that the related tax benefit will be realised.

Current tax assets and tax liabilities are offset when the statutory right to offset exists and Nordea Hypotek intends to either settle the tax asset and the tax liability net or to recover the asset and settle the liability simultaneously. Deferred tax assets and tax liabilities are generally offset if there is a legally enforceable right to offset current tax assets and tax liabilities.

### 13. Employee benefits

All forms of consideration given by Nordea to its employees as compensation for services performed are employee benefits.

Short-term benefits are to be settled within twelve months after the reporting period when the services have been performed. Post-employment benefits are benefits payable after the termination of the employment. Post-employment benefits in Nordea Hypotek consist only of pensions.

Termination benefits normally arise if an employment is terminated before the normal retirement date, or if an employee accepts an offer of voluntary redundancy.

#### Short-term benefits

Short-term benefits consist mainly of fixed salary. Fixed salary is expensed in the period when the employees have performed services for Nordea Hypotek.

#### Post-employment benefits

In 2018, pension costs comprise premiums and fees to insurance companies and pension funds as well as defined benefit pension costs for other commitments. The actuarial pension costs refer to commitments guaranteed by a pension foundation. The costs are reported in the item “Staff costs”. Contributions received from the pension foundation and reported changes in pension provisions are also recognised in “Staff costs”. Special payroll tax and tax on returns referring to the Swedish pension system are also recognised in “Staff costs”.

For more information about benefits, please refer to Note 6 “Staff costs”.

### 14. Equity

In accordance with Swedish law, shareholders’ equity is split into funds potentially available for distribution (unrestricted equity), and non-distributable funds (restricted equity).

The distribution of amounts of Nordea Hypotek's equity into restricted equity and unrestricted equity is described in the Statement of changes in equity.

#### Fair value reserve

The portion of the gain or loss on hedging instruments, which is determined to be an effective hedge, is recognised in the fair value reserve. Read more in section 8, “Hedge accounting, cash flow hedge accounting.”

#### Retained earnings

Retained earnings Retained earnings comprise undistributed profits from previous years.

#### Reporting of group contributions

Group contributions paid or received are recognised as a reduction or an increase in unrestricted equity, adjusted for tax.

### 15. Related party transactions

Nordea Hypotek defines related parties as:
- Group undertakings
- Key management personnel

“Group undertakings” means Nordea Bank Abp (corp. id no. 2858394-9) and its subsidiaries.

#### Key management personnel

Key management personnel comprises the following:
- The Board of Directors
- Chief Executive Officer
- Executive management

For information about compensation, pensions and loans to key management personnel, see Note 6 “Staff costs”. Information concerning other transactions between Nordea Hypotek and key management personnel is found in Note 29 “Related party transactions”.

# Note 2. Segment reporting

## 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 Abp, filial i Sverige. Because the borrowing rate is negative, Nordea Hypotek gains revenue from each such instance of borrowing, while Nordea Bank Abp, filial i Sverige, 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 530.0m (962.5) during 2018. The main part of the decrease in interest income is due to Nordea Hypotek has prolonged the short-term borrowing with the Parent Company.

### Operating segments

| | Personal Banking | | Commercial & Business Banking | | Group Treasury | | Other operating segments | | Total operating segments | | Reconciliation | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Income statement, SEKm** | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** |
| Net interest income | 6,746 | 7,535 | 1,112 | 1,080 | -32 | 296 | -391 | –353 | 7,435 | 8,558 | 232 | 228 | 7,667 | 8,786 |
| Net fee and commission income | 46 | 52 | 3 | 4 | -39 | –30 | -20 | –22 | -10 | 4 | — | 0 | -10 | 4 |
| Net result from items at fair value | 40 | 47 | 3 | 7 | -202 | –337 | -1 | 0 | -160 | –283 | — | 0 | -160 | –283 |
| **Total operating income** | **6,832** | **7,634** | **1,118** | **1,091** | **-273** | **–71** | **-412** | **–375** | **7,265** | **8,279** | **232** | **228** | **7,497** | **8,507** |
| Other expenses | 0 | 0 | 0 | 0 | -17 | –17 | -120 | –75 | -137 | –92 | -1,030 | –1,411 | -1,167 | –1,503 |
| **Total operating expenses** | **0** | **0** | **0** | **0** | **-17** | **–17** | **-120** | **–75** | **-137** | **–92** | -1,030 | –1,411 | **-1,167** | **–1,503** |
| Net loan losses | -12 | –8 | -21 | –3 | — | — | -4 | — | -37 | –11 | 0 | — | -37 | –11 |
| **Operating profit** | **6,820** | **7,626** | **1,097** | **1,088** | **-290** | **–88** | **-536** | **–450** | **7,091** | **8,176** | **-798** | **–1,183** | **6,293** | **6,993** |
| **Balance sheet, SEKm** | | | | | | | | | | | | | | |
| Loans to the public | 421,922 | 429,021 | 110,319 | 105,013 | — | — | 16,518 | 2,899 | 548,759 | 536,933 | 0 | — | 548,759 | 536,933 |
| Other assets | 125 | 147 | 108 | 98 | 34,396 | 14,962 | 35 | 346 | 34,664 | 15,553 | 19 | 20 | 34,683 | 15,573 |
| **Total assets** | **422,047** | **429,168** | **110,427** | **105,111** | **34,396** | **14,962** | **16,553** | **3,245** | **583,423** | **552,486** | **19** | **20** | **583,442** | **552,506** |
| **Total liabilities** | **0** | **0** | **0** | **0** | **554,185** | **522,193** | **87** | **7** | **554,272** | **522,200** | **4,270** | **7,051** | **558,992** | **529,251** |
| Equity | 422,047 | 429,168 | 110,427 | 105,111 | -519,789 | –507,231 | 16,466 | 3,238 | 29,151 | 30,286 | -4,701 | –7,031 | 24,450 | 23,255 |
| **Total liabilities and equity** | **422,047** | **429,168** | **110,427** | **105,111** | **34,396** | **14,962** | **16,553** | **3,245** | **583,423** | **552,486** | **-431** | **20** | **583,442** | **552,506** |

### Reconciliation between total operating segments and financial statements

| | 2018 | | 2017 | |
|---|---|---|---|---|
| **SEKm** | **Operating profit** | **Total assets** | **Operating profit** | **Total assets** |
| Total operating segments | 7,091 | 583,423 | 8,176 | 552,486 |
| Group fuctions and unallocated items | -798 | 19 | –1,183 | 20 |
| **Total** | **6,293** | **583,442** | **6,993** | **552,506** |

## Note 2. Segment reporting, cont.

### Total operating income distribution between product groups

In Nordea Hypotek, all operating income, in all reportable segments, is attributable to Banking products.

Banking products is a product group consisting of three product types: account products, transaction products and financing products. Account products, including mortages, comprise the entire product portfolio in the company.

### Lending volume distribution in reportable segments by borrower domicile

The borrowers mainly have their tax residency in Sweden.

### Chief Operating Decision maker per segment

| Segment | Chief Operating Decision Maker |
|---|---|
| Personal Banking | Frank Vang-Jensen, Head of Personal Banking |
| Commercial and Business Banking | Erik Ekman, Head of Commercial and Business Banking |
| Wholesale Banking | Martin Persson, Head of Wholesale Banking |
| Group Finance and Treasury | Christopher Rees, Group Chief Financial Officer |

## Note 3. Net interest income

| SEK (000s) | 2018 | 2017 |
|---|---|---|
| **Interest income** | | |
| Interest income calculated using the effective interest rate method | 8,022,666 | 8,869,582 |
| Other interest income | 3,165 | 4,647 |
| **Interest income** | **8,025,831** | **8,874,229** |
| Loans to the public | 8,240,694 | 8,869,582 |
| Interest-bearing securities | –11,940 | – |
| Other interest income | –202,923 | 4,647 |
| **Interest income[1]** | **8,025,831** | **8,874,229** |
| **Interest expense** | | |
| Deposits by credit institutions | 472,900 | 924,155 |
| Debt securities in issue | –3,358,532 | –4,009,525 |
| Subordinated liabilities | –18,646 | –55,891 |
| Other interest expenses[1] | 2,545,294 | 3,053,471 |
| **Interest expense** | **–358,984** | **–87,790** |
| **Net interest income** | **7,666,847** | **8,786,439** |

1) The net interest income from derivatives, measured at fair value and related to Nordea Hypotek's funding can have both a positive and negative impact on other interest expense, for further information see Note 1 "Accounting principles".

## Note 3. Net interest income, cont.

### Interest per measurement categories

| SEK (000s) | 2018 | 2017[1] |
|---|---|---|
| Financial assets at fair value through other comprehensive income | –15,105 | – |
| Financial assets at amortised cost | 8,245,437 | 8,874,229 |
| Financial assets at fair value through profit and loss (related to hedging instruments) | –207,666 | – |
| **Interest income calculated using the effective interest rate method** | **8,022,666** | **8,874,229** |
| Financial assets at fair value through profit and loss | 3,165 | – |
| **Other interest income** | **3,165** | **–** |
| **Interest income** | **8,025,831** | **8,874,229** |
| Financial liabilities at amortised cost | –3,450,542 | –3,525,081 |
| Financial liabilities at fair value through profit and loss | 3,091,558 | 3,437,291 |
| **Interest expenses** | **–358,984** | **–87,790** |

1) The comparable figures for 2017 are based on the IAS 39 requirements but are comparable with the figures for 2018 which are based on IFRS 9.

Interest on impaired loans amounted to an insignificant portion of interest income.

### Average interest rate, lending

| | 2018 | 2017 |
|---|---|---|
| **Lending to the public** | | |
| Average volume, SEKm | 541,837 | 537,064 |
| Average interest, % | 1.48 | 1.65 |

Interest income from financial instruments not measured at fair value through profit and loss amounts to SEK 8,026m (8,874). Interest expenses from financial instruments not measured at fair calue through profit and loss amounts to SEK 2,904m (3,141).

## Note 4. Net fee and commission income

| SEK (000s) | 2018 | 2017 |
|---|---|---|
| Issuer services | –35,272 | –27,363 |
| - of which income | – | – |
| - of which expense | –35,272 | –27,363 |
| Lending Products | 12,731 | 13,235 |
| - of which income | 32,185 | 35,151 |
| - of which expense | –19,454 | –21,916 |
| Guarantees | –3 | – |
| - of which income | – | – |
| - of which expense | –3 | – |
| Other | 12,370 | 17,613 |
| - of which income | 17,982 | 20,355 |
| - of which expense | –5,612 | –2,742 |
| **Total** | **–10,174** | **3,485** |

## Note 4. Net fee and commission income, cont.

### Break down by business Areas

| SEKm 2018 | Personal Banking | Commercial & Business Banking | Group Treasury | Other |
|---|---|---|---|---|
| Issuer services | - | - | -35 | - |
| Lending Products | 30 | 3 | - | -20 |
| Guarantees | 0 | - | - | - |
| Other | 16 | - | -4 | - |
| **Total** | **46** | **3** | **-39** | **-20** |

## Note 5. Net result from items at fair value

| SEK (000s) | 2018 | 2017 |
|---|---|---|
| Interest-bearing securities and other interest-related instruments[1] | –159,622 | –283,049 |

1) Of which SEK 42,707k (52,425) related to financial assets held at amortised cost.

### Net result from categories of financial instruments

| SEK (000s) | 2018 |
|---|---|
| Financial assets at fair value through other comprensive income | –267 |
| Financial assets designated at fair value through profit or loss | –1,092,572 |
| Financial assets at amortised cost | 129,241 |
| Financial liabilities at amortised cost | 804,169 |
| Foreign exchange gains/losses excluding currency hedges | –193 |
| **Total** | **–159,622** |

### Net result from categories of financial instruments

| SEK (000s) | 2017 |
|---|---|
| Loans and receivables | 52,425 |
| Financial liabilities measured at amortised cost | 32,401 |
| Financial instruments under fair value hedge accounting | 2,739,928 |
| - of which net result on hedging instruments | –2,707,527 |
| - of which net result on hedged items | –367,875 |
| **Total** | **–283,049** |

## Note 6. Staff costs

| SEK (000s) | 2018 | 2017 |
|---|---|---|
| Salaries and remuneration[1] (specification below) | –16,112 | –15,377 |
| Pension costs (specification below) | –4,035 | –3,748 |
| Social security contributions | –6,036 | –5,823 |
| Other staff costs | –432 | –741 |
| **Total** | **–26,615** | **–25,689** |

| Salaries and remuneration | | |
|---|---|---|
| *President:* | | |
| - Fixed compensation and benefits | –1,153 | –1,136 |
| - Allocation to profit-sharing | –17 | –11 |
| *Vice President:* | | |
| -Fixed compensation and benefits | –1,069 | –974 |
| -Allocation to profit-sharing | –17 | –11 |
| To other employees | –13,588 | –13,108 |
| Board of directors | –169 | –137 |
| **Total** | **–16,013** | **–15,377** |

| Pension costs: | | |
|---|---|---|
| Defined benefit plans | –2,548 | –2,545 |
| Defined contribution plans | –1,487 | –1,203 |
| **Total** | **–4,035** | **–3,748** |

1) Allocation to profit-sharing foundation 2018: SEK 464k (241) consists of a new allocation of of SEK 364k (205) and related to prior year SEK 100k (36).

To the Group Board Directors' no directors' fee was paid. For 2018 Nordea Hypotek had no incentive system or any perfor-mace-related compensation to employees.

The President's contract of employment may be terminated by either the President with three (3) months notice or the company with six (6) months notice. In accordance with his employment contract the President is entitled to six months salary during the period of notice. For the President the notice pay and severance pay may not exceed 24 months salary. The total amount will be reduced by any salary the President receives as a result of other employment during the payment period.

## Note 6. Staff costs, cont

### Loans to key management personnel

Loans to key management personnel amounts to 27,162k (37,448). Interest income on these loans amounts to 187k (351).

For key management personnel who are employed by Nordea Hypotek the sma credit terms apply as for employees in Nordea. In Sweden the employee interest rate on fixed and variable interest rate loans is 2.15 basis points lower than the corresponding interest rate for external customers (with a lower limit of 0.50 basis points for both variable interest rate loans and fixed interest rate loans). There is currently a cap of 57 Swedish price base amounts both on fixed- and variable interest rate loans. Interest on loans above the defined caps is set on market terms. Loans to family members of key management personnel are granted on normal market terms, as well as loans to key management personnel who are not employed by Nordea.

### Pension commitments to the President and executives

| SEK | 2018 | 2017 |
|---|---|---|
| Pension costs for President | 294,130 | 253,203 |
| Pension commitments for President | 8,125,942 | 7,338,364 |
| Pension costs for previous Presidents | 932,160 | 872,143 |
| Pension commitments for previous Presidents | 9,748,948 | 10,023,051 |
| Pension costs for Vice President | 307,404 | 197,581 |
| Pension commitments for Vice President | 5,590,841 | 4,732,457 |
| Pension costs for previous Vice President | 252,480 | 242,624 |
| Pension commitments for previous Vice President | 3,473,902 | 3,564,084 |
| Pension costs for external member of the board | 227,292 | 218,824 |
| Pension commitments for external member of the board | 2,709,816 | 2,821,086 |

The pension age for the President is 65 years. At the pensionable age, pension is paid according to collective agreement. Fixed salary is pensionable income. All pensions are defined benefit plans.

Defined benefit obligations are guaranteed by a pension foundation The pension cost is classified as "Staff cost" in the income statement, consists of pension benefits paid, contributions made to or received from the pension foundation and related special wage tax.

The company's pension commitments are covered partly by allocation to Nordea Bank Abp, filial i Sveriges Pensionsstiftelse, partly by insurance policies.

### Average number of employees

| | 2018 | 2017 |
|---|---|---|
| **Full-time equivalents** | | |
| Men | 6 | 7 |
| Women | 14 | 15 |
| **Total average** | **20** | **22** |

At year-end the total number of employees was 20 (22).

### Gender distribution

In the Board of Directors of Nordea Hypotek AB 67% were men (57%) and 33% (43%) were women.

## Note 7. Other expenses

| SEK (000s) | 2018 | 2017 |
|---|---|---|
| Postage, telephone and office expenses | –427 | –404 |
| Distribution costs to Nordea | –1,084,653 | –1,427,925 |
| Other[1] | –55,029 | –48,821 |
| **Total** | **–1,140,109** | **–1,477,150** |

1) Including fees and remuneration to auditors distributed as follows.

### Auditors' fees

| SEK (000s) | 2018 | 2017 |
|---|---|---|
| **Öhrlings PricewaterhouseCoopers** | | |
| Auditing assignments | –1,616 | –493 |
| Audit related services | –144 | –103 |
| Other assignments | –100 | – |
| **Total** | **–1,860** | **–596** |

# Note 8. Net loan losses

| Based on IFRS 9<br>SEK (000s) 2018 | Loans to the public[1] | Off balance sheet items[2] | Total |
|---|---|---|---|
| Net loan losses, stage 1 | 2,356 | –3,707 | –1,349 |
| Net loan losses, stage 2 | –2,065 | –17 | –2,083 |
| **Net loan losses, non-defaulted** | **291** | **–3,723** | **–3,432** |
| **Stage 3, defaulted** | | | |
| Net loan losses, individually assesed, collectively calculated | –7,852 | – | –7,852 |
| Realised loan losses | –5,485 | – | –5,484 |
| Recoveries on previous realised loan losses | 1,919 | – | 1,922 |
| New/increase in provisions | –22,750 | – | –22,750 |
| **Net loan losses, defaulted** | **–34,168** | **–** | **–34,168** |
| **Net loan losses** | **–33,877** | **–3,723** | **–37,600** |

| Based on IAS 39<br>SEK (000s) 2017 | 2017 |
|---|---|
| **Loan losses divided by class** | |
| *Loans to the public*[1] | |
| Realised loan losses | –10,891 |
| Recoveries on previous loan losses | 2,077 |
| Provisions | –10,423 |
| Reversals of previous provisions | 8,186 |
| **Net loan losses** | **–11,051** |

1) See Note 10 “Loans and impairment”.
2) Provisions included in Note 19 “Provisions”.

# Note 9. Taxes

## Income tax expenses

| SEK (000s) | 2018 | 2017 |
|---|---|---|
| Current tax[1] | –1,388,529 | –1,550,771 |

1) Related to tax on group contributions and booked directly to equity.

| SEK (000s) | 2018 | 2017 |
|---|---|---|
| Profit before tax | 6,292,727 | 6,992,985 |
| Tax calculated at a tax rate of 22.0 per cent (22.0) | –1,384,400 | –1,538,457 |
| Non-deductible expenses | –4,129 | –12,314 |
| **Tax charge** | **–1,388,529** | **–1,550,771** |
| Average effective tax rate % | 22.0 | 22.0 |

## Deferred tax

| SEK (000s) | 2018 | 2017 |
|---|---|---|
| **Movements in deferred tax liabilities** | | |
| Amount at beginning of year | 14,643 | 155,332 |
| Defereed tax realting to items in Other comprehensive income | –8,744 | –140,689 |
| **Amount at end of year** | **5,899** | **14,643** |
| **Deferred tax liabilities** | | |
| Deferred tax relating to cash flow hedges | 5,899 | 14,643 |

# Note 10. Loans and impairment

| SEK (000s) | 31 Dec 2018[1] | 31 Dec 2017[2] |
|---|---|---|
| Loans measured at amortised cost, not impaired (stage 1 and 2) | 553,558,407 | 543,695,474 |
| Impaired loans (stage 3) | 582,247 | 578,694 |
| - of which servicing | 54,144 | 47,426 |
| - of which non-servicing | 528,103 | 531,268 |
| **Loans before allowances** | **554,140,654** | **544,274,168** |
| -of which credit institutions | 5,299,092 | 7,273,948 |
| Allowances for individually assessed impaired loans (stage 3) | −41,312 | −16,200 |
| - of which servicing | −1,773 | −4,663 |
| - of which non-servicing | −39,539 | −11,537 |
| Allowances for collectively assessed impaired loans (stage 1 and 2) | −41,091 | −50,665 |
| **Allowances** | **−82,403** | **−66,865** |
| **Loans, carrying amount** | **554,058,251** | **544,207,303** |

1) Based on IFRS 9.
2) Based on IAS 39.

## Carrying amount of loans measured at amortised cost, before allowances

| | Credit institutions | | | | The public | | | | Total | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SEK (000s) | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| Opening balance at 1 Jan 2018[1] | 7,273,948 | – | – | 7,273,948 | 529,716,651 | 6,704,875 | 578,694 | 537,000,220 | 536,990,599 | 6,704,875 | 578,694 | 544,274,168 |
| Changes due to origination and acquisition | – | – | – | – | 115,640,031 | 3,676,392 | 31,025 | 119,347,448 | 115,640,031 | 3,676,392 | 31,025 | 119,347,448 |
| Changes due to transfers between Stage 1 and Stage 2, (net) | – | – | – | – | −396,506 | 396,506 | – | 0 | −396,506 | 396,506 | – | 0 |
| Changes due to transfers between Stage 2 and Stage 3, (net) | – | – | – | – | – | −38,625 | 38,625 | 0 | – | −38,625 | 38,625 | 0 |
| Changes due to transfers between Stage 1 and Stage 3, (net) | – | – | – | – | −116,899 | – | 116,899 | 0 | −116,899 | – | 116,899 | 0 |
| Changes due to repayments and disposals | −1,974,856 | – | – | −1,974,856 | −98,762,691 | −1,514,525 | −101,842 | −100,379,058 | −100,737,547 | −1,514,525 | −101,842 | −102,353,914 |
| Changes due to write-offs | – | – | – | – | – | – | −5,484 | −5,484 | – | – | −5,484 | −5,484 |
| Other changes | – | – | – | – | −8,151,065 | 1,105,170 | −75,669 | −7,121,564 | −8,151,065 | 1,105,170 | −75,669 | −7,121,564 |
| **Closing balance at 31 Dec 2018** | **5,299,092** | **–** | **–** | **5,299,092** | **537,929,521** | **10,329,793** | **582,248** | **548,841,562** | **543,228,613** | **10,329,793** | **582,248** | **554,140,654** |

## Movement of allowance accounts for loans measured at amortised cost

| | Credit institutions | | | | The public | | | | Total | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SEK (000s) | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| Opening balance at 1 Jan 2018[1] | – | – | – | – | −16,806 | −24,575 | −10,710 | −52,091 | −16,806 | −24,575 | −10,710 | −52,091 |
| Changes due to origination and acquisition | – | – | – | – | −4,442 | −4,612 | −742 | −9,796 | −4,442 | −4,612 | −742 | −9,796 |
| Changes due to transfers from Stage 1 to Stage 2 | – | – | – | – | 553 | −12,819 | – | −12,266 | 553 | −12,819 | – | −12,266 |
| Changes due to transfers from Stage 1 to Stage 3 | – | – | – | – | 42 | – | −5,501 | −5,459 | 42 | – | −5,501 | −5,459 |
| Changes due to transfers from Stage 2 to Stage 1 | – | – | – | – | −363 | 12,082 | – | 11,719 | −363 | 12,082 | – | 11,719 |
| Changes due to transfers from Stage 2 to Stage 3 | – | – | – | – | – | 830 | −25,958 | −25,128 | – | 830 | −25,958 | −25,128 |
| Changes due to transfers from Stage 3 to Stage 1 | – | – | – | – | −20 | – | 1,040 | 1,020 | −20 | – | 1,040 | 1,020 |
| Changes due to transfers from Stage 3 to Stage 2 | – | – | – | – | – | −380 | 2,345 | 1,965 | – | −380 | 2,345 | 1,965 |
| Changes due to changes in credit risk without stage transfer | – | – | – | – | 3,157 | −1,083 | −3,976 | −1,902 | 3,157 | −1,083 | −3,976 | −1,902 |
| Changes due to repayments and disposals | – | – | – | – | 3,429 | 3,916 | 2,190 | 9,535 | 3,429 | 3,916 | 2,190 | 9,535 |
| **Closing balance at 31 Dec 2018** | **–** | **–** | **–** | **–** | **−14,450** | **−26,641** | **−41,312** | **−82,403** | **−14,450** | **−26,641** | **−41,312** | **−82,403** |

1) The final amount that was reclassified at the transition to IFRS 9 on January 2018 from allowances of loans held at amortised cost amounted to SEK 15m. For more information see Note 1 "Accounting policies" and section 2 "Changed accounting policies and presentation".

## Assets subject to enforcement activities

| SEK (000s) | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity. | 8,684 | – |

# Note 10. Loans and impairment, cont.

## Rating/scoring information for provisions

| Gross carring amount 31 Dec 2018, SEK (000s) | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| 7+ | 167,246 | – | – | 167,246 |
| 7 | 6,122,606 | – | – | 6,122,606 |
| 7– | – | – | – | – |
| 6+ / A+ | 330,174,579 | 965,401 | – | 331,139,980 |
| 6 / A | 57,264,348 | 674,663 | – | 57,939,011 |
| 6– / A– | 41,224,890 | 659,114 | – | 41,884,004 |
| 5+ / B+ | 26,606,180 | 615,980 | – | 27,222,160 |
| 5 / B | 17,405,037 | 689,938 | – | 18,094,975 |
| 5– / B– | 12,936,492 | 554,873 | 261 | 13,491,626 |
| 4+ / C+ | 9,276,553 | 857,034 | 3,163 | 10,136,750 |
| 4 / C | 16,628,665 | 839,096 | – | 17,467,761 |
| 4– / C– | 12,628,986 | 747,303 | – | 13,376,289 |
| 3+ / D+ | 1,948,727 | 605,083 | – | 2,553,810 |
| 3 / D | 1,478,370 | 615,045 | 872 | 2,094,287 |
| 3– / D– | 1,395,814 | 733,613 | 820 | 2,130,247 |
| 2+ / E+ | 339,797 | 388,682 | – | 728,479 |
| 2 / E | 602,342 | 376,465 | 3,789 | 982,596 |
| 2– / E– | 80,503 | 84,309 | – | 164,812 |
| 1+ / F+ | 62,048 | 109,403 | – | 171,451 |
| 1 / F | 276,300 | 354,514 | 42,052 | 672,866 |
| 1– / F– | 381,307 | 295,593 | 3,086 | 679,986 |
| 0+ / 0 / 0– | 310,242 | 106,224 | 528,205 | 944,671 |
| Standardised | 5,299,092 | – | – | 5,299,092 |
| Unrated | 618,490 | 57,459 | – | 675,949 |
| **Total** | **543,228,613** | **10,329,793** | **582,248** | **554,140,654** |

## Key ratios

| | 31 Dec 2018[1] |
|---|---|
| Impairment rate (stage 3), gross[2], basis points | 10.5 |
| Impairment rate (stage 3), net[3], basis points | 9.8 |
| Total allowance rate (stage 1, 2 and 3)[4], basis points | 1.5 |
| Allowances in relation to impaired loans (stage 3)[5], % | 7.1 |
| Allowances in relation to loans in stage 1 and 2[6], basis points | 0.0 |

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[1] |
|---|---|
| Impairment rate, gross[2], basis points | 10.6 |
| Impairment rate, net[3], basis points | 10.3 |
| Total allowance rate[4], basis points | 1.2 |
| Allowances in relation to impaired loans[5], % | 2.8 |
| Total allowances in relation to impaired loans[6], % | 11.6 |

1) Based on IAS 39.
2) Individually assessed impaired loans before allowances divided by total loans before allowances, basis points.
3) Individually assessed impaired loans after allowances divided by total loans before allowances, basis points.
4) Total allowances divided by total loans before allowances, basis points.
5) Allowances for individually assessed impaired loans divided by individually assessed impaired loans before allowances, %.
6) Total allowance divided by total impaired loans before allowances, %.

# Note 11. Interest-bearing securities

| SEK (000s) | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| States, municipalities and other public bodies | 5,431,448 | – |
| Mortgage institutions | 2,681,300 | – |
| Other credit institutions | 12,514,471 | – |
| Other | 456,342 | – |
| **Total** | **21,083,561** | **–** |

1) Provisions for credit risks amount to SEK 267k (-).

# Note 12. Derivatives and Hedge accounting

Nordea Hypotek enters into derivatives for risk management purposes. Derivatives held for risk management purposes include hedges that either meet the hedge accounting requirements or hedges that are economic hedges, but do not meet the hedge accounting requirements.

The table below shows the fair values of derivative financial instruments together with their nominal amounts. The nominal amounts indicate the volume of transactions outstanding at the year end and are not indicative of either the market or credit risk.

| | Fair value | | |
|---|---|---|---|
| 31 Dec 2018, SEKm | Positive | Negative | Total nom amount |
| Derivatives not used for hedge accounting | 2 | 8 | 7,600 |
| Fair value hedges | 4,760 | 275 | 470,559 |
| Cash flow hedges | – | 68 | 10,240 |
| **Total derivatives** | **4,762** | **351** | **488,399** |

| | Fair value | | |
|---|---|---|---|
| 31 Dec 2017, SEKm | Positive | Negative | Total nom amount |
| Fair value hedges | 6,176 | 332 | 397,406 |
| Cash flow hedges | – | 166 | 10,878 |
| **Total derivatives** | **6,176** | **498** | **408,284** |

### Derivatives not used for hedge accounting

| | Fair value | | |
|---|---|---|---|
| 31 Dec 2018, SEKm | Positive | Negative | Total nom amount |
| Interest rate swaps | 2 | 8 | 7,600 |
| **Total** | **2** | **8** | **7,600** |

## Hedge Accounting

### Interest rate risk

As part of Nordea Hypotek's risk management strategy, the Board has established limits on the interest rate sensitivities for the interest rate gaps in business, as set out in Risk, Liquidity and Capital Management on page 8. These limits are consistent with the Nordea Hypotek's risk appetite and Nordea Hypotek aligns its hedge accounting objectives to keep exposures within those limits. Nordea's policy is to monitor positions on a daily basis. For further information on measurement of risks and sensitivities, see Risk, Liquidity and Capital Management on page 8.

For hedge accounting relationships related to interest risk, the hedging ratio is established by matching the nominal of the derivatives against the principal of the hedged item. In addition, when hedging interest rate risk, the risk is hedged in its entirely.

### Fair value hedges

In order to reduce or eliminate changes in the fair value of financial assets and financial liabilities due to movements in interest rates, Nordea Hypotek enters into fair value hedge relationships as described in Note 1 "Accounting policies" section 8 "Hedge accounting". Nordea uses pay fixed/receive floating interest rate swaps to hedge its fixed rate debt instruments and loans with fixed interest rate and pay floating/receive fixed interest rate swaps to hedge its fixed rate liabilities.

There is an economic relationship between the hedged item and the hedging instrument as the terms of the interest rate swap match the terms of the hedged item (i.e. nominal amount, maturity, payment and reset dates).

In the below table, the accumulated fair value adjustments arising from continuing hedge relationships, irrespective of whether or not there has been a change in hedge designation during the year.

### Hedged items

| | Interest rate risk | |
|---|---|---|
| SEKm | 2018 | 2017 |
| **Fair value hedges** | | |
| Carrying amount of hedged assets[1] | 123,621 | 88,232 |
| - of which accumulated amount of fair value hedge adjustment | 20 | 71 |
| Carrying amount of hedged liabilities[2] | 250,317 | 233,145 |
| - of which accumulated amount of fair value hedge adjustment | 3,721 | 4,796 |

1) Presented on the balance sheet row Loans to the public, Interest-bearing securities and Fair value changes of portfolio hedge of interest rate risk.
2) Presented on the balance sheet row Deposit by credit institution, Debt securities in issue and Fair value changes of portfolio hedge of interest rate risk.

The following table provides information about the hedging instruments included in the line item Derivatives on the balance sheet:

### Derivatives used for hedge accounting

| | Fair value | | |
|---|---|---|---|
| 31 Dec 2018, SEKm | Positive | Negative | Total nom amount |
| **Fair value hedges** | | | |
| Interest rate risk | 4,760 | 275 | 470,559 |

| | Fair value | | |
|---|---|---|---|
| 31 Dec 2017, SEKm | Positive | Negative | Total nom amount |
| **Fair value hedges** | | | |
| Interest rate risk | 6,176 | 332 | 397,406 |

# Note 12. Derivatives and Hedge accounting, cont.

The below table presents the changes in the fair value of the hedged items and changes in fair value of the hedging instruments used as the basis for recognising ineffectiveness. These changes are recognised on the row "Net result from items at fair value" in the income statement.

### Hedge ineffectiveness

| | Interest rate risk | |
|---|---|---|
| SEKm | 2018 | 2017 |
| **Fair value hedge** | | |
| Changes in fair value of hedging instruments | –1,259 | –3,361 |
| Changes in fair value of hedged items used as basis for recognising hedge ineffectiveness | 1,239 | 3,379 |
| Hedge ineffectiveness recognised in the income statement[1] | -20 | -18 |

1) Recognised on the row Net result from items at fair value.

## Cash flow hedges

For Nordea Hypotek's cash flow hedge accounting relationships, the hedged risk is the variability in future interest cash flows due to changes in market interest rates. In order to reduce or eliminate variability in future interest payments, Nordea Hypotek primarily uses interest rate swaps and cross currency interest rate swaps as hedging instruments according to Nordea Hypotek's policies and risk management strategy described in Note 1 "Accounting policies", section 8 "Hedge accounting".

There is an economic relationship between the hedged items and the hedging instruments as the terms of the interest rate swaps and cross currency swaps match the terms of the future interest cash flows (i.e. nominal amount and expected payment date).

### Hedge ineffectiveness

| | Interest rate risk | |
|---|---|---|
| 2018, SEKm | 2018 | 2017 |
| **Cash flow hedges** | | |
| Changes in fair value of hedging instruments | -40 | -639 |
| Changes in fair value of hedged items used as basis for recognising hedge ineffectiveness | 40 | 639 |
| Hedging gains or losses recognised in OCI | -40 | -639 |

The maturity profile of Nordea's hedging instruments used to hedge interest rate risk (both fair value and cash flow hedge accounting) follows below:

### Maturity profile of the nominal amount of hedging instruments

| 31 Dec 2018, SEKm | Payable on demand | Maximum 3 months | 3-12 months | 1-5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| Instrument hedging interest rate risk | – | 16,421 | 52,884 | 385,282 | 9,363 | 463,950 |
| **Total** | **–** | **16,421** | **52,884** | **385,282** | **9,363** | **463,950** |

| 31 Dec 2017, SEKm | Payable on demand | Maximum 3 months | 3-12 months | 1-5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| Instrument hedging interest rate risk | – | 3,725 | 51,242 | 270,972 | 7,558 | 390,797 |
| **Total** | **–** | **3,725** | **51,242** | **270,972** | **7,558** | **390,797** |

# Note 12. Derivatives and Hedge accounting, cont.

## Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Foreign exhange risk (FX risk) from trading activities is limited through a VaR limit while FX risk from structural exposures as described below are limited through a stress loss limit for the CET1-ratio impact from FX fluctuations in a severed but plausible stress scenario (see "Risk, Liquidity and Capital Management" on page 8).

The borrowing in Nordea Hypotek can be denominated in the currency of the investor. Borrowing and lending are not always executed in the same currency and thus exposes Nordea Hypotek to a foreign exchange risk. Differences in exposures to individual currencies that exist between different transactions are matched by predominantly entering into cross currency interest rate swaps. The currency component is designated as a cash flow hedge of currency risk and the interest component as a fair value hedge of interest rate risk. For further information about hedge accounting see Note 1 "Accounting policies", section 8 "Hedge accounting".

For hedge accounting relationships related to currency risk, the hedging ratio is established by matching the nominal of the derivatives against the principal of the hedged item. In addition, when hedging currency risk, the risk is hedged in its entirely.

## Cash flow hedges

The below tables provide information about the hedging instruments as well as the outcome of the cash flow and net investment hedges addressing interest rate and currency risks including the nominal and the carrying amounts of the hedging instruments.

### Derivatives used for hedge accounting

| | Fair value | | |
|---|---|---|---|
| 31 Dec 2018, SEKm | Positive | Negative | Total nom amount |
| Cash flow hedges | | | |
| Foreign exchange risk | – | 68 | 10,240 |
| **Total derivatives used for hedge accounting** | **–** | **68** | **10,240** |

The table below shows the change of the cash flow hedge reserve.

### Cash flow hedge reserve

| | Interest rate risk | |
|---|---|---|
| SEKm | 2018 | 2017 |
| **Balance at 1 Jan** | **52** | **551** |
| **Cash flow hedges:** | | |
| Valuation gains/losses during the year | 233 | –784 |
| Tax on valuation gains/losses during the year | –51 | 172 |
| Transferred to the income statement during the year | –273 | 145 |
| Tax on transfers to the income statement during the year | 60 | –32 |
| Other comprehensive income, net of tax | –31 | –499 |
| Total comprehensive income | –31 | –499 |
| **Balance at 31 Dec** | **21** | **52** |

The maturity profile of Nordea Hypotek's hedging instruments used to hedge interest rate risk (both fair value and cash flow hedge accounting) follows below:

### Maturity profile of the nominal amount of hedging instruments

| 31 Dec 2018, SEKm | Payable on demand | Maximum 3 months | 3-12 months | 1-5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| Instrument hedging foreign exchange risk | – | 212 | 467 | 1,282 | 8,279 | 10,240 |
| **Total** | **–** | **212** | **467** | **1,282** | **8,279** | **10,240** |

| 31 Dec 2017, SEKm | Payable on demand | Maximum 3 months | 3-12 months | 1-5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| Instrument hedging foreign exchange risk | – | 233 | 406 | 8,226 | 2,013 | 10,878 |
| **Total** | **–** | **233** | **406** | **8,226** | **2,013** | **10,878** |

# Note 13. Other assets

| SEK (000s) | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Other assets[1] | 2,798,059 | 1,154,598 |

1) Largely refers to a settlement account at the parent company regarding transactions not yet entered.

# Note 14. Prepaid expenses and accrued income

| SEK (000s) | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Accrued interest income | 259,444 | 269,658 |
| Prepaid expenses | 430,912 | 428,070 |
| **Total** | **690,356** | **697,728** |

# Note 15. Deposits by credit institutions

| SEK (000s) | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Swedish banks | 222,064,980 | 194,468,518 |

# Note 16. Debt securities in issue[1]

| SEK (000s) | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Swedish bonds | 314,902,403 | 309,418,780 |
| Foreign securities | 10,081,726 | 10,382,561 |
| **Total** | **324,984,129** | **319,801,341** |

1) See Specification to Notes, page 66.

# Note 17. Other liabilities

| SEK (000s) | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Accounts payable | 4,090 | 1,514 |
| Liabilities, group contribution | 4,719,545 | 7,048,959 |
| Other liabilites[1] | 2,296,877 | 782,375 |
| **Total** | **7,020,512** | **7,832,848** |

1) Largely refers to a settlement account at the parent company regarding transactions not yet entered.

# Note 18. Accrued expenses and prepaid income

| SEK (000s) | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Other accrued expenses | 26,297 | 25,537 |
| Prepaid income | 13,735 | 13,729 |
| **Total** | **40,032** | **39,266** |

# Note 19. Provisions

| SEK (000s) | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Commitments[1] | 3,723 | – |

1) Provisions for off balance sheet items made during the year due to IFRS 9 requirements. No comparative figures for 2017 are available since no provision was made in accordance to IAS 39. For mor information regarding off balance commitments see Note 22 "Commitments".

## Movements in provisions for off balance sheet items

| SEK (000s) | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Opening balance at 1 Jan 2018** | **–** | **–** | **–** | **–** |
| Changes due to origination and acquisition | 3,706 | 17 | – | 3,723 |
| Changes due to transfers from Stage 1 to Stage 2 | – | – | – | – |
| Changes due to transfers from Stage 1 to Stage 3 | – | – | – | – |
| Changes due to transfers from Stage 2 to Stage 1 | – | – | – | – |
| Changes due to transfers from Stage 2 to Stage 3 | – | – | – | – |
| Changes due to transfers from Stage 3 to Stage 1 | – | – | – | – |
| Changes due to transfers from Stage 3 to Stage 2 | – | – | – | – |
| Changes due to changes in credit risk without stage transfer | – | – | – | – |
| Changes due to repayments and disposals | – | – | – | – |
| Write-off through decrease in allowance account | – | – | – | – |
| Other changes | – | – | – | – |
| Translation differences | – | – | – | – |
| **Closing balance at 31 Dec 2018** | **3,706** | **17** | **–** | **3,723** |

## Note 19. Provisions, cont.

### Rating/scoring information on off balance sheet items

| Nominal amounts 31 Dec 2018, SEKm | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| 7+ | – | – | – | – |
| 7 | – | – | – | – |
| 7– | – | – | – | – |
| 6+ / A+ | 32,514 | – | – | 32,514 |
| 6 / A | 2,930 | – | – | 2,930 |
| 6– / A– | 2,094 | – | – | 2,094 |
| 5+ / B+ | 1,324 | – | – | 1,324 |
| 5 / B | 981 | – | – | 981 |
| 5– / B– | 533 | – | – | 533 |
| 4+ / C+ | 420 | – | – | 420 |
| 4 / C | 289 | – | – | 289 |
| 4– / C– | 511 | – | – | 511 |
| 3+ / D+ | 106 | – | – | 106 |
| 3 / D | 90 | – | – | 90 |
| 3– / D– | 97 | – | – | 97 |
| 2+ / E+ | – | 32 | – | 32 |
| 2 / E | – | 51 | – | 51 |
| 2– / E– | – | 9 | – | 9 |
| 1+ / F+ | – | 5 | – | 5 |
| 1 / F | – | 50 | – | 50 |
| 1– / F– | – | 48 | – | 48 |
| 0+ / 0 / 0– | – | – | – | – |
| Standardised | – | – | – | – |
| Unrated | – | – | – | – |
| **Total** | **41,889** | **195** | **–** | **42,084** |

# Note 20. Subordinated liabilities[1]

| SEK (000s) | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Dated subordinated debenture loans | 800,136 | 1,800,248 |

1) See Specification to Notes, page 66.

These debenture loans are subordiated to other liabilities.

# Note 21. Assets pledged as security for own liabilities

| SEK (000s) | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| **Assets pledged for own liabilities** | | |
| Loans to the public | 527,896,937 | 517,551,217 |
| **The above pledges certain to the following liability and commitment items:** | | |
| Debt securities in issue | 321,385,786 | 316,260,333 |

Assets pledged for own liabilities contain loans to credit institutions and loans to the public that have been registered as collateral for issued covered bonds. In the event of the company's insolvency, the holders of these bonds have priority to the assets registered as collateral.

# Note 22. Commitments

| SEK (000s) (nom. Amount) | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Credit commitments | 42,084,464 | 42,382,247 |

# Note 23. Capital adequacy

Capital adequacy is a measure of the financial strength of a bank, usually expressed as a ratio of capital to assets. There is a worldwide capital adequacy standard (Basel III) drawn up by the Basel Committee on Banking Supervision. Within the EU, the capital adequacy requirements are outlined in the Capital Requirements Directive IV (CRD IV) and Capital Requirements Regulation (CRR).

CRD IV was implemented through national law within all EU countries during 2014, while the CRR entered into force in all EU countries the first of January 2014.

- The Basel III framework is built on three Pillars:
- Pillar I – requirements for the calculation of RWA and Capital
- Pillar II – rules for the Supervisory Review Process (SRP) Including the Internal Capital Adequacy Assessment Process (ICAAP)
- Pillar III – rules for the disclosure on risk and capital management, including capital adequacy

Nordea Hypotek performs an ICAAP with the purpose to review the management, mitigation and measurement of material risks within the business environment in order to assess the adequacy of capitalisation and to determine an internal capital requirements reflecting the risks of the institution.

The ICAAP is a continuous process which increases awareness of capital requirements and exposure to material risks throughout the organisation, both in the business area and legal entity dimensions. Stress tests are important drivers of risk awareness, looking at capital and risk from a firm-wide perspective on a regular basis and on an ad-hoc basis for specific areas or segments. The process includes a regular dialogue with supervisory authorities, rating agencies and other external stakeholders with respect to capital management, measurement and mitigation techniques used. Nordea Hypotek's capital levels continue to be adequate to support the risks taken, both from an internal perspective as well as from the perspective of supervisors. Heading into 2018, Nordea Hypotek will continue to closely follow the development of the new capital requirement regime as well as maintain its open dialogue with the supervisory authorities.

### Common Equity Tier 1 capital and Tier 1 capital

The capital recognised as Common Equity Tier 1 (CET 1) capital holds the ultimate characteristics for loss absorbance defined from a going concern perspective and represents the most subordinated claim in the event of liquidation. The Tier 1 capital is defined as the sum of CET 1 capital and Additional Tier 1 (AT1) capital where AT1 capital is the total of instruments (hybrids) issued by the bank which are fully compliant with CRD IV and those that meet the transitional regulatory criteria and not included in the CET1 net after AT1 deductions. All Tier 1 capital instruments are undated subordinated capital loans.

### Additional Tier 1 instruments

The inclusion of undated subordinated loans in AT1 capital is restricted and repurchase can normally not take place until five years after original issuance of the instrument. AT1 instruments may be repaid only upon decision by the Board of Directors in Nordea Hypotek and with the permission of the Swedish FSA. Further, there are restrictions related to step-up conditions, order of priority, and interest payments under constraint conditions. AT1 instruments issued that fulfil the CRD IV requirements are fully included whereas remaining instruments are phased out according to transitional rules. For the AT1 instruments, conditions specify appropriation in order to avoid being obliged to enter into liquidation. To the extent that may be required to avoid liquidation, the principal amounts of AT1 instruments (together with accrued interest) would be written down and converting such amount into a conditional capital contribution.

### Tier 2 capital

Tier 2 capital must be subordinated to depositors and general creditors of the bank. It cannot be secured or covered by a guarantee of the issuer or related entity or include any other arrangement that legally or economically enhances the seniority of the claim vis-á-vis depositors and other bank creditors.

### Tier 2 instruments

Tier 2 instruments consist mainly of subordinated debt. Tier 2 instruments include two different types of subordinated loan capital; undated loans and dated loans. According to the regulation, Tier 2 instruments issued that fulfil the CRD IV requirements are fully included whereas remaining instruments are phased out according to transitional rules. The basic principle for subordinated debt in own funds is the order of priority in case of a default or bankruptcy situation. Under such conditions, the holder of the subordinated loan would be repaid after other creditors, but before shareholders. The share of outstanding loan amount possible to include in the Tier 2 capital related to dated loans is reduced if the remaining maturity is less than five years.

The table below shows the carrying outstanding amounts of undated and dated loans included in own funds. Call date is where the issuer has the legal right to redeem outstanding loan amounts according the terms of agreement. The carrying amounts in the table may deviate from capital amounts used in own funds due to swap arrangements and adjustments for maturities.

### Ratios and key figures

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Risk-weighted exposure amount, excl. Basel I floor, SEKm | 161,402 | 37,362 | 34,937 | 34,765 | 35,234 |
| Own funds, SEKm[1] | 25,120 | 24,899 | 26,176 | 21,795 | 20,536 |
| Total capital ratio, excl. Basel I floor, %[1] | 15.6 | 66.6 | 74.9 | 62.7 | 58.3 |
| Tier 1 capital ratio, excl. Basel I floor, %[1] | 15.1 | 61.8 | 66.0 | 49.2 | 44.9 |

1) Including profit for the period.

# Note 23. Capital adequacy, cont.

## Table A2 Transitional own funds

| | Common Equity Tier 1 capital: instruments and reserves, SEKm | A) Amount at disclosure date, SEKm | C) Amounts subject to preregulation (eu) regulation no 575/2013 treatment or prescribed residual amount of regulation (eu) no 575/2013 |
|---|---|---|---|
| 1 | Capital instruments and the related share premium accounts of which: Share Capital | 110 | – |
| 2 | Retained earnings | 19,424 | – |
| 3 | Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards) | 21 | – |
| 5a | Independently reviewed interim profits net of any foreseeable charge or dividend | 4,904 | – |
| 6 | Common Equity Tier 1 (CET1) capital before regulatory adjustments | 24,459 | – |
| | **Common Equity Tier 1 (CET1) capital: regulatory adjustments** | | |
| 7 | Additional value adjustments (negative amount) | –4 | – |
| 11 | Fair value reserves related to gains or losses on cash flow hedges | –21 | – |
| 12 | Negative amounts resulting from the calculation of expected loss amounts | –110 | – |
| 14 | Gains or losses on liabilities valued at fair value resulting from changes in own credit standing | –20 | – |
| 15 | Defined-benefit pension fund assets (negative amount) | –6 | – |
| 28 | Total regulatory adjustments to Common equity Tier 1 (CET1) | –160 | – |
| 29 | Common Equity Tier 1 (CET1) capital | 24,299 | – |
| | **Additional Tier 1 (AT1) capital: regulatory adjustments** | | |
| 45 | Tier 1 capital (T1 = CET1 + AT1) | 24,299 | – |
| | **Tier 2 (T2) capital: instruments and provisions** | | |
| 46 | Capital instruments and the related share premium accounts | 800 | – |
| 50 | Credit risk adjustments | 21 | – |
| 51 | Tier 2 (T2) capital before regulatory adjustments | 821 | – |
| | **Tier 2 (T2) capital: regulatory adjustments** | | |
| 58 | Tier 2 (T2) capital | 821 | – |
| 59 | Total capital (TC = T1 + T2) | 25,120 | – |
| 60 | Total risk weighted assets | 161,402 | – |
| | **Capital ratios and buffers** | | |
| 61 | Common Equity Tier 1 (as a percentage of risk exposure amount) | 15.1% | – |
| 62 | Tier 1 (as a percentage of risk exposure amount) | 15.1% | – |
| 63 | Total capital (as a percentage of risk exposure amount) | 15.6% | – |
| 64 | Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount) | 4.5% | – |
| 65 | of which: capital conservation buffer requirement | 2.5% | – |
| 66 | of which: countercyclical buffer requirement | 2.0% | – |
| 68 | Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount) | 10.6% | – |
| | **Applicable caps on the inclusion of provisions in Tier 2** | | |
| 78 | Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap) | 21 | – |
| 79 | Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach | 238 | – |
| | **Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)** | | |
| 84 | Current cap on T2 instruments subject to phase out arrangements | 334 | – |

# Note 23. Capital adequacy, cont.

## Leverage Ratio

| | 31 Dec 2018[1] | 31 Dec 2017[1] |
|---|---|---|
| Tier 1 capital, transitional definition, SEKm | 24,299 | 23,075 |
| Leverage ratio exposure, SEKm | 646,340 | 596,424 |
| Leverage ratio, percentage | 3.8 | 3.9 |

1) Including profit of the period.

## Minimum Capital Requirement & Capital Buffers

| | | Capital Buffers | | | | | |
|---|---|---|---|---|---|---|---|
| Percentage | Minimum Capital requirement | CCoB | CCyB | SII | SRB | Capital Buffers total[1] | Total |
| Common Equity Tier 1 capital | 4.5 | 2.5 | 2.0 | – | – | 4.5 | 9.0 |
| Tier 1 capital | 6 | 2.5 | 2.0 | – | – | 4.5 | 10.5 |
| Own funds | 8 | 2.5 | 2.0 | – | – | 4.5 | 12.5 |
| SEKm | | | | | | | |
| Common Equity Tier 1 capital | 7,263 | 4,035 | 3,223 | – | – | 7,258 | 14,521 |
| Tier 1 capital | 9,684 | 4,035 | 3,223 | – | – | 7,258 | 16,942 |
| Own funds | 12,912 | 4,035 | 3,223 | – | – | 7,258 | 20,170 |

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 | 31 Dec 2018[1] | 31 Dec 2017[1] |
|---|---|---|
| Common Equity Tier 1 capital | 7.6 | 55.8 |

1) Including profit of the period.

## Capital ratios

| Capital ratios | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Common Equity Tier 1 capital ratio, including profit | 15.1 | 61.8 |
| Tier 1 capital ratio, including profit | 15.1 | 61.8 |
| Total capital ratio, including profit | 15.6 | 66.6 |
| Common Equity Tier 1 capital ratio, excluding profit | 12.0 | 47.1 |
| Tier 1 capital ratio, excluding profit | 12.0 | 47.1 |
| **Total capital ratio, excluding profit** | **12.5** | **52.0** |

## Note 23. Capital adequacy, cont.

### Table A3 – Capital insruments' main features template[1] - CET1

| | | |
|---|---|---|
| 1 | Issuer | Nordea Hypotek AB (publ) |
| 2 | Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement) | N/A |
| 3 | Governing law(s) of the instrument | Swedish |
| | **Regulatory treatment** | |
| 4 | Transitional CRR rules | Common Equity Tier 1 |
| 5 | Post-transitional CRR rules | Common Equity Tier 1 |
| 6 | Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated | Solo |
| 7 | Instrument type (types to be specified by each jurisdiction) | Share capital as published in Regulation (EU) No 575/2013 article 28 |
| 8 | Amount recognised in regulatory capital (currency in million, as of most recent reporting date) | SEK 110m |
| 9 | Nominal amount of instrument | SEK 110m |
| 9a | Issue price | N/A |
| 9b | Redemption price | N/A |
| 10 | Accounting classification | Shareholders' equity |
| 11 | Original date of issuance | N/A |
| 12 | Perpetual or dated | Perpetual |
| 13 | Original maturity date | No maturity |
| 14 | Issuer call subject to prior supervisory approval | No |
| 15 | Optional call date, contingent call dates and redemption amount | N/A |
| 16 | Subsequent call dates, if applicable | N/A |
| | **Coupons / dividends** | |
| 17 | Fixed or floating dividend / coupon | N/A |
| 18 | Coupon rate and any related index | N/A |
| 19 | Existence of a dividend stopper | N/A |
| 20a | Fully discretionary, partially discretionary or mandatory (in terms of timing) | Fully discretionary |
| 20b | Fully discretionary, partially discretionary or mandatory (in terms of amount) | Fully discretionary |
| 21 | Existence of step up or other incentive to redeem | N/A |
| 22 | Noncumulative or cumulative | N/A |
| 23 | Convertible or non-convertible | N/A |
| 24 | If convertible, conversion trigger(s) | N/A |
| 25 | If convertible, fully or partially | N/A |
| 26 | If convertible, conversion rate | N/A |
| 27 | If convertible, mandatory or optional conversion | N/A |
| 28 | If convertible, specify instrument type convertible into | N/A |
| 29 | If convertible, specify issuer of instrument it converts into | N/A |
| 30 | Write-down features | N/A |
| 31 | If write-down, write-down trigger(s) | N/A |
| 32 | If write-down, full or partial | N/A |
| 33 | If write-down, permanent or temporary | N/A |
| 34 | If temporary write-down, description of write-up mechanism | N/A |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | Tier 2 |
| 36 | Non-compliant transitioned features | No |
| 37 | If yes, specify non-compliant features | N/A |

1) "N/A" (not applicable) means that the question is not applicable.

## Note 23. Capital adequacy, cont.

### Table A4 Capital instruments' main features template[1] – T2

| | | |
|---|---|---|
| 2 | Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement) | N/A |
| 3 | Governing law(s) of the instrument | Swedish |
| | **Regulatory treatment** | |
| 4 | Transitional CRR rules | Tier 2 |
| 5 | Post-transitional CRR rules | Tier 2 |
| 6 | Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated | Solo |
| 7 | Instrument type (types to be specified by each jurisdiction) | Tier 2 as published in Regulation (EU) No 575/2013 article 63 |
| 8 | Amount recognised in regulatory capital (currency in million, as of most recent reporting date) | SEK 800m |
| 9 | Nominal amount of instrument | SEK 800m |
| 9a | Issue price | 100 per cent |
| 9b | Redemption price | 100 per cent of Nominal amount |
| 10 | Accounting classification | Liability - amortised cost |
| 11 | Original date of issuance | 30-Dec-2014 |
| 12 | Perpetual or dated | Dated |
| 13 | Original maturity date | 30-Dec-2024 |
| 14 | Issuer call subject to prior supervisory approval | Yes |
| 15 | Optional call date, contingent call dates and redemption amount | 30-Dec-2019<br>100 per cent of Nominal amount<br>In addition regulatory call |
| 16 | Subsequent call dates, if applicable | 30-Mar, 30-Jun, 30-Sep and 30-Dec each year after first call date |
| | **Coupons / dividends** | |
| 17 | Fixed or floating dividend / coupon | Floating |
| 18 | Coupon rate and any related index | Floating 3-month STIBOR +1.70 per cent per annum |
| 19 | Existence of a dividend stopper | No |
| 20a | Fully discretionary, partially discretionary or mandatory (in terms of timing) | Mandatory |
| 20b | Fully discretionary, partially discretionary or mandatory (in terms of amount) | Mandatory |
| 21 | Existence of step up or other incentive to redeem | No |
| 22 | Noncumulative or cumulative | Non-cumulative |
| 23 | Convertible or non-convertible | Non-convertible |
| 24 | If convertible, conversion trigger(s) | N/A |
| 25 | If convertible, fully or partially | N/A |
| 26 | If convertible, conversion rate | N/A |
| 27 | If convertible, mandatory or optional conversion | N/A |
| 28 | If convertible, specify instrument type convertible into | N/A |
| 29 | If convertible, specify issuer of instrument it converts into | N/A |
| 30 | Write-down features | No |
| 31 | If write-down, write-down trigger(s) | N/A |
| 32 | If write-down, full or partial | N/A |
| 33 | If write-down, permanent or temporary | N/A |
| 34 | If temporary write-down, description of write-up mechanism | N/A |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | Senior debt |
| 36 | Non-compliant transitioned features | No |
| 37 | If yes, specify non-compliant features | N/A |

1) "N/A" (not applicable) means that the question is not applicable.

# Note 23. Capital adequacy, cont.

## Credit risk exposures for which internal models are used, split by rating grade

| SEKm | On-balance exposure, SEKm | Off-balance exposure, SEKm | Exposure value (EAD), SEKm[1] | of which EAD for off-balance, SEKm | Exposure-weighted average risk weight: |
|---|---|---|---|---|---|
| **Sovereign, foundation IRB:** | | | | | |
| - rating grades 7 | – | – | – | – | – |
| - rating grades 6 | – | – | – | – | – |
| - rating grades 5 | – | – | – | – | – |
| - rating grades 4 | – | – | – | – | – |
| - rating grades 3 | – | – | – | – | – |
| - rating grades 2 | – | – | – | – | – |
| - rating grades 1 | – | – | – | – | – |
| - unrated | – | – | – | – | – |
| - defaulted | – | – | – | – | – |
| **Corporate, foundation IRB:** | | | | | |
| - rating grades 6 | – | – | – | – | – |
| - rating grades 5 | – | – | – | – | – |
| - rating grades 4 | – | – | – | – | – |
| - rating grades 3 | – | – | – | – | – |
| - rating grades 2 | – | – | – | – | – |
| - rating grades 1 | – | – | – | – | – |
| - unrated | – | – | – | – | – |
| - defaulted | – | – | – | – | – |
| **Corporate, advanced IRB:** | **91,868** | **–** | **87,914** | **–** | **24.5** |
| - rating grades 6 | 53,387 | – | 52,697 | – | 7.6 |
| - rating grades 5 | 15,671 | – | 13,145 | – | 33.6 |
| - rating grades 4 | 20,915 | – | 20,856 | – | 59.8 |
| - rating grades 3 | 1,095 | – | 1,011 | – | 51.3 |
| - rating grades 2 | 61 | – | 60 | – | 54.8 |
| - rating grades 1 | 74 | – | 73 | – | 93.7 |
| - unrated | 626 | – | 33 | – | 49.7 |
| - defaulted | 39 | – | 39 | – | 39.9 |
| **Institutions, foundation IRB:** | **13,893** | **–** | **13,893** | **–** | **6.7** |
| - rating grades 6 | 13,032 | – | 13,032 | – | 6.5 |
| - rating grades 5 | 861 | – | 861 | – | 8.7 |
| - rating grades 4 | – | – | – | – | – |
| - rating grades 3 | – | – | – | – | – |
| - rating grades 2 | – | – | – | – | – |
| - rating grades 1 | – | – | – | – | – |
| - unrated | – | – | – | – | – |
| - defaulted | – | – | – | – | – |
| **Retail, of which secured by real estate:** | **440,358** | **60,951** | **501,308** | **60,951** | **3.2** |
| - scoring grades A | 393,430 | 54,465 | 447,895 | 54,465 | 2.2 |
| - scoring grades B | 28,939 | 4,033 | 32,973 | 4,033 | 5.6 |
| - scoring grades C | 12,790 | 1,812 | 14,602 | 1,812 | 12.2 |
| - scoring grades D | 2,706 | 377 | 3,083 | 377 | 23.0 |
| - scoring grades E | 861 | 127 | 987 | 127 | 37.3 |
| - scoring grades F | 927 | 137 | 1,063 | 137 | 58.6 |
| - not scored | 69 | – | 69 | – | 22.3 |
| - defaulted | 636 | – | 636 | – | 125.5 |

## Note 23. Capital adequacy, cont.

### Credit risk exposures for which internal models are used, split by rating grade, cont

| SEKm | On-balance exposure, SEKm | Off-balance exposure, SEKm | Exposure value (EAD), SEKm[1] | of which EAD for off-balance, SEKm | Exposure-weighted average risk weight, % |
|---|---|---|---|---|---|
| **Retail, of which other retail:** | **10,261** | **—** | **10,247** | **—** | **6.6** |
| - scoring grades A | 8,586 | — | 8,586 | — | 4.3 |
| - scoring grades B | 832 | — | 830 | — | 9.7 |
| - scoring grades C | 584 | — | 574 | — | 18.8 |
| - scoring grades D | 78 | — | 78 | — | 25.3 |
| - scoring grades E | 74 | — | 72 | — | 31.9 |
| - scoring grades F | 82 | — | 82 | — | 37.6 |
| - not scored | 2 | — | 2 | — | 23.6 |
| - defaulted | 23 | — | 23 | — | 234.1 |
| **Other non credit-obligation assets:** | **431** | **—** | **431** | **—** | **100.0** |

1) Includes EAD for on-balance, off-balance, derivatives and securities financing.

Nordea Hypotek does not have the following IRB exposure classes: equity exposures, central governments and central banks, qualifying revolving retail.

# Notes 24. Classification of financial instruments

## Assets

| 31 Dec 2018, SEKm | Amortised cost (AC) | Financial assets at fair value through profit or loss (FVPL) Mandatorily | Financial assets at fair value through profit or loss (FVPL) Derivatives used for hedging | Fair value through other comprehensive income (FVOCI) | Non-financial assets | Total |
|---|---|---|---|---|---|---|
| Loans to credit institutions | 5,299 | – | – | – | – | 5,299 |
| Loans to the public | 548,759 | – | – | – | – | 548,759 |
| Interest-bearing securities | – | 9,860 | – | 11,224 | – | 21,084 |
| Derivatives | – | – | 4,762 | – | – | 4,762 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 20 | – | – | – | – | 20 |
| Current tax assets | – | – | – | – | 29 | 29 |
| Other assets | 2,798 | – | – | – | 0 | 2,798 |
| Prepaid expenses and accrued income | 691 | – | – | – | – | 691 |
| **Total** | **557,567** | **9,860** | **4,762** | **11,224** | **29** | **583,442** |

## Liabilities

| 31 Dec 2018, SEKm | Amortised cost (AC) | Financial liabilities at fair value through profit or loss (FVPL) Mandatorily | Financial liabilities at fair value through profit or loss (FVPL) Derivatives used for hedging | Non-financial liabilities | Total |
|---|---|---|---|---|---|
| Deposits by credit institutions | 222,065 | – | – | – | 222,065 |
| Debt securities in issue | 324,984 | – | – | – | 324,984 |
| Derivatives | – | 8 | 343 | – | 351 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 3,721 | – | – | – | 3,721 |
| Other liabilities | 7,004 | – | – | 17 | 7,021 |
| Accrued expenses and prepaid income | 14 | – | – | 26 | 40 |
| Deferred tax liabilities | – | – | – | 6 | 6 |
| Provisions | – | – | – | 4 | 4 |
| Subordinated liabilities | 800 | – | – | – | 800 |
| **Total** | **558,588** | **8** | **343** | **53** | **558,992** |

## Assets

| 31 Dec 2017, SEKm | Loans and receivables | Financial assets at fair value through profit or loss Derivatives used for hedging | Non-financial assets | Total |
|---|---|---|---|---|
| Loans to credit institutions | 7,274 | – | – | 7,274 |
| Loans to the public | 536,933 | – | – | 536,933 |
| Derivatives | – | 6,176 | – | 6,176 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | –71 | – | – | –71 |
| Current tax assets | – | – | 342 | 342 |
| Other assets | 1,154 | – | – | 1,154 |
| Prepaid expenses and accrued income | 698 | – | – | 698 |
| **Total** | **545,988** | **6,176** | **1,496** | **552,506** |

## Note 24. Classification of financial instruments, cont.

### Liabilities

| 31 Dec 2017, SEKm | Amortised cost (AC) | Financial liabilities at fair value through profit or loss<br>Held for trading | Non-financial liabilities | Total |
|---|---|---|---|---|
| Deposits by credit institutions | 194,469 | – | – | 194,469 |
| Debt securities in issue | 319,801 | – | – | 319,801 |
| Derivatives | – | 498 | – | 498 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 4,796 | – | – | 4,796 |
| Other liabilities | 1 | – | 7,832 | 7,833 |
| Accrued expenses and prepaid income | 15 | – | 25 | 39 |
| Retirement benefit liabilities | – | – | 15 | 15 |
| Subordinated liabilities | 1,800 | – | – | 1,800 |
| **Total** | **520,882** | **498** | **7,872** | **529,251** |

## Note 25. Assets and liabilities at fair value

### Fair value of financial assets and liabilities

| | 31 Dec 2018 | | 31 Dec 2017 | |
|---|---|---|---|---|
| SEKm | Carrying amount | Fair value | Carrying amount | Fair value |
| **Financial assets** | | | | |
| Loans | 554,079 | 574,584 | 544,136 | 545,752 |
| Interest-bearing securities | 21,084 | 21,084 | – | – |
| Derivatives | 4,762 | 4,762 | 6,176 | 6,176 |
| Other assets | 2,798 | 2,798 | 1,154 | 1,154 |
| Prepaid expenses and accrued income | 691 | 691 | 698 | 698 |
| **Total financial assets** | **583,414** | **603,919** | **552,164** | **553,780** |
| **Financial liabilities** | | | | |
| Deposits and debt instruments | 551,570 | 554,213 | 520,866 | 525,853 |
| Derivatives | 351 | 351 | 498 | 498 |
| Other liabilities | 7,004 | 7,004 | 7,832 | 7,832 |
| Accrued expenses and prepaid income | 14 | 14 | 39 | 39 |
| **Total financial liabilities** | **558,939** | **561,582** | **529,235** | **534,222** |

For information about valutation of items measured at fair value on the balance sheet, see Note 1 "Accounting policies" and the section "Determination of fair value on the balance sheet" on page 32.

For information about valuation of items not measured at fair value on the balance sheet, see the section "Financial assets and liabilities not held at fair value on the balance sheet" on page 59.

# Note 25. Assets and liabilities at fair value, cont

## Assets and liabilities held at fair value on the balance sheet (Categorisation into the fair value hierarchy)

| 31 Dec 2018, SEKm | Quoted prices in active markets for the same instrument (Level 1) | Valuation technique using observable data (Level 2) | Valuation technique using non-observable data (Level 3) | Total |
|---|---|---|---|---|
| **Assets at fair value on the balance sheet[1]** | | | | |
| Interest-bearing securities | – | 21,084 | – | 21,084 |
| Derivatives | – | 4,762 | – | 4,762 |
| **Total** | **–** | **25,846** | **–** | **25,846** |
| **Liabilities at fair value on the balance sheet[1]** | | | | |
| Derivatives | – | 351 | – | 351 |
| **Total** | **–** | **351** | **–** | **351** |

1) All items are measured at fair value on a recurring basis at the end of each reporting period.

| 31 Dec 2017, SEKm | Quoted prices in active markets for the same instrument (Level 1) | Valuation technique using observable data (Level 2) | Valuation technique using non-observable data (Level 3) | Total |
|---|---|---|---|---|
| **Assets at fair value on the balance sheet[1]** | | | | |
| Derivatives | – | 6,176 | – | 6,176 |
| **Liabilities at fair value on the balance sheet[1]** | | | | |
| Derivatives | – | 498 | – | 498 |

1) All items are measured at fair value on a recurring basis at the end of each reporting period.

### Determination of fair values for items measured at fair value on the balance sheet

Fair value measurements of assets and liabilities carried at fair value have been categorised under the three levels of the IFRS fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The categorisation of these instruments is based on the lowest level input that is significant to the fair value measurement in its entirety.

Level 1 in the fair value hierarchy consists of assets and liabilities valued using unadjusted quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an on-going basis. Nordea Hypotek does not have any level 1 instruments.

Level 2 in the fair value hierarchy consists of assets and liabilities that do not have directly quoted market prices available from active markets. The fair values are based on quoted prices for similar assets or liabilities in active markets or quoted prices for identical or similar assets or liabilities in markets that are not active. Alternatively, the fair values are estimated using valuation techniques or valuation models based on market prices or inputs prevailing at the balance sheet date and where any unobservable inputs have had an insignificant impact on the fair values. This is the case for shorter-term interest rate caps in liquid currencies.

Level 3 in the fair value hierarchy consists of those types of assets and liabilities for which fair values cannot be obtained directly from quoted market prices or indirectly using valuation techniques or models supported by observable market prices or rates. This is the case for longer-term interest rate caps in less liquid currencies.

All valuation models, both complex and simple models, make use of market prices and inputs. These market prices and inputs comprise interest rates, volatilities, correlations etc. Some of these prices and inputs are observable while others are not. For most non-exotic currencies the interest rates are all observable, and implied volatilities and the correlations of the interest rates and FX rates may be observable through option prices up to a certain maturity. Implied volatilities and correlations may also be observable for the most liquid equity instruments. For less liquid equity names the option market is fairly illiquid, and hence implied volatilities and correlations are unobservable. For each instrument the sensitivity towards unobservable parameters is measured. If the impact from unobservable parameters on the valuation is significant the instrument is categorised as Level 3 in the fair value hierarchy.

For interest-bearing securities the categorisation into the three levels are based on the internal pricing methodology. These instruments can either be directly quoted in active markets (Level 1) or measured using a methodology giving a quote based on observable inputs (Level 2). Level 3 bonds are characterised by illiquidity.

For OTC derivatives valuation models are used for establishing fair value. The models are usually in-house developed, and based on assumptions about the behaviour of the underlying asset and statistical scenario analysis. Most OTC derivatives are categorised as Level 2 in the fair value hierarchy implying that all significant model inputs are observable in active markets.

### Transfers between Level 1 and 2

During the year, Nordea Hypotek transferred interest-bearing securities of 456 SEKm from Level 1 to Level 2. The reason for the transfers from Level 1 to Level 2 was that the instruments ceased to be actively traded during the period and fair values have now been obtained using valuation techniques with observable market inputs.

## Note 25. Assets and liabilities at fair value, cont

### The valuation processes for fair value measurements

#### Financial instruments

The valuation process in Nordea Hypotek consists of several steps. The first step is to determine the end of day (EOD) marking of mid-prices. It is the responsibility of the business areas to determine correct prices used for the valuation process. These prices are either internally marked prices set by a trading unit or externally sourced prices. The valuation prices and valuation approaches are then controlled and tested by a valuation control function within the 1st line of defence, which is independent from the risk taking units in the front office. The cornerstone in the control process is the independent price verification (IPV). The IPV test comprises verification of the correctness of valuations by comparing the prices to independently sourced data. The result of the IPV is analysed and any findings are escalated as appropriate. The verification of the correctness of prices and inputs is as minimum carried out on a monthly basis and is for many products carried out daily. Third-party information, such as broker quotes and pricing services, is used as benchmark data in the verification. The quality of the benchmark data is assessed on a regular basis.

The valuation adjustment at portfolio level and the deferrals of day 1 P/L on Level 3 trades are calculated and reported on a monthly basis. The actual assessment of instruments in the fair value hierarchy is performed on a continuous basis.

Specialised teams within the unit Balance Sheet Risk Control (BSRC) are responsible for overseeing and independently assessing the valuations performed by the 1st line of defence. These teams are responsible for 2nd line of defence oversight for valuations, with independent reporting responsibilities towards the CRO and the BAC.

### Loans

The fair value of "Loans to credit institutions" and "Loans to the public" have been estimated by discounting the expected future cash flows with an assumed customer interest rate that would have been used on the market if the loans had been issued at the time of the measurement. The assumed customer interest rate is calculated as the benchmark interest rate plus the average margin on new lending in Personal Banking, Commercial & Business Banking and Wholesale Banking respectively.

### Interest bearing-securities

The fair value is 21,084 SEKm (-) is categorised in Level 2. The measurement principles follow those for similar instruments that are held at fair value on the balance sheet.

### Other assets and prepaid expenses and accrued income

The balance sheet items "Other assets" and "Prepaid expenses and accrued income" consist of short receivables, mainly accrued interest receivables. The fair value is therefore considered to equal the carrying amount and is categorised into Level 3 in the fair value hierarchy.

### Deposits and debt instruments

The fair value of ”Deposits by credit institutions”, "Debt securities in issue" and "Subordinated liabilities" has been calculated as the carrying amount adjusted for fair value changes in interest rate risk and in own credit risk. The fair value is categorised into Level 3 in the fair value hierarchy. The fair value changes related to interest rate risk is based on changes in relevant interest rates compared with corresponding nominal interest rate in the portfolios. The fair value changes in the credit risk is calculated as the difference between the credit spread in the nominal interest rate compared with the current spread that is observed in the market. This calculation is performed on an aggregated level for all long term issuances recognised in the balance sheet items “Debt securities in issue” and “Subordinated liabilities”. As the contractual maturity is short for “Deposits by credit institutions” and “Deposits and borrowing from the public” the changes in Nordea Hypotek´s own credit risk related to these items is assumed not to be significant. This is also the case for short term issuances recognised in the balance sheet items “Debt securities in issue” and “Subordinated liabilities”.

### Other liabilities and accrued expenses and prepaid income

The balance sheet items "Other liabilities" and "Accrued expenses and prepaid income" consist of short-term liabilities, mainly liabilities on securities settlement. The fair value is therefore considered to be equal to the carrying amount and is categorised into Level 3 in the fair value hierarchy.

**Financial assets and liabilities not held at fair value on the balance sheet**

| SEKm | 31 Dec 2018 Carrying amount | 31 Dec 2018 Fair value | 31 Dec 2017 Carrying amount | 31 Dec 2017 Fair value | Level in fair value hierarchy |
|---|---|---|---|---|---|
| **Assets not held at fair value on the balance sheet** | | | | | |
| Loans | 554,079 | 574,584 | 544,136 | 545,752 | 3 |
| Interest bearing-securities | 21,084 | 21,084 | - | - | 2 |
| Other assets | 2,798 | 2,798 | 1,154 | 1,154 | 3 |
| Prepaid expenses and accrued income | 691 | 691 | 698 | 698 | 3 |
| **Total** | **578,652** | **599,157** | **545,988** | **547,604** | |
| **Liabilities not held at fair value on the balance sheet** | | | | | |
| Deposits and debt instruments | 551,570 | 554,213 | 520,866 | 525,853 | 3 |
| Other liabilities | 7,004 | 7,004 | 7,832 | 7,832 | 3 |
| Accrued expenses and prepaid income | 14 | 14 | 39 | 39 | 3 |
| **Total** | **558,588** | **561,231** | **528,737** | **533,724** | |

# Note 26. Financial instruments set off on balance or subject to netting agreements

| 31 Dec 2018, SEKm | Gross recognised financial assets[1] | Gross recognised financial liabilities set off on the balance sheet | Net carrying amount on the balance sheet | Amounts not set off but subject to master netting agreements and similar agreements[2] Financial instruments | Net amount |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Derivatives | 4,762 | - | 4,762 | -376 | 4,386 |
| **Liabilities** | | | | | |
| Derivatives | 351 | - | 351 | -376 | -25 |

1) All amounts are measured at fair value.
2) There are no items related to financial collateral (including cash collateral) in the company.

| 31 Dec 2017, SEKm | Gross recognised financial assets[1] | Gross recognised financial liabilities set off on the balance sheet | Net carrying amount on the balance sheet | Amounts not set off but subject to master netting agreements and similar agreements[2] Financial instruments | Net amount |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Derivatives | 6,176 | – | 6,176 | –516 | 5,660 |
| **Liabilities** | | | | | |
| Derivatives | 498 | – | 498 | –516 | –18 |

1) All amounts are measured at fair value.
2) There are no items related to financial collateral (including cash collateral) in the company.

### Enforceable master netting agreements and similar arrangements

The fact that financial instruments are being accounted for on a gross basis on the balance sheet, would not imply that the financial instruments are not subject to master netting agreements or similar arrangements. Generally financial instruments (derivatives and repos), would be subject to master netting agreements, and as a consequence Nordea Hypotek would be allowed to benefit from netting both in the ordinary course of business and in the case of default towards its counter parties, in any calculations involving counterparty credit risk. In the section "Counter Party risk and exposures" of the director's report, the size of counterparty risk at 31 December 2018 is set out.

# Note 27. Assets and liabilities in foreign currencies

The only exposure that Nordea Hypotek has in foreign currecny is in euros (EUR). Currency exposure in other currency is driven by issuance in foreign currency, fully hedged by derivatives. The table below shows the exposure in EUR translated into SEK.

| 31 Dec 2018 SEKm | EUR |
|---|---|
| **Assets** | |
| Derivatives and other assets | 2,623 |
| **Total assets** | **2,623** |
| **Liabilities** | |
| Debt securities in issue | 10,082 |
| Other liabilities | 2,313 |
| **Total liabilities** | **12,395** |

| 31 Dec 2017 SEKm | EUR |
|---|---|
| **Assets** | |
| Derivatives and other assets | 2,908 |
| **Total assets** | **2,908** |
| **Liabilities** | |
| Debt securities in issue | 10,383 |
| Other liabilities | 2,587 |
| **Total liabilities** | **12,970** |

# Note 28. Maturity analysis for assets and liabilities

| | | Expected to be recovered or settled: | | |
|---|---|---|---|---|
| **Expected maturity, 31 Dec 2018, SEKm** | **Note** | **Within 12 months** | **After 12 months** | **Total** |
| Loans to credit institutions | 10 | 5,299 | – | 5,299 |
| Loans to the public | 10 | 58,609 | 490,150 | 548,759 |
| Interest-bearing securities | 11 | 945 | 20,139 | 21,084 |
| Derivatives | 12 | 326 | 4,436 | 4,762 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | | 1 | 19 | 20 |
| Current tax assets | 9 | 29 | – | 29 |
| Other assets | 13 | 2,798 | – | 2,798 |
| Prepaid expenses and accrued income | 14 | 405 | 286 | 691 |
| **Total assets** | | **68,412** | **515,030** | **583,442** |
| Deposits by credit institutions | 15 | 65,975 | 156,090 | 222,065 |
| Debt securities in issue | 16 | 42,979 | 282,005 | 324,984 |
| Derivatives | 12 | 16 | 335 | 351 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | | 125 | 3,596 | 3,721 |
| Other liabilities | 17 | 7,021 | – | 7,021 |
| Accrued expenses and prepaid income | 18 | 30 | 10 | 40 |
| Deferred tax liabilities | 9 | 0 | 6 | 6 |
| Provisions | 19 | 4 | – | 4 |
| Subordinated liabilities | 20 | 800 | – | 800 |
| **Total liabilities** | | **116,950** | **442,042** | **558,992** |

| | | Expected to be recovered or settled: | | |
|---|---|---|---|---|
| **Expected maturity, 31 Dec 2017, SEKm** | **Note** | **Within 12 months** | **After 12 months** | **Total** |
| Loans to credit institutions | 10 | 7,274 | – | 7,274 |
| Loans to the public | 10 | 53,499 | 483,434 | 536,933 |
| Derivatives | 11 | 961 | 5,215 | 6,176 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | | –11 | –60 | –71 |
| Current tax assets | 9 | 342 | – | 342 |
| Other assets | 13 | 1,154 | – | 1,154 |
| Prepaid expenses and accrued income | 14 | 272 | 426 | 698 |
| **Total assets** | | **63,491** | **489,015** | **552,506** |
| Deposits by credit institutions | 15 | 194,329 | 140 | 194,469 |
| Debt securities in issue | 16 | 72,609 | 247,192 | 319,801 |
| Derivatives | 12 | 21 | 477 | 498 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | | 205 | 4,591 | 4,796 |
| Other liabilities | 17 | 7,833 | – | 7,833 |
| Accrued expenses and prepaid income | 18 | 28 | 11 | 39 |
| Deferred tax liabilities | 9 | – | 15 | 15 |
| Subordinated liabilities | 20 | 1,799 | 1 | 1,800 |
| **Total liabilities** | | **276,824** | **252,427** | **529,251** |

# Note 28. Maturity analysis for assets and liabilities, cont.

## Contractual undiscounted cash flows

| 31 Dec 2018, SEKm | Payable on demand | Maximum 3 months | 3-12 months | 1-5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| Loans to credit institutions | 5,300 | – | – | – | – | 5,300 |
| Loans to the public | – | 22,025 | 44,332 | 111,533 | 484,046 | 661,936 |
| Interest-bearing securities | – | 38 | 1,262 | 20,666 | – | 21,966 |
| Other | – | 3,332 | – | 206 | – | 3,538 |
| **Total financial assets** | **5,300** | **25,395** | **45,594** | **134,405** | **482,046** | **692,740** |
| Deposits by credit institutions | – | 14,814 | 51,612 | 156,226 | – | 222,652 |
| Debt securities in issue | – | 1,641 | 44,910 | 281,468 | 16,073 | 344,092 |
| - of which Debt securities in issue | – | 1,637 | 44,100 | 281,468 | 16,073 | 343,278 |
| - of which Other | – | 4 | 810 | – | – | 814 |
| Other | – | 7,193 | – | 3,598 | – | 10,791 |
| **Total financial liabilities** | **–** | **23,649** | **96,522** | **441,292** | **16,073** | **577,535** |
| Derivatives, cash inflow | – | 445 | 2,030 | 6,547 | 9,267 | 18,289 |
| Derivatives, cash outflow | – | –49 | –444 | –4,469 | –9,271 | –14,233 |
| **Net exposure** | **–** | **396** | **1,586** | **2,078** | **-4** | **4,056** |
| **Exposure** | **5,300** | **2,143** | **–49,342** | **–306,809** | **467,969** | **119,261** |
| **Cumulative exposure** | **5,300** | **7,443** | **–41,899** | **–348,708** | **119,261** | **–** |

| 31 Dec 2017, SEKm | Payable on demand | Maximum 3 months | 3-12 months | 1-5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| Loans to credit institutions | 7,274 | – | – | – | – | 7,274 |
| Loans to the public | – | 19,867 | 35,877 | 127,548 | 711,995 | 895,287 |
| Other | – | 178 | – | 37 | – | 215 |
| **Total financial assets** | **7,274** | **20,045** | **35,877** | **127,585** | **711,995** | **902,776** |
| Deposits by credit institutions | – | 194,035 | – | 139 | – | 194,174 |
| Debt securities in issue | – | 7,518 | 72,506 | 238,242 | 23,320 | 341,586 |
| - of which Debt securities in issue | – | 7,518 | 71,493 | 237,428 | 23,320 | 339,759 |
| - of wich Other | – | – | 1,013 | 814 | – | 1,827 |
| Other | – | 820 | – | 469 | – | 1,289 |
| **Total financial liabilities** | **–** | **202,373** | **73,519** | **239,664** | **23,320** | **538,876** |
| Derivatives, cash inflow | – | 495 | 2,511 | 5,963 | 10,114 | 19,083 |
| Derivatives, cash outflow | – | –85 | –109 | –3,635 | –10,389 | –13,830 |
| **Net exposure** | **–** | **410** | **2,402** | **2,328** | **–275** | **5,252** |
| **Exposure** | **7,274** | **–181,748** | **–34,009** | **–108,504** | **688,399** | **371,412** |
| **Cumulative exposure** | **7,274** | **–174,474** | **–208,483** | **–316,987** | **371,412** | **–** |

The table is based on contractual maturities for on balance sheet financial instruments. For derivatives, the expected cash inflows and outflows are disclosed for both derivative assets and derivative liabilities, as derivatives are managed on a net basis. In addition to the on balance sheet and derivative instruments. Nordea Hypotek has credit commitments amounting to SEK 42,084m (42,382). For further information see Note 22 "Commitments".

# Note 29. Related-party transactions

The information below is presented from a Nordea Hypotek perspective, meaning that the information show the effect from related party transactions on the Nordea Hypotek figures.

## Balance sheet

| | Key management personnel | | Nordea Group companies | |
|---|---|---|---|---|
| SEK (000s) | 31 Dec 2018 | 31 Dec 2017 | 31 Dec 2018 | 31 Dec 2017 |
| **Assets** | | | | |
| Loans to credit institutions | – | – | 5,299,092 | 7,273,948 |
| Loans to the public[1] | 27,162 | 37,448 | – | – |
| Derivatives | – | – | 4,801,162 | 6,181,074 |
| Other assets | – | – | 2,283,599 | 1,154,607 |
| Prepaid expenses and accrued income | – | – | 20,367 | 21,555 |
| **Total assets** | **27,162** | **37,448** | **12,404,220** | **14,631,185** |
| **Liabilities** | | | | |
| Deposits by credit institutions | – | – | 222,064,980 | 194,468,518 |
| Debt securities in issue | – | – | 3,558,818 | 6,469,513 |
| Derivatives | – | – | 292,719 | 432,761 |
| Other liabilities | – | – | 7,014,171 | 7,830,381 |
| Subordinated liabilities | – | – | 800,136 | 1,800,248 |
| **Total liabilities** | **–** | **–** | **233,730,824** | **211,001,421** |
| Off balance[2] | – | – | 480,798,037 | 341,939,851 |

1) Lending divided by collateral type: Single family properties SEK 4,084k; Tentant-owner apartments SEK 23,078k.

2) Including nominal values on derivatives.

## Income statement

| | Key management personnel | | Nordea Group companies | |
|---|---|---|---|---|
| SEK (000s) | 2018 | 2017 | 2018 | 2017 |
| Intererst income | 187 | 351 | 23,949 | 228,263 |
| Interest expense | – | – | 3,497,937 | 4,131,918 |
| Net fee and commission income | – | – | –15,120 | –15,577 |
| Net result from items at fair value | – | – | –1,073,189 | –2,738,477 |
| General administrative expenses: | | | | |
| -Staff costs | – | – | – | –22 |
| -Other expenses | – | – | –1,083,001 | –1,438,781 |
| **Total** | **187** | **351** | **1,350,576** | **167,324** |

### Compensation and loans to key management personnel

Compensation to key management personnel are specified in Note 6 "Staff costs".

# Note 30. Credit risk disclosures

## Allowances for credit risk

| SEKm | Note | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|---|
| Loans to credit institutions | 10 | – | – |
| Loans to the public | 10 | 82 | 67 |
| Interest bearing securities measured at fair value through other comprehensive income or amortised cost | 11 | 0 | – |
| Off balance sheet items | 19 | 4 | – |
| **Total** | | **86** | **67** |

## Maximum exposure to credit risk

| | | 31 Dec 2018 | | 31 Dec 2017 | |
|---|---|---|---|---|---|
| | Note | Amortised cost and Fair value through other comprehensive income | Financial assets at fair value through profit or loss | Amortised cost and Fair value through other comprehensive income | Financial assets at fair value through profit or loss |
| Loans to credit institutions | 10 | 5,299 | – | 7,274 | – |
| Loans to the public | 10 | 548,841 | – | 537,000 | – |
| Interest bearing securities | 11 | 11,224 | 9,860 | – | – |
| Derivatives | 12 | – | 4,762 | – | 6,176 |
| **Total** | | **565,364** | **14,622** | **544,274** | **6,176** |

## Loan-to-value ratio

A common way to analyse the quality of collateral in the portfolio is to measure the Loan-to-Value (LtV), i.e. the current exposure divided by the market value of the collateral pledged. In the table below, the mortage exposures are broken down into different LtV ranges. In 2018, mortage exposures increased in all ranges, except in the 70-75% range where it reduced marginally. The relative distribution of the exposures is unchanged compared with 2017.

## Mortage exposure to loans to the public[1]

| | 31 Dec 2018 | | 31 Dec 2017 | |
|---|---|---|---|---|
| | SEKbn | % | SEKbn | % |
| <50% | 427.9 | 82 | 416.8 | 82 |
| 50–60% | 47.5 | 9 | 46.5 | 9 |
| 60–70% | 34 | 7 | 33.7 | 7 |
| 70–75% | 11.2 | 2 | 11.4 | 2 |
| >75% | – | – | – | – |
| **Total** | **520.6** | **100** | **508.4** | **100** |

1) Lending to the public sector customer segment is not included int the table above.

## Loans to corporate customers, by size of loan

| Size in SEKm | 31 Dec 2018 | % | 31 Dec 2017 | % |
|---|---|---|---|---|
| 0–10 | 9,174 | 10 | 9,187 | 10 |
| 10–50 | 38,697 | 41 | 36,303 | 38 |
| 50–100 | 18,457 | 19 | 16,241 | 16 |
| 100–250 | 14,875 | 15 | 11,194 | 12 |
| 250–500 | 7,317 | 8 | 9,822 | 13 |
| 500– | 6,631 | 7 | 5,704 | 11 |
| **Total** | **95,151** | **100** | **88,451** | **100** |

## Note 30. Credit risk disclosures, cont.

### Past due loans, excluding impaired loans

| | 31 Dec 2018 | | 31 Dec 2017 | |
|---|---|---|---|---|
| SEKm | Corporate customers | Household customers | Corporate customers | Household customers |
| 6–30 days | 224 | 7 | 408 | 32 |
| 31–60 days | 16 | 246 | 70 | 226 |
| 61–90 days | – | 53 | – | 58 |
| 91–180 days | – | 37 | – | 14 |
| **Total** | **240** | **343** | **478** | **330** |
| Past due not impaired loans divided by loans to the public after allowances, % | 0.24 | 0.08 | 0.52 | 0.07 |

### Sensitivities

One important factor in estimating expected credit losses in accordance with IFRS 9 is to assess what constitutes a significant increase in credit risk. Nordea Hypotek uses a relative trigger of 250 per cent and an absolute trigger of 150 per cent. If the relative trigger would have been set to 200 per cent, the provisions would have increased by SEK 3.2m. Had the relative trigger been set to 300 per cent, the provisions would have decreased by SEK 3.0m.

### Forward looking information

Forward looking information is used both for assessing significant increase in credit risk and in the calculation of expected credit losses. Nordea Hypotek estimates three macro-economic scenarios, a baseline together with an upside and a downside scenario.

The baseline macroeconomic and financial scenario is provided by Oxford Economics. The Oxford Economics forecast is a combination of modelling and expert judgement, subject to thorough checks and quality control processes. The Oxford model has been built to give a good description of the historic relationships between economic variables and to capture the key linkages between those variables.

The definition of the upside and downside scenarios are based on Oxford Economics' quarterly Global Risk Survey. In this survey respondents report what they see as the top upside and downside global economic risks over the next two years. Based on these answers Oxford Economics create a number of global economic scenarios, each simulating a potential materialisation of one of these top risk factors. Oxford Economics also assign a probability to each scenario, based on the Global Risk Survey. Nordea use these scenarios and probabilities from Oxford Economics when defining the upside and downside scenarios. The model results are assessed and, if needed, adjusted by Nordea Group's country responsible macro and financial analysts, using judgement based on previous similar episodes to ensure consistency across countries and asset prices.

Checks of the model results are performed by reviewing quantitative data before and after reactions. As part of the process to ensure accurate and consistent data deliveries from Nordea Group's economists, the data is also subject to a number of statistical tests.

The following parameters are used in the different scenarios:

| Sweden | Base | Adverse | Favourable |
|---|---|---|---|
| GDP growth, % | 1.8–2.5 | 0.9–3.8 | 1.2–3.1 |
| Unemployment, % | 5.4–6.3 | 5.4–7.3 | 5.3–6.1 |
| Change in household consumption, % | 1.7–2.4 | 1.1–3.5 | 1.4–2.7 |
| Change in house prices, % | 2.1–3.8 | 0.4–5.4 | 1.1–4.4 |

## Note 31. Proposed distribution of earnings

After the company paid group contributions amounting to SEK 4,719,545,013 the following amount is available for distruibution by the Annual General Meeting of Shareholders:

| | |
|---|---|
| Other reserve | 12,411,875 |
| Retained profit | 19,423,698,306 |
| Net profit for the year | 4,904,197,886 |
| **Total** | **24,340,308,067** |

| | |
|---|---|
| The Board of Directors proposes that these earnings are distributed as follows: | |
| **To be carried forward:** | **24,340,308,067** |

It is the assessment of the Board of Directors that the proposed group contribution is justifiable considering the demands with respect to the size of the Company's equity, which are imposed by the nature, scope and risks, associated with the business, and the Company's need for consolidation, liquidity and financial position in general.

# Specifications to the Notes

## Specification to Note 16: Swedish bonds, SEK 000s

| Number | ISIN code | First sales day | Interest rate in % | Due dates for interest | Final payment day | Currency | Outstanding nominal amount 2018 |
|---|---|---|---|---|---|---|---|
| 5521[1] | SE0001542341 | 19/10/2005 | 3.2500 | 17 Jun | 17/6/2020 | SEK | 67,241,500 |
| 5530[1] | SE0005676723 | 14/2/2014 | 2.2500 | 19 Jun | 19/6/2019 | SEK | 37,340,000 |
| 5531[1] | SE0006991246 | 8/4/2015 | 1.0000 | 08 Apr | 8/4/2022 | SEK | 76,565,000 |
| 5532[1] | SE0007897186 | 11/1/2016 | 1.2500 | 19 May | 19/5/2021 | SEK | 69,300,000 |
| 5533[1] | SE0010442731 | 11/10/2017 | 1.2500 | 20 Sep | 20/9/2023 | SEK | 43,550,000 |
| 5703 | SE0004269363 | 19/10/2011 | 3.4600 | 19 Oct | 19/10/2026 | SEK | 3,000,000 |
| 5704 | SE0004297125 | 9/11/2011 | 3.5350 | 09 Nov | 9/11/2021 | SEK | 1,000,000 |
| 5705 | SE0004329506 | 2/12/2011 | 3.1250 | 02 Dec | 2/12/2026 | SEK | 1,000,000 |
| 5716 | SE0007158597 | 1/6/2015 | 1.8375 | 01 Jun | 1/6/2027 | SEK | 500,000 |
| 5717 | SE0008015358 | 5/2/2016 | 1.5600 | 15 Feb | 15/2/2023 | SEK | 1,300,000 |
| 5718 | SE0009414584 | 15/12/2016 | 1.6900 | 15 Dec | 15/12/2026 | SEK | 300,000 |
| 5720 | SE0011088772 | 2/5/2018 | 1.8430 | 02 May | 2/5/2030 | SEK | 1,000,000 |
| 5724 | SE0011762137 | 8/10/2018 | 1.8000 | 08 Oct | 8/10/2030 | SEK | 250,000 |
| 5725 | SE0010599373 | 15/10/2018 | 2.2500 | 15 Oct | 15/10/2048 | SEK | 400,000 |
| 5713[2] | SE0005757945 | 26/2/2014 | 3 months Stibor + 0.31 | 26 May | 26/2/2019 | SEK | 1,100,000 |
| 5719[2] | SE0011167360 | 27/4/2018 | 3 months Stibor + 1.00 | 27 Jun | 27/9/2022 | SEK | 1,000,000 |
| 5721[2] | SE0011062926 | 16/8/2018 | 3 months Stibor + 0.75 | 16 Okt | 16/1/2023 | SEK | 500,000 |
| 5722[2] | SE0011062934 | 15/8/2018 | 3 months Stibor + 0.75 | 15 Sep | 15/6/2023 | SEK | 500,000 |
| 5723[2] | SE0011721232 | 24/9/2018 | 3 months Stibor + 0.75 | 24 Nov | 24/5/2023 | SEK | 1 000,000 |

1) Tap issues.
2) Quarterly payment of interest, first payment date in the table.

Loan 5521-5533, 5703-5705, 5716-5718, 5720, 5724-5725: No interest rate adjustment.

## Registered Covered Bond (Loans issued in foreign currency)

| Currency | Outstanding nominal amount in currency, (000s) 2018[1] |
|---|---|
| **Total other bonds issued (converted into SEK):** | **9,795,539** |

1) The currency exposure and interest rate have been changed by using currency and interest rate swaps.

## Specification to Note 20: Subordinated liabilities, SEK 000s

| Number | Start date | Currency | Interest rate, % | Call date | Due date | Outstanding nominal amount 2018 |
|---|---|---|---|---|---|---|
| Loan 11 | 30/12/2014 | SEK | 3 months Stibor + 1.70 | 30/12/2019 | 30/12/2024 | 800,000 |

# Signing of the Annual Report

It is hereby certified that, to the best of our knowledge, the annual report has been prepared in accordance with sound accounting principles. The information provided gives a true and fair account of the development of the operations, financial position and result, and nothing of material significance has been omitted that would affect the presentation of the company created by the Annual Report.

Stockholm, 22 February 2019

Nicklas Ilebrand
*Chairman*

Maria Härdling

Nils Lindberg

Peter Dalmalm

Elisabet Olin

Michael Skytt
*CEO*

Our audit report was submitted on 26 February 2019

Öhrlings PricewaterhouseCoopers AB

Catarina Ericsson
*Authorised Public Accountant*

Helena Kaiser de Carolis
*Authorised Public Accountant*

# Auditor's report

## To the general meeting of the shareholders of Nordea Hypotek AB (publ), corporate identity number 556091-5448

### Report on the annual accounts

#### Opinion

We have audited the annual accounts of Nordea Hypotek AB (publ) for the year 2018.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Credit institutions and Securities Companies and present fairly, in all material respects, the financial position of Nordea Hypotek AB (publ) as of 31 December 2018 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act for Credit institutions and Securities Companies. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for Nordea Hypotek AB (publ).

Our opinions in this report on the the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

#### Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of Nordea Hypotek AB (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

#### Our audit approach

*Audit scope*

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

*Materiality*

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

## Key audit matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts as a whole, but we do not provide a separate opinion on these matters.som helhet, men vi gör inga separata uttalanden om dessa områden.

| Key audit matter | How our audit addressed the Key audit matter |
|---|---|
| **Impairment of loans to customers** | |
| IFRS 9, the new accounting standard for financial instruments, came into effect on 1 January 2018 and has significant impact on processes and models for impairment of loans to customers.<br><br>IFRS 9 categorises loans into three stages depending on the level of credit risk or changes in credit risk for each individual loan. For loans without significant increase in credit risk, stage 1, expected credit losses are calculated for estimated defaults within 12 months. For loans where there is a significant increase in credit risk, stage 2, or loans in default, stage 3, a lifetime of expected losses are calculated.<br><br>Expected credit losses are calculated as a function of the probability of default, the exposure at default and the loss given default, as well as the timing of the loss. These calculations are a central part of the assessment of impairment of loans to customers. The calculations include critical judgements and estimates.<br><br>Refer to the Annual Report Note 1 – Accounting policies (Critical judgements and estimation uncertainty), Note 8 – Net loan losses and Note 10 – Loans and impairment. | Our audit included a combination of testing of internal controls over financial reporting and substantive testing. The testing of internal controls included procedures relating to the governance structure, segregation of duties and key controls in the lending processes.<br><br>In addition, our credit modelling experts have performed recalculations for a sample of loans and model outputs in order for us to obtain comfort over the calculated ECL.<br><br>In addition we have audited the financial effects and disclosures related to the transition to IFRS 9. |

## Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Directorare responsible for the preparation of the annual accounts and that they give a fair presentation in accordance with the Annual Accounts Act. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

## Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

A further description of our responsibility for the audit of the annual accounts is available on Revisorsinspektionen's website: www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor´s report.

## Report on other legal and regulatory requirements

### Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Nordea Hypotek AB (publ) for the year 2018 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

### Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of Nordea Hypotek AB (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's type of operations, size and risks place on the size of the company's and equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner.

### Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Banking and Financing Business Act, the Annual Accounts Act for Credit institutions and Securities Companies or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibility for the audit of the annual accounts is available on Revisorsinspektionen's website: www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor´s report.

Öhrlings PricewaterhouseCoopers AB, 113 97 Stockholm, was appointed auditor of Nordea Hypotek AB (publ) by the general meeting of the shareholders on the 12 March 2018 and has been the company's auditor since the 12 March 2015.

Stockholm, 26 February 2019

Öhrlings PricewaterhouseCoopers AB

Catarina Ericsson
*Authorized Public Accountant*
*Auditor in charge*

Helena Kaiser de Carolis
*Authorized Public Accountant*

# Board of Directors, Auditor and Management

## Board of Directors

### Chairman

Nicklas Ilebrand, b 1980
Nordea Bank Abp
Head of Products,
Sweden

### Members

Maria Härdling, b 1972
Nordea Bank Abp
Head of TALM Analytics,
Sweden

Peter Dalmalm b 1968
Nordea Bank Abp
Head of Commercial Banking,
Sweden

Nils Lindberg, b 1947
Senior Partner,
Ekonans AB

Michael Skytt, b 1959
CEO, Nordea Hypotek AB (publ)

Elisabet Olin, b 1961
Nordea Bank Abp
Head of Business Risk Management
Personal Banking, Sweden

## Auditor

### Öhrlings Pricewaterhouse Coopers AB

Catarina Ericsson
Authorised Public Accountant

Helena Kaiser de Carolis
Authorised Public Accountant

## Management

Michael Skytt, b 1959
CEO, Nordea Hypotek AB (publ)

Lena Sjöberg Svensson, b 1964
Chief Operating Officer/Deputy CEO,
Nordea Hypotek AB (publ)

Lars Andersson, b 1959
Head of Credit,
Nordea Hypotek AB (publ)

Mats Bergström, b 1981
Chief Risk Officer,
Nordea Hypotek AB (publ)

Johan Arenander, b 1967
Chief Financial Officer,
Nordea Hypotek AB (publ)

Fredrik Andersson, b 1979
Compliance Officer,
Nordea Hypotek AB (publ)

# Addresses

### Nordea Hypotek AB (publ)

| | |
|---|---|
| Visiting address: | Lindhagensgatan 112, 8 tr |
| Postal address: | L8300, SE-105 71 Stockholm |
| Telephone: | +46 8 614 70 00 |
| Website: | www.nordea.se |