Annual Report 2019

Nordea Hypotek AB (publ)

Contents

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 2019. The company is a wholly owned subsidiary of Nordea Bank Abp (corp. id no. 2858394-9).

5 year overview

Income statement

SEKm	2019	2018	2017	2016	2015
Net interest income [1]	6,815	8,150	8,786	7,828	6,687
Net fee and commission income	–43	–10	4	18	23
Net result from items at fair value	–22	–160	–283	–145	–140
Total operating income	**6,750**	**7,980**	**8,507**	**7,701**	**6,570**
General administrative expenses:					
- Staff costs	–28	–27	–26	–10	–7
- Other expenses [1]	–1,462	–1,623	–1,477	–521	–511
Total operating expenses	**–1,490**	**–1,650**	**–1,503**	**–531**	**–518**
Profit before loan losses	**5,260**	**6,330**	**7,004**	**7,170**	**6,052**
Net loan losses	–18	–37	–11	–9	–22
Operating profit	**5,242**	**6,293**	**6,993**	**7,161**	**6,030**
Income tax expense	–1,122	–1,389	–1,551	–1,575	–1,326
Net profit for the year	**4,120**	**4,904**	**5,442**	**5,586**	**4,704**

1) As from 1 January 2019 Nordea Hypotek recognises resolution fees at the beginning of the year, when the legal obligation to pay arises, and presents the expense as "Other expenses". The earlier policy was to amortise these fees over the year and present the expense as "Interest expense". For more information see Note 1 "Accounting policies". Comparative figures before 2018 for "Net interest income" and "Other expenses" have not been restated in the above table.

Balance sheet

SEKm	2019	2018	2017	2016	2015
Assets					
Loans to credit institutions	5,578	5,299	7,274	3,274	2,602
Loans to the public	579,501	548,759	536,933	531,061	500,852
Interest-bearing securities	21,104	21,084	—	—	—
Derivatives	4,566	4,762	6,176	9,642	9,792
Fair value changes of he hedged items in portforlio hedge of interest rate risk	–299	20	–71	–26	57
Current tax assets	98	29	342	87	153
Other assets	814	2,798	1,154	2,466	2,485
Prepaid expenses and accrued income	651	691	698	644	550
Total assets	**612,013**	**583,442**	**552,506**	**547,148**	**516,491**
Liabilities					
Deposits by credit institutions	235,964	222,065	194,469	168,609	157,977
Debt securities in issue	340,270	324,984	319,801	336,900	320,934
Derivatives	515	351	498	686	1,715
Fair value changes of the hedged items in portfolio hedge of interest rate risk	3,168	3,721	4,796	6,936	6,450
Other liabilities	4,777	7,021	7,833	6,912	6,747
Accrued expenses and prepaid income	179	40	39	39	171
Deferred tax liabilities	5	6	15	155	139
Provisions	7	4	—	—	—
Subordinated liabilities	1,650	800	1,800	3,101	4,702
Equity	25,478	24,450	23,255	23,810	17,655
Total liabilities and equity	**612,013**	**583,442**	**552,506**	**547,148**	**516,491**

Ratios and key figures

	2019	2018	2017	2016	2015
Return on average shareholders equity, %	15.9	19.6	21.7	24.9	26.2
Return on assets, %	0.7	0.8	1.0	1.0	0.9
Investment margin, %[1,4]	1.1	1.5	1.6	1.4	1.3
Cost/income ratio, %	22.1	15.6	17.8	7.0	8.2
Risk-weighted exposure amount, SEKm[2,3]	160,206	161,402	37,362	34,362	34,765
Capital base, SEKm[1]	27,012	25,120	24,899	26,176	21,795
Total capital ratio, % [1,2,3]	16.9	15.6	8.9	9.6	8.6
Tier 1 capital ratio, % [1,2,3]	15.8	15.1	8.3	8.5	6.7
Average number of employees (recalculated to FTEs)	24	20	22	5	3

1) Including profit for the period.

2) The risk weight floor has moved from Pillar II to Pillar I, due to the re-domiciliation of the Partent Company to Finland in 2018.

3) Basel I floor is not applicable for 2018, due to the re-domicilation of the Parent Company to Finland. The comparative figures have not been restated.

4) As from January 2019 Nordea Hypotek recognises resolution fees at the beginning of the year, when the legal obliagion to pay arises, and presents the expense as "Other expenses". The earlier policy was to amortise these fees over the year and present the expense as "Interest expense". For more information see Note 1 "Accounting policies". Comparative figures for "Investment margin" has not been restated in the above table.

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 2019

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, condominiums, 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 5,242m (6,293), which is a decrease of 16.7% 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 6,815m (8,150); a decrease of 16.4%. The decrease in net interest income is mainly explained by lower average lending margins and higher funding costs.
- The net result from items at fair value rose by SEK 137m. This is chiefly attributable to financial instruments under hedge accounting, which positively affected the item by SEK 56m, lower premature loan redemption penalties, which had a negative impact on the item in the amount of SEK 13m, and to the repurchase of issued bonds entered at amortised cost, which had a positive effect of SEK 94m on the item.
- Net commission income declined by SEK 33m, mainly due to increased commission expense related to funding.
- The volume of loans past due that are not classified as impaired amounted to 0.09% (0.08) for household lending, and to 0.33% (0.24) for corporate lending.
- Credit losses amounted to SEK -18 m (–38) net, and are entirely attributable to household lending.
- Return on equity, after standard tax, was 15.9% (19.6).
- Operating expenses at the end of the year were SEK 1,490m (1,650), a decrease of SEK 160m compared to 2018. This is mainly because the cost of the resolution fee in 2019 is much lower than in 2018, mainly because the fee percentage has declined from 12.5 bps in 2018 to 9 bps in 2019.

Lending

Lending to the public increased during the year by 5.6% (2.2) to SEK 579,501m (548,759) at year-end.

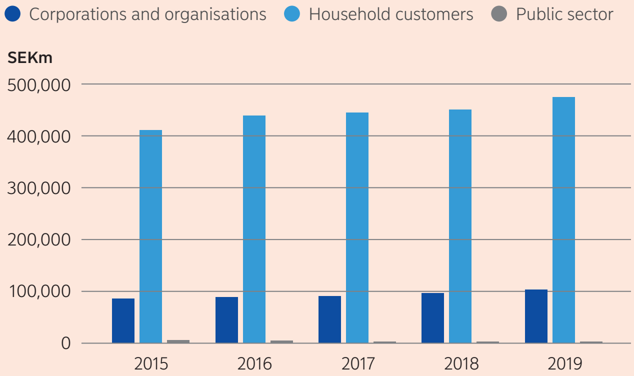
Lending to companies, organisations and municipalities

Lending to legal entities increased by SEK 6,579m (6.6%) to SEK 105,605m (99,026) at the end of the financial year.

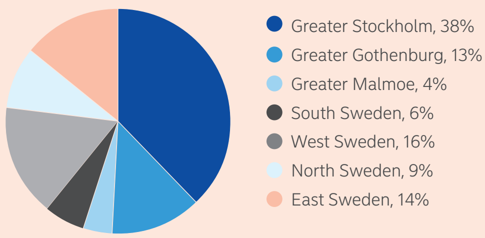
Household lending

Household lending increased by SEK 24,162m (5.4%) to SEK 473,895m (449,733) at year-end.

Distribution of the loan portfolio



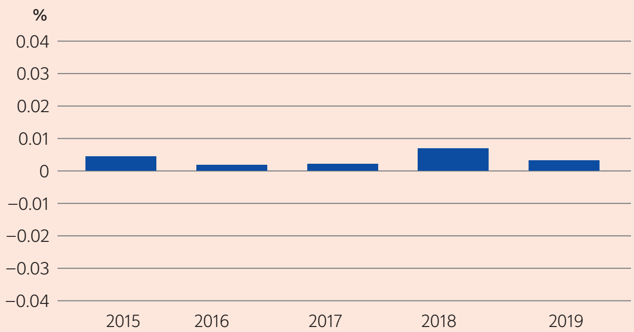
Geographical distribution of loans in the covered pool



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 –18m (–38).

Net loan losses in relation to lending



Foreign exchange risk

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

Funding

In 2019, 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 of 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 credit ratings provide the Company with access to a broader base of funding sources.

In the Swedish market, in 2019 the Company issued bonds with maturities exceeding one year to a nominal amount of SEK 72bn (93.6), of which SEK 69.25bn was fixed-rate and SEK 2.75bn was floating-rate. The issues take place regularly in existing and new series, with the majority being so-called benchmark bonds. In 2019 the Company held agreements with five banks regarding distribution of the bonds in the benchmark series.

Total outstanding covered bonds at year-end amounted to a nominal SEK 334bn (316.6). In addition, the Company had outstanding subordinated debenture loans of SEK 1.65 billion (0.8). 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 235.9bn (222.1).

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.

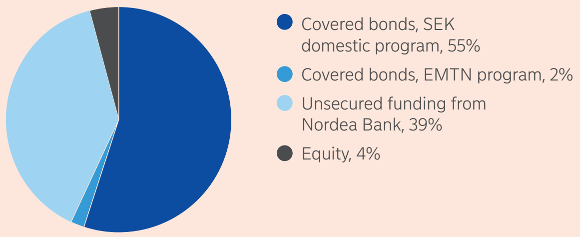
Counterparty risk and exposures
In total, risk-weighted assets for counterparty risk amounted to SEK 1,328m (1,368). The majority of counterparty risk is attributable to derivatives. The risk-weighted assets for other off-balance sheet exposures were SEK 1,628m (1,888) and chiefly relate to credit commitments.

Derivatives
Derivative instruments primarily pertain to interest payment exchange contracts (interest 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 2014, CRD/CRR (Capital Requirements Directive/Capital Requirements Regulation) applies 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. An example of this is that Nordea Hypotek rewards customers and tenant-owner associations with homes that are classed as energy-efficient, by means of attractive pricing through the green mortgage product. Further information about how the Nordea Group works with CSR is available at www.nordea.com, where Nordea publishes its Sustainability Report.

Nordea Hypotek's funding structure



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

2020 outlook
Nordea Hypotek has decided not to publish any forecasts for 2020.

Corporate governance
As of 2019, the corporate governance report is included as a part of the Board of Directors' report, see the section Corporate Governance Report 2019.

Change in the Board of Directors
In 2019, three new members were added to the Board, Marte Kopperstad, Head of Products and Development Personal Banking, Per Långsved, Head of Personal Banking SE and Magnus Montan, Strategic Leader Business Banking SE.
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 2019.

Distribution of earnings
After the Company paid group contributions of SEK 3,945,846,966, profit for the year of 4,119,592,190 and retained earnings of SEK 21,226,460,477 as well as other reserves of SEK 21 526 556 are available for distribution by the annual meeting of shareholders. The proposed distribution of earnings is provided in Note 31 on page 72.

Risk, Liquidity and Capital management

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

Governing bodies for risk and capital management

The Board of Directors of Nordea Hypotek (NHYP Board), the Board Risk Committee (BRIC) and the Chief Executive Officer of Nordea Hypotek (NHYP CEO) in Nordea Hypotek Executive Management (NHEM) are the key decision-making bodies for Risk and Capital Management in Nordea Hypotek.

In addition, NHYP Board has delegated the credit decision-making to individuals and committees within the parent company Nordea Bank Abp through the internal risk management framework and intra group outsourcing agreements.

Nordea Hypotek Board of Directors and Board Risk Committee

NHYP Board has the following overarching risk management responsibilities:

- It decides on Nordea Hypotek's risk strategy and the Risk Appetite Framework, including the Risk Appetite Statements, with at least annual reviews and additional updates when needed.
- It decides on and oversees an adequate and effective Risk Management Framework and regularly evaluates whether Nordea Hypotek has effective and appropriate controls to manage the risks.

NHYP Board adopts the Group Board Directive on Capital, which ensures adequate capital levels within the Nordea Group, on an ongoing and forward-looking basis, consistent with the business model, risk appetite, and regulatory requirements and expectations.

NHYP BRIC assists NHYP Board in fulfilling its oversight responsibilities concerning management and control of risk, risk frameworks, controls and processes associated with Nordea Hypotek's operations, including credit, market, liquidity, business and operational risk, as well as conduct and compliance and related frameworks and processes.

Nordea Hypotek Chief Executive Officer

NHYP CEO is responsible to NHYP Board for the overall management of Nordea Hypotek's operations and risks. Responsibilities include ensuring that the risk strategy and risk management decided by NHYP Board is implemented, the necessary practical measures are taken, and the risks are monitored and limited. NHYP CEO is working together with senior members of management in NHEM for the purposes of supporting NHYP CEO's decision-making.

Nordea Hypotek Executive Management

NHEM is the main forum for managing changes to the internal framework and review of material covering any competence of NHYP Board. NHEM consist of NHYP CEO, NHYP Chief Operating Officer, NHYP Head of Credit, NHYP Chief Financial Officer, NHYP Chief Risk Officer, representative from Group Compliance and NHYP legal counsel.

Credit decision making bodies

The governing bodies for Credit Risk and/or the Credit Risk Management Framework are NHYP Board and NHYP BRIC. NHYP Board delegate credit decision-making according to the Powers to Act as described in the adopted Group Board Directive for Risk. The Nordea Group has established a number of committees that also covers Nordea Hypotek credit decisions.

According to the Group Board Directive for Risk, all limits within the Nordea Group are based on credit decisions or authorizations made by an ultimate Decision-Making Authority with the right to decide upon that limit. Credit decisions include, inter alia, pricing, risk mitigation and any terms and conditions related to the limit or expected utilization. Credit decisions also serve to delegate decision making within the approved limit to lower decision makers, unless otherwise explicitly decided.

Governance of Risk Management and Compliance

The flow of risk related information is passed from the business and group functions to NHYP Board through NHEM and NHYP BRIC. The flow of information starts with the divisions that monitor and analyse information on the respective risk types according to intra group outsourcing agreements. The risks are presented and discussed in NHEM by the responsible member of NHEM. Information on risk issues is then brought to NHYP BRIC, where risk issues are discussed and challenged before presentation to NHYP Board.

Group Compliance (GC) within Nordea Bank Abp is responsible for identifying compliance risks and performs monitoring and control to ensure that the risks are managed by responsible functions. GC performs this service as part of an intra group outsourcing agreement. GC adds value to Nordea Hypotek and its stakeholders by providing an independent view on compliance with applicable laws, regulations, standards, supervisory requirements and related internal rules governing Nordea Hypotek's activities, and based on monitoring activities. Reporting from GC is presented directly to NHEP Board and NHYP BRIC.

Risk and Capital Management Processes

The Risk Management Framework (RMF) ensures consistent processes for identifying, assessing and measuring, responding to and mitigating, controlling and monitoring, and reporting risks to enable informed decisions on risk-taking. The Risk Management Framework encompasses all risks to which the Nordea Group, including Nordea Hypotek, is or could be exposed, including off-balance sheet risks and risks in a stressed situation.

The Risk Identification and Materiality Assessment Process starts with identifying potential risks to which Nordea Hypotek is or could be exposed. Risks are then assessed for relevance, classified, and included in the Nordea Group's Common Risk Taxonomy.

All risks within the Nordea Common Risk Taxonomy need to be classified as material or not material for risk management and capital purposes for Nordea Hypotek. Material risks are assessed as those that could lead to a material impact on Nordea Hypotek. These risks will typically, though not always, refer to a higher-level risk within the Common Risk Taxonomy which captures a number of underlying risks in which losses arise from a common source.

Risk appetite

The Risk Appetite Framework (RAF) supports effective risk management and a sound risk culture by enabling informed decisions on risk-taking, with the objective of ensuring that risk-taking activities are conducted within Nordea Hypotek's risk appetite and that emerging risks are identified and addressed in a timely way.

Risk capacity is the maximum level of risk Nordea Hypotek is deemed able to assume given its capital (Own funds), its risk management and control capabilities, and its regulatory constraints. Risk appetite is the aggregate level and types of risk Nordea Hypotek is willing to assume within its risk capacity, in line with its business model, to achieve its strategic objectives. The Risk Appetite Statements (RAS) are the articulation of NHYP Board approved risk appetite and comprises the qualitative statements and quantitative Limits and Triggers by main risk type, which are deemed appropriate to be able to operate with a prudent risk profile.

Credit concentration metrics cover e.g. sectors and client groups of importance. Stress test metrics are applied to credit and market risk metrics to ensure a forward-looking approach to risk management. Operational risk metrics cover both residual risk levels and requirements for mitigating actions as well as limits for incidents and losses.

Risk appetite processes

The RAF contains all processes and controls to establish, monitor and communicate Nordea Hypotek's risk appetite:

- Risk capacity setting based on capital position: On an annual basis, Nordea Hypotek's overall risk capacity is aligned with the financial and capital planning process, based on Nordea Hypotek's risk strategy. Risk capacity is set in line with the capital position, including an appropriate shock absorbing capacity.
- Risk appetite allocation by risk type: Risk appetite includes Risk Appetite Limits for the main risk types that Nordea Hypotek is or could be exposed to, in line with the Common Risk Taxonomy. 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.
- Risk limit setting: Measurable risk limits are established and set at an appropriate level to manage risk-taking effectively. Risk Appetite Limits are set by NHYP Board and is the foundation for the risk limits which are established and approved at lower decision-making levels, including NHEM. Risk limits are set in alignment with Swedish regulatory requirements and consistent with the Nordea Group Risk Limits.
- Controlling and monitoring risk exposures against risk limits: Regular controlling and monitoring of risk exposures compared to risk limits for financial risks is carried out to ensure that risk taking activity remains within risk appetite.
- Risk appetite limit breach management process: Nordea Hypotek's Chief Risk Officer (NHYP CRO) ensures that any Risk Appetite Limit breaches is appropriately escalated to NHEM, NHYP BRIC and NHYP Board. NHYP CRO reports at least quarterly on any breaches of the risk appetite to NHYP Board and other relevant governing bodies, including a follow-up on the status of actions to be taken, until the relevant risk exposure is within appetite. The reporting includes a consistent status indicator to communicate the current risk exposure compared to Risk Appetite Limit for all risk types covered by the RAS.

Embedding risk appetite in business processes

The end-to-end risk appetite process cycle is aligned with other strategic processes, including the Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP) and the Recovery and Resolution Plan.

Moreover, the risk appetite is embedded in business processes and communicated across the organisation in order to meet Nordea Hypotek's objectives of maintaining a sound risk culture. This includes, but is not limited to, ensuring a strong link between the assessed risk appetite and the business plans and budgets, the capital and liquidity position, the systemic risk profile/the recoverability and resolvability assessments, as well as the incentive structures/remuneration framework.

Monitoring and reporting

NHYP Board has adopted Nordea's Group Board Directive on Internal Governance which describes the 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 (both internally and externally) and compliance with laws, regulations, supervisory requirements and Nordea Hypotek's Internal Rules.

The internal control process is carried out by Nordea Hypotek's governing bodies that consist of NHYP Board, NHYP CEO in NHEM, senior management, risk management functions and other staff in Nordea Hypotek and, as regulated by intra group outsourcing agreement, by units wihtin the Nordea Group. The internal control process 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.

In order to support all employees in managing risks, the Nordea Group has designed an electronic learning programme for all staff, called "Licence to Work". Licence to Work is a set of stepwise requirements for learning about risk and compliance and shall be renewed every year.

The control environment is, among other things, 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 credit risk, liquidity risk and on a monthly and quarterly basis for credit risk, operational risk, compliance risk, IT risk and overall capital adequacy.

Detailed risk information, covering all risks as well as capital adequacy, is regularly reported to NHEM, NHYP BRIC and NHYP Board. In addition to this, Nordea Hypotek's compliance with regulatory requirements is reported to NHEM, NHYP BRIC and NHYP Board.

Disclosure requirements of the CRR – Capital and Risk Management Report 2019

Additional information on risk and capital management is presented in the Capital and Risk Management Report 2019, 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.

Credit Risk management

Credits granted shall conform to the common principles established for the Nordea Group. Nordea Hypotek strives to have a well-diversified credit portfolio that is adapted to the structure of it home market and economy. The key principles for managing Nordea Hypotek's risk exposures are:

- the three Lines of Defence (LoD);
- independency, i.e. the risk control function should be independent of the business it controls; and,
- risk-based approach, i.e. the risk control functions should be aligned to the nature, size and complexity of Nordea Hypotek's business, ensuring that efforts undertaken are proportional to the risks in question.

NHYP Head of Credit in 1LoD is Nordea Hypotek's responsible for implementing the Nordea Group's credit process framework and operational credit risk guidelines and SOPs. NHYP CRO in 2LoD is responsible for implementing the Nordea Group's credit risk framework, consisting of policies and instructions. NHYP CRO is also responsible for controlling and monitoring the quality of the credit portfolio and the credit process. NHYP Head of Credit and NHYP CRO are supported by Nordea Group resources in these responsibilities according to intra group outsourcing agreements.

The basis of credit risk management is limits to customers and customer groups that are aggregated and assigned to units responsible for their continuous monitoring and development. An additional dimension of concentration risk limits, based on industries, segments, products or geographies, shall likewise be aggregated, assigned to units responsible for their monitoring and development and serve as caps on those limits. 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 NHYP Board, internal credit risk limits are approved by credit decision making authorities on different levels in the Nordea Group constituting the maximum risk appetite on the customer in question. Individual credit decisions within the approved internal credit risk limit are taken within the customer responsible unit (CRU). The risk categorisation together with the exposure of the customer determine at what level the credit decision will be made.

Responsibility for credit risk lies with the customer responsible unit. Customers are risk categorized by a rating or score in accordance with the Nordea Group's common rating and scoring guidelines. The rating and scoring of customers aim to predict their probability of default and consequently rank them according to their respective default risk. Rating and scoring are used as integrated parts of the credit risk management and decision-making process. Representatives from 1LoD credit organization 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. Credit risk stems mainly from various forms of lending and includes counterparty credit risk. Nordea Hypotek's loan portfolio is furthermore broken down by segment and industry. Industry credit policies are established for those industries that have a significant weight in the portfolio and are either highly cyclical or volatile or require special industry competencies.

Credit decisions are reached after a credit risk assessment, based on principles that are defined consistently across the Nordea Group and regulated in the intra group agreement covering the credit decisions. These principles emphasize 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 reflect the internal view of both the customer relationship and credit risk. All credit assessments shall adequately reflect a consideration of relevant environmental, social and governmental risks and conform to the Nordea Group's Sustainability Policy. The total credit risk assessment shall be a combined risk conclusion on the obligor's repayment capacity and the 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 or continuous credit review process is in place. The review process is an important part of the continuous credit analysis process. If credit weakness is identified in relation to a customer exposure, the customer is categorized as "High Risk" and receives special attention in terms of more frequent reviews. In addition to continuous monitoring, an action plan is established outlining 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. Pledge of collateral is a fundamental credit risk mitigation technique and collaterals are always sought to minimize the potential for credit losses. In every credit decision and review, the value of collaterals must be considered.

The main collateral types are real estate, tenant owner rights and various types of municipal guarantees. Collateral coverage should generally be higher for exposures of financially weaker customers than for those who are financially strong. Independent from the strength of collateral position, the repayment capacity is the starting point in credit assessment and assigning credit limits.

The collateral value shall always be based on the market value. The market value is defined as the estimated amount for which the asset or liability would exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, after proper marketing, and where the parties had each acted knowledgeably, prudently and without compulsion.

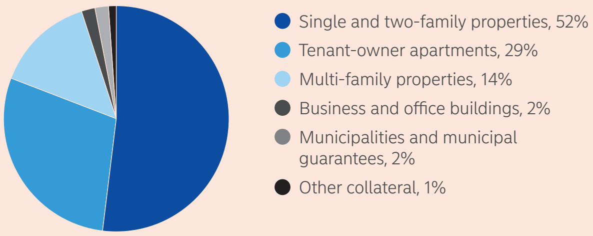
From this market value, a haircut is applied. The haircut is defined as a percentage by which the asset's market value is reduced ensuring a margin against loss. The margin reflects the adjustments needed to assess the cash proceeds when the collateral is liquidated in a forced sale situation. A maximum 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.

Collateral distribution

The below charts present the distribution of collateral in Nordea Hypotek's cover pool. The table shows that single family residential real estate collateral had the majority share together with tenant owner rights, the remaining is made up of commercial real estate, forest and agricultural and public.

Breakdown of lending by collateral



Loan-to-value

The loan-to-value (LTV) ratio is considered a useful measure to evaluate collateral's quality, i.e. the credit extended divided by the market value of the collateral pledged. In the table below, Nordea Hypotek's full portfolio of exposures are distributed by LTV bucket based on the indexed LTV ratio. Information regarding LTV buckets for the cover pool can be found in Note 30.

Loan-to-value in the lending portfolio[1]

	31 Dec 2018	31 Dec 2019	
Indexed LtV	Volume	Volume	Change
<50%	224,940,018,817	238,997,967,805	6%
50–60%	94,144,823,685	94,880,509,751	1%
60–70%	93,329,965,316	99,273,469,805	6%
70–75%	39,044,350,524	37,511,459,077	–4%
>75%	83,500,208,608	93,718,774,217	12%

1) In the table for loan-to-value municipal loans and guarantees are excluded, as well as loans with non-standard collateral.

Individual and collective assessment of impairment

Requirements for impairment are set forth in IFRS 9, which are based on an expected loss model. Impairment testing (individual and collective) applies to three forward looking and weighted scenarios. Assets tested for impairment are divided into three groups depending on the Stage of credit deterioration. Stage 1 includes assets where there has been no significant increase in credit risk, Stage 2 includes assets where there has been a significant increase in credit risk and stage 3 includes defaulted assets. All assets are assessed individually for staging. Significant assets in Stage 3 are tested for impairment individually. Assets in Stage 1, Stage 2 and insignificant assets in Stage 3 are tested for impairment collectively.

Throughout the process of identifying and mitigating credit impairment, Nordea Hypotek continuously reviews the quality of credit exposures. Weak and credit impaired exposures are closely 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. Nordea Hypotek recognises only certain specific credit risk adjustments (SCRA). SCRA comprise individually and collectively assessed provisions. SCRA during the year is referred to as loan losses, while SCRA in the balance sheet is referred to as allowances and provisions. More information regarding impairment can be found in Note 10.

Individual provisioning

A need for individual provisioning is recognised if, based on credit events and observable data, a negative impact is likely on the customer's expected future cash flow to the extent that full repayment is unlikely (pledged collaterals considered).

Exposures with individually assigned provisions are credit impaired. The size of the provision is equal to the estimated loss, which is the difference between the book value of the outstanding exposure and the discounted value of the expected future cash flow, including the value of pledged collateral. More information on individual provisioning can be found in Note 10.

Default

Customers with exposures that are past due more than 90 days, being in bankruptcy or considered unlikely to pay, are regarded as defaulted and can be either servicing debt or non-servicing. If a customer recovers from being in default, the customer is considered cured. Typically, this situation occurs if the customer succeeds in creating a balance in financials. In order to be cured, the recovery should include the customer's total liabilities, an established satisfactory repayment plan and an assessment that the recovery is underway.

Collective provisioning

The collective model is executed quarterly. One important driver for provisions is the trigger for the transferring of assets from Stage 1 to Stage 2, as explained in "Individual and collective assessment of impairment". For assets recognised from 1 January 2018, 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 thirty days past due are also transferred to Stage 2. In Stage 1, the provisions equal the 12 months expected loss. In Stages 2 and 3, the provisions equal the lifetime expected loss. The output is complemented with an expert-based analysis process to ensure adequate provisioning. Defaulted customers without individual provisions have collective provisions. More information on provisioning can be found in Note 10.

Forbearance

Forbearance is eased terms or restructuring due to the borrower experiencing or about to experience financial difficulties. The intention with granting forbearance for a limited time period is to ensure full repayment of the outstanding debt. Examples of eased 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, approved according to Powers to Act and followed by impairment testing. Forborne exposures can be performing or non-performing. Loan loss provisions are recognised if necessary. Total volume of lending with forbearance was SEK 111m.

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 and an absolute trigger. Further information regarding sensitivity triggers can be found in Note 30.

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 scenarios are described further in Note 30.

Credit portfolio

Including on- and off-balance sheet exposures, the total credit risk exposure at year end was SEK 632bn (SEK 610bn last year). Total on-balance credit exposure was at year-end SEK 580bn (SEK 549bn). See more information and breakdown of exposure according to the CRR definition in Note 11 and in the Capital and Risk Management Report.

Credit risk is measured, monitored and segmented in different ways. On-balance lending consists of mainly of amortised cost lending and constitutes the major part of the credit portfolio. Amortised cost lending is the basis for impaired loans, allowances and loan losses. Credit risk in lending is measured and presented as the principal amount of on-balance sheet claims, i.e. loans to credit institutions and to the public, and off-balance.

Loans to corporate customers

Loans to corporate customers at the end of 2019 amounted to SEK 106bn (SEK 99bn) an increase with 6.6%. Real estate management and investment (REMI) (commercial & residential) is the largest industry exposure, followed by financial institutions. The REMI predominantly consists of relatively large and financially strong companies, with 98% (98%) of the lending in rating grades 4- and better.

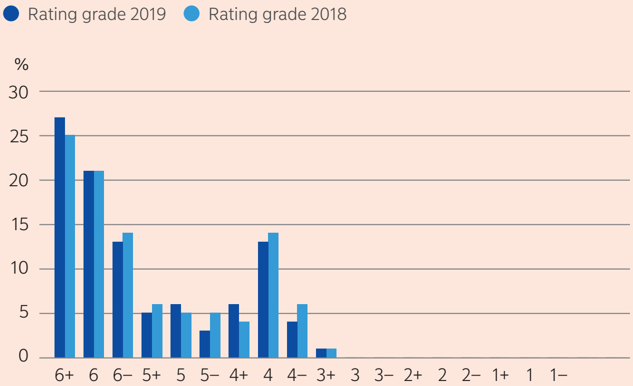
Loans to household customers

In 2019 lending to household customers increased by 5.4% to SEK 474bn (SEK 450bn). The increase is primarily driven by a growing domestic household mortgage market, but also from increased market share. The household segment consists of a large number of customers with 99% (99%) having a scoring of C- and better.

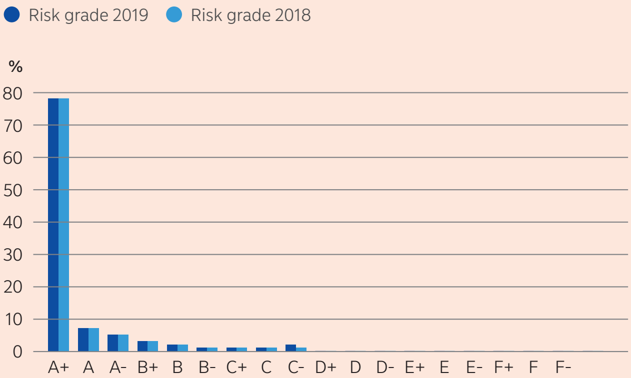
Rating and scoring distribution

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. retail exposures. The development in rating and scoring can be seen in the tables below.

Rating distribution for the Corporate portfolio



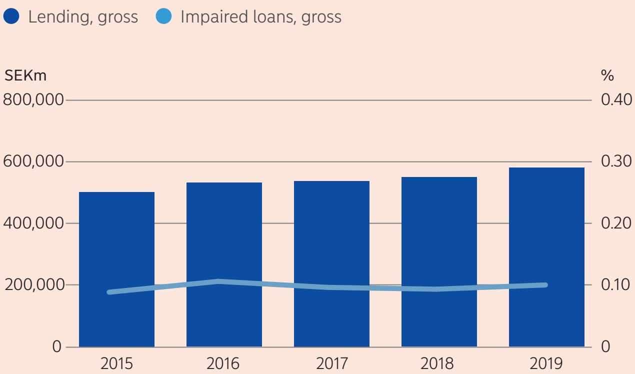
Risk grade distribution for the Retail portfolio



Impaired loans (Stage 3)

Impaired loans gross in 2019 increased to SEK 599m (SEK 582m), corresponding to 10.2 (10.5) basis points of total loans. 17% of impaired loans gross are servicing and 83% are non-servicing. Impaired loans net, after allowances for Stage 3 loans amount to SEK 576m, corresponding to 9.8 basis points of total loans. Allowances for Stage 3 loans amount to SEK 23m. Allowances for Stages 1&2 loans amount to SEK 43m. The ratio of allowances in relation to impaired loans is 3.9% and the allowance ratio for loans in Stages 1&2 is 0.7%. Further information on impaired loans can be found in Note 30.

Lending to the public and impaired loans



Past due loans, excluding impaired loans

The table in note 30 shows loans past due 6 days or more that are not considered impaired, split by corporate and household customers. Past due is defined as a loan payment that has not been made as of its due date. Past due loans to corporate customers, not considered impaired, were at end of 2019 SEK 346m (SEK 240m), and past due loans for household customers increased to SEK 433m (SEK 343m).

Net loan losses

Loan losses amount to SEK 18m in 2019 (SEK 38m). This corresponds to a loan loss ratio of 0.3 basis points. A net loss of SEK 22m (SEK 15m) relates to household customers, and while a net gain of SEK 4m (net loss SEK 23m) was the result from loan losses for corporate customers.

Counterparty credit risk

Counterparty credit risk is the risk that a 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 only use the parent company as counterpart in derivative transactions. More details on counterparty credit risk is available in the section "Our operations".

Market risk

Market risk is the risk of loss in a position in either the trading book or non-trading book as a result of changes in market rates and parameters that affect the market values or net interest income flows. Market risk exist irrespective of the accounting treatment of the positions.

The market risk appetite for Nordea Hypotek is expressed through risk appetite statements issued by NHYP Board. The statements are defined for the banking book as Nordea Hypotek does not have any trading book assets. The 2LoD ensures that the risk appetite is appropriately translated through relevant committees into specific risk appetite limits for Group Treasury and ALM (TALM). TALM is responsible for managing the market risk according to intra group outsourcing agreement.

As part of the overall RAF, holistic and bespoke stress tests are used to measure the market risk appetite and calibrate limits to monitor and control the full set of material market risk factors to which Nordea Hypotek is exposed.

Non-traded market risk

Non-traded market risk principally arises from the core banking business of Nordea Hypotek, related hedges and regulatory or other external requirements (e.g. liquid assets buffer). TALM is responsible for the comprehensive risk management of all non-traded market risk exposures in the Nordea Group's balance sheet, including Nordea Hypotek.

For transparency and a clear division of responsibilities within TALM, the comprehensive banking book risk management is divided across several frameworks – each with a clear risk mandate and specific limits and controls.

The non-traded market risks that Nordea Hypotek are exposed to are mainly interest rate risk and credit spread risk. Interest rate risk in the banking book (IRRBB) is the current or prospective risk to Nordea Hypotek's capital and earnings arising from adverse movements in interest rates. The market risks are managed centrally by TALM and include gap risk, basis risks, credit spread risk and option risk.

Due to the lending structure in Nordea Hypotek's home market Sweden, most of the contractual interest rate exposures are floating rate. Consequently, wholesale funding is also swapped to floating rate. The resulting repricing gap risk is managed by TALM for Nordea Hypotek. The net outright interest rate risk stemming from the repricing gaps, together with the limited fixed interest rate risk, is hedged with interest rate swaps (IRS) and overnight index swaps (OIS).

Liquid assets are managed in accordance with the Liquidity Buffer and Pledge/Collateral frameworks. Most of the directional interest rate risk arising from bond holdings is hedged primarily with maturity matched IRS payer swaps and to a smaller degree with OIS payer swaps. Forward Rate Agreements and listed futures contracts are also used to hedge credit spread and interest rate fixing risks.

The tail hedging framework operates a running portfolio of tail hedges across listed equity futures and options, main credit indices and interest rate swaps and options. Due to the nature of the framework, asymmetrical hedging structures are natural building blocks of the tail hedging portfolio. Tail hedges run across the other banking book frameworks, including the liquid asset bond and derivative portfolio, and the structural risks.

Measurement of market risk

Economic value (EV) stress tests look at the change in economic value of banking book assets, liabilities and interest-bearing derivative exposures resulting from interest rate movements, independently of the accounting classification and ignoring credit spreads and commercial margins. The model assumes a run-off balance sheet and includes behavioural modelling for non-maturing deposits and pre-payments. Changes in the Economic Value of the Equity of the banking book are measured under the 6 standardised scenarios defined by the Basel Committee on Banking Supervision (BCBS). The exposure limit under this metric is measured against the worst outcome out of the 6 scenarios measured. In addition, Fair value sensitivities in the banking book are monitored against five severe but plausible market stress scenarios.

The earnings risk metric measures the change in net interest income relative to a base scenario, creating a Structural Interest Income Risk (SIIR) value over a one-year horizon. The model uses a constant balance sheet assumption, implied forward rates and behavioural modelling for the non-maturing deposits and prepayments. The measurement of IRRBB is dependent on key assumptions applied in the models. The most material assumptions relate to the modelling of embedded behavioural options in both assets and liabilities. The behavioural option held by Nordea Hypotek's lending customers to execute early loan prepayments is estimated using prepayment models.

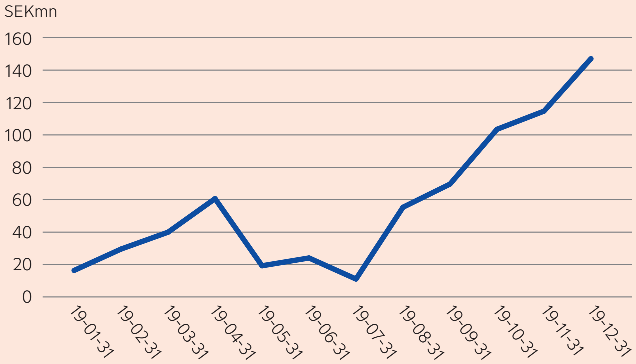
The Pillar 2 IRRBB capital allocations consists of a Fair Value Risk component and an Earnings Risk component. The Fair Value Risk component covers the impact on the bank's equity due to adverse movements in the mark-to-market (MtM) values of positions accounted for at Fair Value through Profit and Loss (FVTPL) or Fair Value through other comprehensive income (FVOCI). The Earnings Risk component covers the impact of rate changes on future earnings capacity, and the resulting implications for internal capital buffer levels.

Market risk analysis

Structural Interest Income Risk (SIIR)/EV

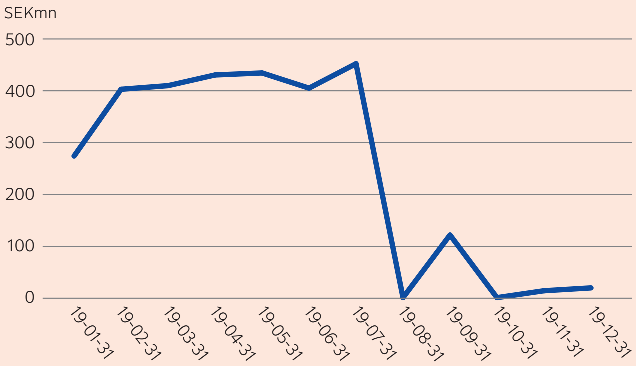
At the end of the year, the potential loss due to SIIR was SEK 147m.

Development of strucural interest income risk



The most severe impact from the Basel scenarios on EV is from the Flattener shock scenario, where the loss was SEK 19m at end of year 2019.

Development of EV risk



Other market risks – Pension Risk

Pension risk (including market and longevity risks) arises from Nordea Hypotek-sponsored defined benefit pension schemes for past and current employees. The ability of the pension schemes to meet the projected pension payments is maintained through investments and ongoing scheme contributions. The Pension Risk is limited for Nordea Hypotek as a majority of employees have worked most of their years of employment in the Nordea Group as employees in the parent company. New external employees are not covered by defined benefit pension schemes.

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk. Operational risks are inherent in all of Nordea Hypotek's businesses and operations. Consequently, all managers are accountable for the operational risks related to their area of responsibility, and responsible for managing these risks within risk limits and risk appetite in accordance with the operational risk management framework.

NHYP CRO, with support from risk control functions within the Nordea Group, constitute the 2LoD risk control function for operational risk and is responsible for developing and maintaining the overall operational risk management framework as well as for monitoring and controlling the operational risk management of the 1LoD. The 2LoD control function monitors and controls that operational risks are appropriately identified, assessed and mitigated. The 2LoD control function also follows-up on risk exposures towards risk appetite and assesses the adequacy and effectiveness of the operational risk management framework and framework implementation.

The focus areas of the monitoring and control work are decided during an annual planning process that includes stakeholders throughout the Nordea Group. Staff within the 2LoD control function are responsible for preparing and submitting regular risk reports on all material risk exposures including risk appetite limit utilization and operational risk incidents to NHYP CRO , who thereafter reports to NHYP CEO in NHEM, NHYP Board and relevant committees.

The RAS for operational risk is expressed in terms of:
1) residual risk level in breach of risk appetite and requirements for mitigating actions for risks;
2) total loss amount from incidents and management of incidents; and
3) management of Key Risk Indicators (KRIs).

Management of operational risk

The Nordea Group's Group Board Directives on Risk, Risk Appetite and Internal Governance, which have been adopted by NHYP Board, set the principles for the management of risks in Nordea Hypotek. Based on these principles, the Nordea Group has established supporting internal rules for operational and compliance risk that form the overall operational risk and compliance risk management frameworks. These also apply to Nordea Hypotek. Management of operational and compliance risk includes all activities aimed at identifying, assessing and measuring, responding and mitigating, controlling and monitoring and reporting on risks.

Risks are identified through various processes, for example through the processes detailed in the following section and it includes the reporting of incidents, approval of changes as well as risk assessment processes. Assessment and measurement of risks is done by using the Nordea Group's common risk assessment grid for non-financial risk by assigning the probability of the risks occurring and the impact in case of materialisation.

Response (e.g. mitigate or accept) to risks are decided for risks in line with risk appetite and risk limits. Controlling and monitoring is performed to ensure that risks are appropriately identified and responded to; that risk exposures are kept within limits; and that risk management procedures are efficient and adhere to internal and external rules. A regulatory horizon scanning process secures that new and amended rules and regulations are identified.

The impact of the rules and regulations is assessed, and appropriate implementation measures are taken in accordance with the framework for regulatory implementation and change risk management.

Key risk management processes

Nordea Hypotek has the following key risk management processes for management of operational and compliance risk: Risk and Control Self-Assessment (RCSA), Compliance Independent Risk Assessment (CIRA) and Financial Crime Enterprise Risk Assessment (FCERA)

Risk and control self-assessment (RCSA)

The RCSA process provides a risk-based view of operational and compliance risks for Nordea Hypotek. The process improves risk awareness and enables effective assessment, control, and mitigation of identified risks. For risks identified in the RCSA, the level of risk and the controls in place to mitigate the risks, are assessed. If mitigating actions are required to reduce the risk exposure, these are identified and implemented. Based on the self-assessment, the 2LoD control function, independently monitor and challenge the identified risks on a risk-based approach and the management of these.

Compliance independent risk assessment (CIRA)

For compliance related risks, appointed Compliance Officer conduct the CIRA process and challenge the 1LoD's RCSA results on compliance risks. The objective of the CIRA process is to provide an independent view on the Compliance Risk exposure and to assess, challenge and advise the 1LoD on implementation of an effective risk management framework. The CIRA process is an independent 2LoD risk assessment conducted in parallel with the RCSA, where the CIRA is a top-down risk assessment using the same assessment methodology as in the RCSA process.

Change Risk Management and Approval (CRMA) framework (including Quality and Risk Analysis)

The objective of the CRMA framework is to ensure that there is a full understanding of both financial and non-financial risks when executing changes. Associated risks shall be adequately managed consistent with Nordea Hypotek's Risk Strategy, Risk Appetite and corresponding risk limits before a change is approved, executed or implemented. Changes in scope of the CRMA framework include e.g. new or significant changes to products, services, or IT systems.

Incident Reporting Management

The objectives of Incident Reporting Management are to ensure appropriate handling of detected incidents to minimise the impact on Nordea Hypotek and its customers, prevent reoccurrence, and reduce the impact of future incidents. It shall also enable timely, accurate and complete information for internal and external reporting, capital modelling and secure timely notification to relevant supervisory authorities.

Raising Your Concern (RYC)

The objectives of the RYC ("whistleblowing") process are to ensure that Nordea Group employees and customers have the right to and feel safe when speaking up if they witness or suspect misconduct or unethical behaviour.

The RYC process encompasses ways to report a suspected breach of ethical standards, or breach of internal or external rules. Concerns can be raised openly, confidentially or anonymously by individuals (whistle-blow). The RYC process also outlines rules and procedures for how RYC investigations are conducted.

Complaints Handling

The objective of complaints handling is to ensure customer satisfaction and to identify pain points for IT-development or process changes. Complaints handling is managed by the customer responsible units together with the "Customer Ombudsman" as regulated by intra group outsourcing agreement. Reporting on the number and types of complaints is produced monthly and presented to members of NHEM together with ongoing or proposed mitigating actions per complaint area.

Third Party Risk Management (TPRM)

The objective of TPRM is to ensure compliance to regulatory requirements and that risks related to Third Parties (TPs) and TP Activities, including but not limited to Outsourcing, are appropriately managed both before, during as well as when exiting a TP arrangement.

While Nordea Hypotek may delegate day-to-day operational activities to TPs, Nordea Hypotek always remains fully accountable and responsible and must demonstrate effective over-sight and governance of the procured or outsourced services and functions.

Business Continuity and Crisis Management (BC & CM)

The objective of BC & CM is to protect Nordea Hypotek's employees, customers, stakeholders and assets by ensuring that Nordea Hypotek, as well as intra group outsourcing partners, builds, maintains, and tests the ability to continue and recover prioritised activities should an extraordinary event or crisis occur. Crisis Management shall ensure that extraordinary events or crisis are identified, escalated and managed to minimize impact.

Information Security Management

The objective of Information Security Management is to ensure the protection and preservation of information with respect to confidentiality, integrity and availability. The Nordea Group's information security management system, consisting of e.g. policies, procedures, tools and methods, supports the management and control of information security risks as well as the protection and preservation of information security and the achievement of business objectives.

Significant/Key Operating Processes (SiOPs)

The objective of the SiOPs framework is to provide for that SiOPs are identified and documented to ensure risks and controls in the most important processes are assessed and managed, for these processes to operate as intended, which includes ensuring Nordea Hypotek's customers are offered products and services in a compliant, safe and timely way.

Reputational Risk

The objective of Reputational Risk Management is to protect the Nordea Group's and Nordea Hypotek's reputation. Reputational risk is defined as the risk of damage to the trust in the Nordea brand from our customers, employees, authorities, investors, partners and the general public with the potential for adverse financial impact. Reputational risk is often an impact from, or a cause of, other types of risks, e.g. credit, liquidity, market, operational, compliance and legal risks inherent in the business.

A reputational risk framework with guiding principles for managing reputational risk has been developed. The framework is strongly linked with the risk management framework and related processes for identifying, assessing and mitigating risk. It includes considering stakeholders' perceptions in the decision-making processes.

Minimum own funds requirement for operational risk

Nordea Hypotek's own funds requirements for operational risk are calculated according to the standardised approach. In this approach, the institution's activities are divided into eight standardised business lines and the gross income-based indicator for each business line is multiplied by a predefined beta coefficient. The consolidated own funds requirement for operational risk is calculated as the average of the last three years' own funds requirement.

Compliance risk

The Nordea Group defines compliance risk as the risk of failure to comply with applicable laws, regulations, standards, supervisory requirements and related internal rules governing the activities in any jurisdiction where the group operates.

The primary governance principle in Nordea Hypotek for internal control is the adherence to the three lines of defence model. 1LoD is represented by the staff in Nordea Hypotek performing business activities as well as staff in the Nordea Group operating under intra group outsourcing agreement on account of Nordea Hypotek. All employees in the 1LoD have a role of understanding and adhering to prudent risk management and for compliance with external rules and Group Internal Rules as part of performing their tasks. All managers are fully responsible for the risks they assume and for compliance within their respective area of responsibility. Hence, they are responsible for ensuring that the appropriate organisation, procedures and support systems are implemented to ensure a sufficient system of internal controls.

Group Compliance (GC) constitutes the compliance function for Nordea Hypotek according to intra group outsourcing agreement and is responsible for developing and maintaining the risk management framework for managing compliance risks and for guiding the business in their implementation of the framework to ensure continuous adherence to the framework. GC is responsible for regular reporting to NHYP Board, NHYP BRIC and NHYP CEO in NHEM, at least quarterly.

GC reports on the status and development of Nordea Hypotek's compliance risks including information on major deficiencies along with consequence analyses and emerging risks and trends; status and key observations from monitoring activities and investigations; general updates on Financial Supervisory Authority interactions and impact; and preparations on regulatory changes.

Group Internal Audit (GIA) represents the 3LoD according to intra group outsourcing agreement. GIA conducts risk-based and general audits and reviews that the Internal Governance arrangements, processes and mechanisms are sound and effective, implemented and consistently applied. GIA is also in charge of the independent review of 1LoD and 2LoD including ensuring that the segregation of duties is defined and established between risk management (1LoD) and risk control (2LoD).

Code of Conduct and Corporate Values

The Code of Conduct and corporate values underpin the culture and set the parameters for how Nordea Hypotek's employees should conduct themselves. The high-level principles that guide Nordea Hypotek's business; how Nordea Hypotek treats its customers; and the conduct expected from Nordea Hypotek's employees are defined in the Nordea Group's Code of Conduct. In Nordea Hypotek, conducting oneself in the right manner means asking oneself not only "can we do it?", but also, "should we do it?". When asking these questions, Nordea Hypotek's employees are required to consider the impact of their decisions on all stakeholders.

All employees are required to complete annual training in the Code of Conduct to ensure proper awareness and knowledge of the ethical principles. In 2019, the Nordea Group continued the development of the approach to ensure that the Nordea Group's culture and behaviours are consistent with the values and that the Nordea Group delivers fair outcomes for its customers throughout the entire stage of the customer lifecycle.

This means customers are placed first in the business strategy; in designing and developing products and sales; and in ongoing services the Nordea Group provides. In line with this approach, new internal rules relating to product governance, customer handling in the provision of investment services, and advisor's knowledge and competency have been established and implemented.

Customer Protection

The aim of Customer Protection is to ensure fair treatment of customers and fair customer outcomes. Treating customers fairly include open and transparent communication, meeting the customer needs (outcome focused), employee awareness, honest and open approach in customer complaints and communication as well as timely, accurate and relevant management information.

The key areas covered in Customer Protection are financial advice (including mortgage credit offering), product governance arrangements, employee knowledge and competence, and customer complaints handling. Customer Protection related to advisory activities seeks to ensure that advice given to the customers meets customers' needs and circumstances; the advice given on suitable products; and that lending is responsible.

Customer Protection related to products and services consists of delivering high quality, good, and valuable products and services which meet customer needs. This means defining and meeting target market, delivering value for money and provision of fair product materials and customer communications. It is also important to manage conflicts of interest in relation to products and services.

In 2019, enhancements have been implemented in regular product reviews and approval process. Customer complaints are an important tool for monitoring customer protection. The complaints handling framework has in the recent years been developed and the process is renewed with clear and regular reporting, a strong feedback culture, root cause analysis and mitigating activities.

Key risk management processes

Nordea Hypotek has established key risk management processes for management of operational and compliance risks. The core processes for Compliance Risk Identification and Assessment include: Risk and Control Self-Assessment, Compliance Independent Risk Assessment and Financial Crime Enterprise Risk Assessment. Details on these processes, and the other main processes covering operational and compliance risk, are available under the Operational risk section of this report.

Conduct Risk Management

Conduct risk in is defined as the risk of inappropriate culture and behaviour of employees, or the risk that intentional or unintentional actions across the end to end customer lifecycle can lead to unfair outcomes and harm for customers or disrupt market integrity.

Conduct risk management approaches are continuously developed to ensure that culture and employee behaviours are consistent with the values, and that employees deliver fair outcomes for customers across all stages of the customer lifecycle. This includes driving a strong focus on putting the customer first in the business strategy, the design and development of products, the sales, and the ongoing service provided to Nordea Hypotek's customers.

Financial Crime

Financial crime is a serious threat to the security and integrity of the global financial system, and cooperation between banks and authorities is what is required to fight it. It is a joint responsibility to improve safety in the global financial system. The Nordea Group is committed to comply with applicable laws and regulations concerning anti-money laundering, counter terrorist financing, sanctions, bribery and corruption in the jurisdictions in which Nordea Hypotek operates. Nordea Hypotek will not accept being exploited for money laundering or any other types of financial crime.

Therefore, a number of global policies has been established by the Nordea Group in order to achieve robust and consistent standards of compliance. These have been adopted by the NHYP Board and support the broader customer strategy, values and vision, and provide a uniform set of risk management principles and mandatory standards for Nordea Hypotek and the Nordea Group as a whole.

It is important for Nordea Hypotek that robust risk-based due diligence measures are conducted when onboarding new customers, and on a continuous basis. By knowing customers and counterparties well, screening and monitoring activities can be performed to detect suspicious or illegal activity and reported to the authorities for further investigation. Nordea Hypotek has outsourced to the customer responsible units in the Nordea Group to perform all due diligence measures and regulated this service in an intra group outsourcing agreement.

To detect suspicious transactions, monitoring systems and controls are in place to detect transaction activities that are outside normal activity patterns. Every year, these processes generate hundreds of thousands of alerts in the Nordea Group, although only a fraction is for Nordea Hypotek's customers. All alerts are managed and, where necessary, investigated for potential suspicious activity which may result in a Suspicious Activities Report being filed with the relevant authorities in the relevant jurisdictions.

Nordea Hypotek also has an obligation to comply with all international and local sanctions programmes. Nordea Hypotek's customers and their transactions are therefore screened against applicable sanctions lists to ensure adherence to sanctions requirements. Since mid-2015, considerable improvements have been implemented to reduce financial crime risks through significant investment in technology, capabilities and more sophisticated assessment techniques.

Liquidity management

During 2019, Nordea Hypotek continued to benefit from its prudent liquidity risk management, in terms of maintaining a diversified and strong funding base and a diversified liquidity buffer. Nordea Hypotek had good access to the Swedish covered bond market and was able to issue in accordance with the funding plan. Nordea Hypotek issued approximately SEK 72bn in covered bonds.

Liquidity risk definition and identification

Liquidity risk is the risk of being unable to service the 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 in its lending, investment, funding, off-balance sheet exposures and other activities which result in a negative cash flow mismatch.

Management principles and control

Liquidity risk in the Nordea Group is managed across three LoD: 1LoD comprises TALM and the Business Areas (Nordea Hypotek included). TALM is responsible for the day to day management of the liquidity positions, liquidity buffers, external and internal funding including the mobilisation of cash around the Nordea Group, and Funds Transfer Pricing (FTP). Nordea Hypotek and TALM has entered into an intra group outsourcing agreement for the purpose of liquidity risk management.

2LoD, which includes NHYP CRO and units within the Nordea Group's Group Risk and Compliance (GRC) acting in accordance with intra group outsourcing agreement, is responsible for providing independent oversight of and challenge to 1LoD.

3LoD includes Group Internal Audit (GIA), which is responsible for providing independent oversight of 1LoD and 2LoD.

NHYP Board 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 stays within various risk parameters including the risk appetite.

Liquidity risk management strategy

Nordea Hypotek's liquidity management strategy is based on policy statements resulting in various liquidity risk measures, limits and organisational procedures.

Policy statements stipulate that Nordea Hypotek's liquidity management reflects a conservative attitude towards liquidity risk. Nordea Hypotek strives to diversify its sources of funding (to larger pool of investors) and seeks to establish and maintain relationships with investors in order to ensure market access. Nordea Hypotek's funding programme is limited to long-term covered bonds, short- and medium-term funding are arranged as intra group loans priced at market rate.

Trust is fundamental in the funding market; therefore, Nordea Hypotek periodically publishes information on the liquidity situation and the cover pool. Furthermore, Nordea Hypotek regularly performs stress testing of the liquidity risk position and the cover pool and is covered by the Nordea Group's business contingency plans for liquidity crisis management.

Liquidity risk measurement

To ensure funding in situations where Nordea Hypotek is in urgent need of cash and the normal funding sources do not suffice, Nordea Hypotek holds a liquidity buffer. The liquidity buffer consists of high credit quality and liquid securities that can be readily sold or used as collateral in funding operations.

Liquidity risk management focuses on both short-term liquidity risk and long-term structural liquidity risk. Liquidity risk is limited by NHYP Board 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 a market-wide stress similar to what many banks experienced in 2007-08; and an idiosyncratic stress corresponding to a three-notch credit rating downgrade. These metrics form the basis for Nordea Hypotek's liquidity risk appetite, which is reviewed and approved by the Board at least annually.

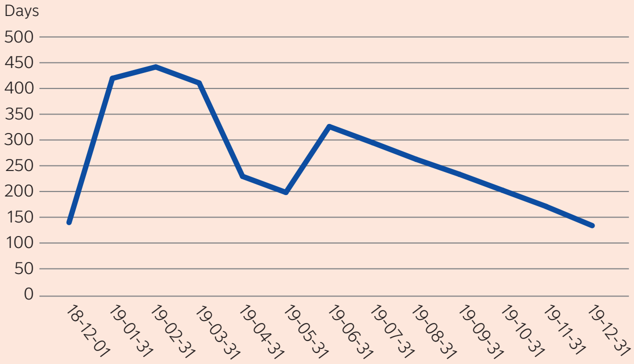
Furthermore, short-term funding risk is measured via the Liquidity Coverage Ratio (LCR). Structural liquidity risk of Nordea Hypotek is measured via the Net Stable Funding Ratio (NSFR) and the internally defined Net Balance of Stable Funding (NBSF).

Liquidity risk analysis

Nordea Hypotek continues to have a strong and prudent liquidity risk profile with a strong funding base. As of year-end 2019, the total volume under the covered bond programme was SEK 334bn (SEK 317bn). More information on Nordea Hypotek's funding sources are presented in the section "Our operations".

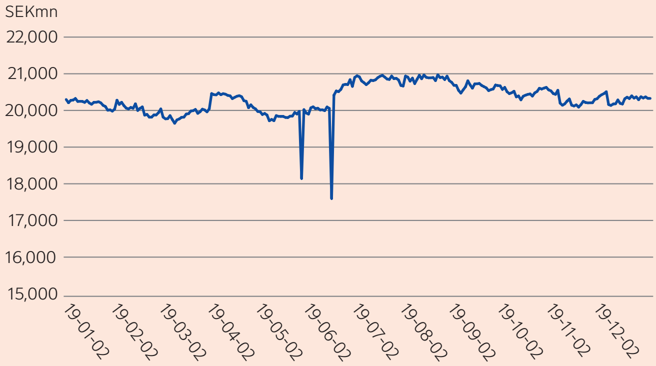
The liquidity risk position remained at a stable level throughout 2019. The internal survival horizon was 135 days as of year-end 2019 (141 days as of year-end 2018) with a yearly average of 267 days. The risk appetite limit is not below 90 days.

Survival horizon



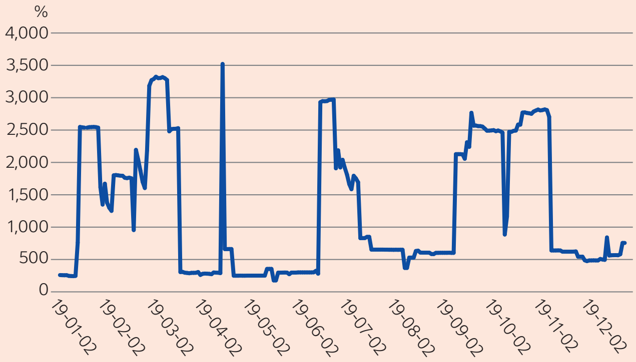
Nordea Hypotek's liquidity buffer ranged between SEK 20,971m and 17,607m throughout 2019, with an average liquidity buffer of SEK 20,321m.

Size Liquidity buffer



The combined LCR according to EBA Delegated Act rules was at the end of 2019 747% (249%) with a yearly average of 1,248%.

Development of LCR



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.

Minimum capital requirement and REA

	31 Dec 2019		31 Dec 2018	
SEKm	Minimum Capital requirement	REA	Minimum Capital requirement	REA
Credit risk	**3,035**	**37,939**	**3,407**	**42,584**
- of which counterparty credit risk	106	1,328	109	1,368
IRB	2,826	35,328	3,176	39,695
- of which sovereign	–	–	–	–
- of which corporate	1,347	16,836	1,722	21,520
- of which advanced	1,347	16,836	1,722	21,520
- of which foundation	–	–	–	–
- of which institutions	55	695	74	926
- of which retail	1,395	17,440	1,345	16,818
- of which secured by immovable property	1,340	16,748	1,291	16,137
- of which other retail	55	692	54	681
- of which other	29	357	35	431
Standardised	209	2,611	231	2,889
- of which central governments or central banks	–	–	–	–
- of which regional governments or local authorities	–	–	–	–
- of which public sector entities	–	–	–	–
- of which multilateral development banks	–	–	–	–
- of which international organisations	–	–	–	–
- of which institutions	209	2,611	231	2,889
- of which corporate	–	–	–	–
- of which retail	–	–	–	–
- of which secured by mortgages on immovable property	–	–	–	–
- of which in default	–	–	–	–
- of which associated with particularly high risk	–	–	–	–
- of which covered bonds	–	–	–	–
- of which institutions and corporates with a short-term credit assessment	–	–	–	–
- of which collective investments undertakings (CIU)	–	–	–	–
- of which equity	–	–	–	–
- of which other items	–	–	–	–
Credit Value Adjustment Risk	**–**	**–**	**–**	**–**
Market risk	**–**	**–**	**–**	**–**
- of which trading book, Internal Approach				
- of which trading book, Standardised Approach	–	–	–	–
- of which banking book, Standardised Approach	–	–	–	–
Operational risk	**956**	**11,949**	**916**	**11,447**
Standardised	956	11,949	916	11,447
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	8,825	110,318	8,589	107,371
Additional risk exposure amount due to Article 3 CRR	**–**	**–**	**–**	**–**
Total	**12,816**	**160,206**	**12,912**	**161,402**

Summary of items included in own funds

SEKm	31 Dec 2019[2]	31 Dec 2018[2]
Calculation of own funds		
Equity in the consolidated situation	25,478	24,459
Proposed/actual dividend	–	–
Common Equity Tier 1 capital before regulatory adjustments	25,478	24,459
Deferred tax assets	–	–
Intangible assets	–	–
IRB provisions shortfall (–)	–102	–110
Deduction for investments in credit institutions (50%)	–	–
Pension assets in excess of related liabilities[1]	–8	–6
Other items, net	–28	–44
Total regulatory adjustments to Common Equity Tier 1 capital	–138	–160
Common Equity Tier 1 capital (net after deduction)	**25,340**	**24,299**
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)	**25,340**	**24,299**
Tier 2 capital before regulatory adjustments	**1,650**	**800**
IRB provisions excess (+)	22	21
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	**22**	**21**
Tier 2 capital	**1,672**	**821**
Own funds (net after deduction)[2]	**27,012**	**25,120**

1) Based on conditional FSA approval
2) Including profit of the period

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 93.1% of the credit risk exposure amount covered by internal rating based (IRB) approaches at the end of 2019. 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 8.7bn at the end of the year. The ICR should be compared to the own funds, which amounted SEK 27.0bn 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.

Economic Capital (EC)
EC is a method for allocating the cost of holding capital as a result of risk taking and is a central component in the Value Creation Framework (VCF). The VCF supports the operational decision-making process at Nordea Hypotek to enhance performance management and ensure shareholder value creation. EC is aligned with the Group's target CET1 level which is set by the capital policy to ensure a sustainable long-term capitalization for Nordea Group. Economic Capital was, at the end of 2019, SEK 268.7m (272.2).

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 finan-

cial 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.

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 June 2019, the 'Banking package' containing revisions to the BRRD, the CRD and the CRR was adopted. The amendments to the CRR, being a regulation, will be directly applicable in all EU countries once implemented whereas the amendments to the CRD and BRRD, being directives, need to be implemented into national legislation before being applicable. The revision contain, 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. The revised CRD (CRD V) and BRRD (BRRD II) are to be applied from 28 December 2020, while the majority of the changes in CRR II are to be applied from 28 June 2021. The 'Banking package' is not yet implemented in Norway.

The new European Covered Bond Directive and Regulation have been finalised. The Directive entered into force on 8 January 2020, the national transposition period will last until 8 July 2021 and national measures shall be applied starting at the latest from 8 July 2022. The Regulation will apply only from 8 July 2022, in parallel with the deadline for the national measures of the Directive.

From 26 April 2019, an amendment to CRR as regards minimum loss coverage for non-performing exposures (NPE) (defined as past due 90 days, stage 3 or unlikeness to pay) entered into force and apply to exposures that is originated and turns non-performing from this date. The amendment includes mandatory and calendar-based minimum provisioning rules. The coverage requirements for banks increase progressively up to 100%, after 3 years for unsecured NPEs, after 9 years for NPEs secured by immovable property and after 7 years for NPEs secured by other eligible credit protection. Insufficient loss coverage will have to be deducted from the CET1 capital.

On 19 September 2019 the countercyclical capital buffer in Sweden was increased from 2.0% to 2.5%.

On 28 January 2020, the Swedish FSA decided to impose average risk weight floors for commercial real estates in Sweden, applicable to banks with IRB permission. The floors are set to 35% for exposures to commercial property corporates and 25% for residential property companies. The floors will be included within Pillar 2 where the add-on will be the difference between the actual average risk weight and the floor.

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, market risk, operational risk, credit valuation adjustment (CVA) risk, leverage ratio and introduces a new output floor.

On credit risk, the package includes revisions to both the IRB approach, where restrictions to the use of IRB for certain exposures are implemented, as well as to the standardised approach. Also, for market risk the internal model approach and the standardised approach has been revised. 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 October 2019 the European Commission issued a consultation on the implementation of the final Basel III reforms in the EU. It is expected that the Commission will publish its proposal in mid-2020 after which negotiations in the Council and Parliament will begin.

Corporate governance report 2019

Strong corporate governance is about companies having clear and systematic decision-making processes, thus providing clarity about responsibilities, avoiding conflicts of interest and ensuring satisfactory internal control, risk management and transparency. Commitment to Nordea's mission and vision requires the integration of sound corporate governance practices into regular business activities in order to attain a company that is well governed and well managed.

This Corporate Governance Report is prepared in accordance with the requirements in the Swedish Annual Accounts Act.

1. Corporate governance at Nordea Hypotek AB (publ)

Nordea Hypotek AB (publ) ("the Company") is a Swedish public limited liability company. The Company's corporate governance follows generally adopted principles of corporate governance.

The external framework that regulates corporate governance work includes the Swedish Companies Act, the Banking and Financing Business Act, the Annual Accounts Act, the Annual Accounts Act of Credit Institutions and Investment Firms, Covered Bond Issuance Act, EU regulations for the financial industry and rules issued by relevant financial supervisory authorities.

2. Division of powers and responsibilities

The management and control of the Company are divided among the shareholders (at General Meetings), the Board of Directors (the "Board") and the Chief Executive Officer (the "CEO"), pursuant to the provisions of the external framework, the Articles of Association and the internal rules set forth by the Board.

The Company's business is conducted in close integration with its parent company Nordea Bank Abp and the bank's 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 and other internal and external rules and regulations. Different units within the bank conduct, in accordance with 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 resources.

3. General Meeting

The General Meeting is the Company's highest decision-making body, at which shareholders participate in the supervision and control of the Company through their voting rights and right to speak. The Swedish Companies Act and the Articles of Association of the Company determine the matters that have to be dealt with at a General Meeting. At the General Meeting, decisions are taken regarding matters such as the annual accounts, dividend, election of the members of the Board and the auditors as well as remuneration for the Board members and the auditors. General meetings are held in Stockholm.

4. Voting rights

All shares in the Company carry one vote each at General Meetings. At General Meetings, each shareholder is entitled to vote for the full number of shares that he or she owns or represents. All shares in the Company are held by Nordea Bank Abp (in Finland).

5. Articles of association

Amendments to the Articles of Association are resolved by the General Meeting pursuant to Swedish law and are subject to the approval of the Swedish Financial Supervisory Authority.

6. Board of the Company

6.1 Composition of the Board

According to the Articles of Association, the Board shall consist of at least five and no more than twelve members elected by the shareholders at the General Meeting. The term of office for Board members is one year. The Company has neither a specific retirement age for Board members nor a time limit for how long a Board member may serve on the Board. There are no such requirements in the external framework.

The Company strives to promote diversity of the members of the Board with the aim to ensure that the Board as a whole for the purpose of its work possesses the requisite knowledge of and experience in the social, business and cultural conditions of the regions and markets in which the main activities of the Company are carried out.

The Board has adopted a Diversity Policy that establishes the principles of diversity in the Board. According to the Diversity Policy, all board member nominations in the Company shall be based on merit with the prime consideration being to maintain and enhance the Board's overall effectiveness. Within this, a broad set of qualities and competences is sought for and it is recognised that diversity, including age, gender, geographical provenance and educational and professional background, is an important factor to consider. The objective is to have a fair, equal and balanced representation of different genders and other diversifying factors in the Board collectively.

It is assessed that the Board collectively possesses the requisite knowledge and experience in the social, business and cultural conditions of the regions and markets in which the main activities of the Company are carried out, exhibiting adequate diversity and breadth of qualities and competences and the gender distribution is well balanced.

The Board currently consists of nine members, which have been elected by the General Meeting. They are Nicklas Ilebrand (Chairman), Peter Dalmalm (Deputy Chairman), Maria Härdling, Marte Kopperstad, Nils Lindberg, Per Långsved, Magnus Montan, Elisabeth Olin and Michael Skytt (CEO).

6.2 Independence of the Board

The Company complies with applicable requirements regarding independence of the Board according to Swedish laws and regulations. The Board considers all the members except Michael Skytt (CEO) to be independent of the Company. Nils Lindberg, who is also chairman of the Audit Committee, is furthermore independent in relation to the Company's only shareholder, Nordea Bank Abp.

6.3 The work of the Board

The Board has adopted written work procedures in the form of Company Directives governing the work of the Board and the Board Committees. For example, the above-mentioned work procedures) set forth the Board's, the Board Committees' and their Chairmen's areas of responsibility, documentation and quorum as well as the frequency of meetings. The directive regarding the Board also contains rules regarding conflicts of interest and confidentiality. Furthermore, the Board has adopted instructions for the Company's CEO (the "Company Directive for the CEO of Nordea Hypotek AB (publ)") specifying the CEO's responsibilities as well as other directives, instructions and internal rules for the operations of the Company. These mechanisms, together with the Articles of Association and Nordea's values, constitute the internal framework that regulates corporate governance at the Company.

The Board is charged with the organisation of the Company and the management of the Company's operations in accordance with the external and internal framework. Furthermore, the Board shall ensure that the Company's organisation in respect of accounting, management of funds and the Company's financial position in general includes satisfactory controls. The Board is ultimately responsible for ensuring that an adequate and effective system of internal control is established and maintained. Group Internal Audit (GIA) annually provides the Board with an assessment of the overall effectiveness of the governance, and risk and control framework, together with an analysis of themes and trends emerging from internal audit work and their impact on the organisation's risk profile.

In 2019, the Board held fourteen board meetings, one of which was held via Skype/telephone and seven were held per capsulam.

The Board regularly follows up on the Company's business development as well as the financial position and development on the financial market. Furthermore, the Board is regularly updating the policies and internal rules for the governance and control on which it has decided. The Board is also reviewing the risk appetite and regularly follows up on the development of risks, capital and liquidity. Significant organisational changes, appointment of senior management and transactions of significance are other matters dealt with by the Board. The work of the Board Committees is also regularly reported to the Board. In 2019, the Board also dealt with, among other things, issues related to internal control and compliance, anti-money laundering and other remediation and implementation programmes.

6.4 Chairman

The Chairman of the Board is elected by the shareholder at the General Meeting. The Board meets according to its annual meeting schedule as well as when necessary. The Chairman is to ensure that the Board's work is conducted efficiently and that the Board fulfils its duties. The Chairman is to organise and lead the Board's work, maintain regular contact with the CEO, ensure that the Board receives sufficient information and documentation and ensure that the work of the Board is evaluated annually.

6.5 Evaluation of the Board

The Board annually conducts a self-evaluation process, through which the performance and the work of the Board is evaluated for the purpose of continuously improving the Board work. The evaluation is based on a methodology that includes questionnaires to evaluate the Board as a whole, the Chairman and individual Board members. The result of the self-evaluation process is further discussed by the Board and presented to the shareholder.

In accordance with applicable European regulatory requirements, an internal suitability assessment of the members of the Board individually and of the Board as a whole is completed annually as well in connection with the selection process of any new Board members.

6.6 The Board Committees

In accordance with the external framework and in order to increase the effectiveness of the board work, the Board has established three separate working committees to assist the Board in preparing relevant matters belonging to the competence of the Board and to decide in matters delegated by the Board. The Audit Committee was established in 2016 while the Risk Committee and the Remuneration Committee were established in 2019.

The duties of the Board Committees, as well as the working procedures, are defined in the above-mentioned Company Directives. Each Committee regularly reports on its work to the Board.

6.6.1 The Audit committee

The Audit Committee assists the Board in fulfilling its oversight responsibilities by inter alia monitoring the Company's financial reporting process and providing recommendations or proposals to ensure its reliability, monitoring the effectiveness of the internal audit function, keeping itself informed as to the statutory audit of the annual accounts and by reviewing and monitoring the impartiality and independence of the external auditors.

The members of the Audit Committee are Nils Lindberg (Chairman), Peter Dalmalm and Maria Härdling. Generally, the Company's Chief Internal Auditor (CIA), CEO and Chief Financial Officer (CFO) are present at the Audit Committee meetings, with the right to participate in discussions but not in decisions. In 2019, the Audit Committee held four meetings.

The Board annually appoints the members and the chairman of the Audit Committee. The Audit Committee must have at least three committee members, who are members of the Board. The chairman of the Audit Committee may not be the chairman of the Board or of any other Board Committee. None of the members of the Audit Committee may be employed by the Company or any of its subsidiaries, if any. The majority of the members of the committee are to be independent of the Company and its subsidiaries, if any, as well as of the Company's executive management. At least one of the members of the Audit Committee who is independent of the Company and its executive management shall also be independent of the Company's major shareholders and have competence in accounting and/or auditing. The Company complies with these legal requirements.

6.6.2 The Risk Committee

The Risk Committee assists the Board in fulfilling its oversight responsibilities concerning management and control of the risks, risk frameworks, controls and processes associated with the operations, including credit, market, liquidity, business and operational risk, conduct and compliance, as well as related frameworks and processes.

The Company has separated the risk and compliance functions. The Risk Management and Control Function of Nordea Hypotek AB (publ) ("RMCF") is an internal control function in relation to risk. The appointed Compliance Officer employed by Group Risk & Compliance ("GRC") acts as control function in relation to compliance (in accordance with an Intra Group Agreement between the Company and the bank). The Company's Risk Committee shall take appropriate actions in response to any reports on significant deficiencies and risk from RMCF, GRC and/or the internal audit function presented to the Risk Committee.

The duties of the Risk Committee include to review and where required make recommendations on the Company's risk and compliance governance and review the development of the Internal Control Framework, including the Risk Management Framework, in reference to the development of the Company's risk profile, and changes in the regulatory framework. In addition, among other things, the Risk Committee reviews and make recommendations regarding the Company's risk appetite and market and liquidity risks.

The members of the Risk Committee are Elisabeth Olin (Chairman), Maria Härdling and Magnus Montan. Generally, the Company's Chief Risk Officer and Compliance Officer and, when deemed important and to the extent possible, the CEO and the Company's Chief Internal Auditor (CIA), are present at meetings, with the right to participate in discussions but not in decisions. In 2019, the Risk Committee held two meetings, one of which was held per capsulam.

The Board annually appoints the members and the chairman of the Risk Committee. The Risk Committee must have at least three committee members, who are members of the Board. The chairman of the Risk Committee may not be the chairman of the Board or of any other Board Committee. The Risk Committee shall be composed of members of the Board who are not part of the Company's executive management. Members of the Risk Committee shall have, individually and collectively, appropriate knowledge, skills and expertise concerning risk management and control practices. The Company complies with these legal requirements.

6.6.3 The Remuneration Committee

The Remuneration Committee is responsible for preparing and presenting proposals to the Board on remuneration issues. When preparing the proposals, the long-term interests of shareholders, investors and other stakeholders in the Group shall be taken into account.

At least annually, the Remuneration Committee follows up on the application of the Company Directive on Remuneration, including the use of variable pay adjustments, through an independent review by the internal audit function. It exercises an assessment of the Company Directive on Remuneration and remuneration system, with participation of appropriate control functions. At the request of the Board, the committee also prepares other issues of principle for the consideration of the Board.

The members of the Remuneration Committee are Marte Kopperstad (Chairman), Nicklas Ilebrand and Per Långsved. Generally, the person corresponding to the Nordea Group's Chief People Officer, currently the Company's People Business Partner in Group People and, when deemed important and to the extent possible, the CEO are present at meetings, with the right to participate in discussions but not in decisions. Neither of them shall participate in considerations concerning his or her own respective employment terms and conditions. In 2019, the Remuneration Committee held two meetings, one of which was held via Skype/telephone and one was held per capsulam.

The Board annually appoints the members and the Chairman of the Remuneration Committee. The Remuneration Committee must have at least three Committee members, who are members of the Board.

The Chairman and the majority of the members of committee shall be members of the Board who are independent of the Company, and not employed by the Company or its subsidiaries (if any), unless the member is an employee representative in the Board. The members of the committee shall have collectively sufficient knowledge, expertise and experience in issues relating to risk management and remuneration. The Company complies with these legal requirements.

7. CEO and Executive Management

The CEO is charged with the day-to-day management of the Company and the Company's affairs in accordance with the external and internal framework. The internal framework regulates the division of responsibilities and the interaction between the CEO and the Board. The CEO works closely with the Chairman of the Board in relation to the planning of Board meetings.

The CEO is accountable to the Board for the management of the Company's operations. The CEO works together with certain senior managers in Nordea Hypotek Executive Management ("NHEM"). NHEM consisted of the CEO and four members at the end of 2019. NHEM meets regularly and whenever necessary upon request by the CEO. These meetings are chaired by the CEO, who reaches decisions after consulting with the other members of NHEM. Notes of meetings, verified by the CEO, are kept.

The board has appointed a deputy CEO to act in the CEO's stead in accordance with applicable internal and external rules when the CEO is prevented from acting.

8. Internal control framework

The Board is responsible for setting and overseeing an adequate and effective Internal Control Framework. The Internal Control Framework includes the control functions and the Risk Management Framework.

The Internal Control 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 that compliance risk stays within the risk appetite.

The Internal Control Process is carried out partly by the Company's Board and management, and partly by the staff of Nordea Bank Abp which acts in accordance with Intra Group Agreements and a Credit Delegation Agreement between the companies. The Internal Control Process is based on five main components: (i) control environment, (ii) risk assessment, (iii) control activities, (iv) information and communication as well as (v) 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.

Roles and responsibilities with respect to internal control and risk management are divided into three lines of defence. In the first line of defence, the risk owners consist of all employees – including employees in Nordea Bank Abp acting in accordance with Intra Group Agreements between the Company and Nordea Bank Abp – who are not in the second or third lines of defence. It is thus those that are responsible for conducting the business within risk limits and risk appetite, and in accordance with the Internal Control Framework.

As second line of defence, the control functions are responsible for maintaining the Internal Control Framework and for monitoring the implementation of the policies and procedures within this Framework. The Company's Risk Control Function – including employees in in Nordea Bank Abp's risk function acting in accordance with Intra Group Agreements – oversees the implementation of the risk policies and controls the Risk Management Framework and shall among other things ensure that all risks that the Company is or could be exposed to, are identified, assessed, monitored, managed and reported on. Group Compliance – i.e., employees in Nordea Bank Abp acting in accordance with Intra Group Agreements – is responsible for creating a common internal control framework that ensures compliance with applicable laws, regulations, standards, supervisory requirements and related internal rules, as well as providing training, advice, monitoring and ensuring compliance matters are adequately communicated and adhered to by management. Group Compliance is responsible for identifying Compliance Risks and performing monitoring and control to ensure that the risks are managed by the relevant functions. Group Compliance activities shall be decided and conducted according to a risk-based approach.

Group Internal Audit – i.e., employees in Nordea Bank Abp acting in accordance with a Intra Group Agreement – which is the third line of defence, performs audits and provides the Board with an assessment of the overall effectiveness of the governance, and risk and control framework, together with an analysis of themes and trends emerging from internal audit work and their impact on the organisation's risk profile.

9. Internal audit

Group Internal Audit (GIA) is an independent audit function in the Nordea Group. The Board of Directors of Nordea Bank Abp has issued "Group Board Directive for Group Internal Audit". This Group Directive sets out the purpose of the internal audit, its scope, GIA's powers and reporting procedures. The Company has issued a corresponding directive ("Company Directive for Group Internal Audit") setting out the purpose, scope, powers and reporting procedures of its internal audit function.

As explained above, the Company's internal audit function is performed by GIA in accordance with an Intra Group Agreement between the Company and Nordea Bank Abp. One person in GIA is appointed to be the Company's Chief Internal Auditor ("CIA"). The CIA reports functionally to the Company's Board and Audit Committee but reports administratively to the Group Chief Audit Executive ("CAE"). The Company's Board approves the appointment and dismissal of the CIA in consultation with the CAE.

In relation to the Company, the purpose of GIA is to support the Company's Board and executive management in protecting the Company's assets, reputation and sustainability. GIA does this by assessing whether all significant risks are identified and appropriately reported by management and the risk functions to the Board, its Board Committees and executive management; by assessing whether all significant risks are adequately controlled; and by challenging the executive management to improve the effectiveness of governance, risk management and internal controls.

GIA does not engage in consulting activities unless otherwise instructed by both the Board Audit Committee of Nordea Bank Abp and the Audit Committee of the Company.

All activities of the Company – including any outsourced activities, for example to Nordea Bank Abp – fall within the scope of GIA. GIA makes a risk-based decision as to which areas within its scope should be included in the audit plan approved by the Board.

GIA shall operate free from interference in determining the scope of internal auditing, in performing its audit work, and in communicating its results. This means for example that GIA is authorised to inform the financial supervisory authorities on any matter without further approval. The CIA has unrestricted access to the Company's CEO, the Chairmen of the Company's Board Committees and the Chairman of Company's Board. GIA is authorised to carry out all investigations and obtain all information required to discharge its duties. This includes the right to sufficient and timely access to the Company's records, systems, premises and staff.

10. External audit

According to the Articles of Association, one or two auditors must be elected by the General Meeting for a term of one year. At the AGM 2019, Öhrlings PricewaterhouseCoopers AB was re-elected auditor until the end of the AGM 2020. Catarina Ericsson is the auditor-in-charge.

11. Report on Internal control and risk management regarding financial reporting

The Company's and the Nordea Group's systems for internal control and risk management of financial reporting are designed to provide reasonable assurance about the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, applicable laws and regulations, and other requirements. The internal control and risk management activities are included in Nordea's planning and resource allocation processes. Internal control and risk management of financial reporting can be described in accordance with the framework of the Committee of Sponsoring Organisations of the Treadway Commission (i.e., the COSO Framework) as set out below.

11.1 Control Environment

The control environment constitutes the basis for the Company's internal control and centres around the established culture and values, and the organisational structure, with clear roles and responsibilities.

A clear and transparent organizational structure is of importance for the control environment. The Company's business structure aims to support the overall strategy, ensuring improving business momentum and meeting increased requirements on capital and liquidity. The business and the organisation are under constant development.

As indicated also under the section "Internal control framework" above, the primary governance principle is the adherence to the three Lines of Defence ("3LoD") model, which forms the basis for a clear division of roles and responsibilities in the organisation. A proper 3LoD governance is in place ensuring that the segregation of duties is defined and established between risk management and risk control. According to the Company Directive on Internal Governance, the 1st LoD refers to all units and employees that are neither in the 2nd nor in the 3rd LoD.

- The 1st LoD is responsible for the daily risk management and for compliance with applicable rules.
- In the Nordea Group, the 2nd LoD is Group Risk & Compliance ("GRC") which consists of the risk function and Group Compliance being independent control functions. As mentioned above, however, in the Company, the risk and compliance functions are separated into (i) a Company internal control function in relation to risk called "the Risk Management and Control Function" ("RMCF") and (ii) the appointed Compliance Officer employed by GRC who acts as control function in relation to compliance (in accordance with an Intra Group Agreement between the Company and the bank).
- The 3rd LoD consists of GIA (including the person appointed to be the Company's Chief Internal Auditor) being an independent internal audit function (in accordance with an Intra Group Agreement between the Company and the bank).

Clear roles and responsibilities are critical in the governance of Internal Control over Financial Reporting where the risk owners, in the 1st LoD , are responsible for the risk management activities. A risk management function supports the CFO in maintaining a Nordea Group wide set of controls (in Nordea defined as Accounting Key Controls (AKC)), in line with the risk framework, which covers the controlling of risks and the risk identification process, that to a large extent is based on the actual business and financial closing processes in place. An independent risk control function resides in the 2nd LoD and is responsible for identifying, controlling and reporting on financial reporting risk. In addition, the internal audit function provides the Board with an assessment of the overall effectiveness of the governance, risk management and control processes.

11.2 Risk assessment

The Board bears ultimate responsibility for limiting and monitoring the Company's risk exposure. Risk management is considered to be an integral part of running the business and the main responsibility for performing risk assessments regarding financial reporting lies with the Company management and within Nordea Bank Abp in accordance with Intra Group Agreements. Performing risk assessments close to the business increases the possibility of identifying the most relevant risks. In order to govern the quality, control functions stipulate in governing documents when and how such assessments are to be performed. Examples of risk assessments are the recurring Risk and Control Self-Assessments and the event driven Change Risk Management and Approval process.

Risk assessment in relation to reliable financial reporting involves the identification and analysis of risks of material misstatements. Financial reporting risk control work in the Nordea Group focuses on risks and processes which could lead to material financial misstatements, i.e. misstatements that if they occurred would significantly and adversely affect the Company and/or the Nordea Group. The scope of the AKC is therefore areas where risks of material financial misstatements exist, i.e. where the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the misstated item. Structured risk assessment procedures determine in which divisions, locations and/or processes risk for material financial misstatements exist and therefore need to be monitored under the AKC framework to ensure reasonable assurance of reliability of external financial reporting. The 2nd LoD control function reviews the risk assessment process and outcome, and provides additional input to the overall risk picture.

11.3 Control Activities

The heads of the respective units are primarily responsible for managing risks associated with the units' operations and financial reporting processes. The unit head can be a person employed by Nordea Bank Abp acting in accordance with an Intra Group Agreement between the companies. Support is provided by the Group Accounting Manual (GAM), the Financial Control Principles and various governing bodies, such as the Group Valuation Committee. The GAM includes a standard reporting package used by all entities in the Nordea Group to ensure consistent use of the Company's and the Nordea Group's principles and coordinated financial reporting. Fundamental internal control principles are the segregation of duties and the four-eyes principle when approving, for instance, transactions and authorisations.

The AKC control structure in each process is based on Transaction Level Controls (TLC) that are identified through analysing risks based on high level processes with an end-to-end product focus. After deciding on the TLCs an analysis is performed to determine what systems/applications are in scope for AKCs where specific IT General Controls are governed. The analysis aims at scoping in the major systems where there is risk that data, which is not detected in the TLC control structure, could become corrupt.

The quality assurance vested in the management reporting process, where a detailed analysis of the financial outcome is performed, constitutes one of the most important control mechanisms associated with the reporting process. The reconciliations constitute another set of important controls in which the Company and the Nordea Group work continuously to further strengthen the quality.

11.4 Information & Communication

Group Finance & Treasury is responsible for ensuring that the Group Accounting Manual and the Financial Control Principles are up-to-date and that changes are communicated to the responsible units. These governing documents are broken down into guidelines and standard operating procedures in the responsible units. Accounting specialists from Group Finance & Treasury continuously provide accountants and controllers with information on changes in order to inform of existing and updated rules and regulations with an impact on the Company and Nordea Group.

Key criteria applied when communicating financial information to the market is "correct, relevant, consistent, reliable and timely". The information is to be disclosed in such a way that the information is made available to the public in a fast and on a non-discriminatory manner.

The AKC reporting procedures provide management at different levels of the organisation with information related to the performance and assessment of the identified AKCs in the form of Process Owner reports and Management Dashboard reports with a summarised assessment of the outcome and any high-risk areas.

11.5 Monitoring

Nordea has established a process with the purpose of ensuring proper monitoring of the quality of the financial reporting and follow-up regarding possible deficiencies. This interactive process aims to cover all COSO components in the framework.

The Risk and Control Self-Assessment process covers identification and assessment of risks and controls, which also includes risks and controls related to financial reporting.

Group Finance & Treasury has also established a specific quarterly reporting regarding Internal Control over Financial Reporting to the Group CFO covering risk management and high-risk areas. The independent risk control function within GRMC reports specifically on financial reporting risk to Nordea Bank Abp's Board Audit Committee and the Group CEO in Group Executive Management on a quarterly basis.

Financial statement

Income statement

SEK (000s)	Note	2019	2018
Operating income			
Interest income calculated using the effective interest rate method		8,614,887	8,037,775
Other interest income		21,193	5,677
Negative yield on financial assets		−36,320	−17,620
Interest expense		−1,920,892	−550,713
Negative yield on financial liabilities		136,612	674,524
Net interest income	3	**6,815,480**	**8,149,643**
Fee and commission income		43,644	50,168
Fee and commission expense		−87,191	−60,342
Net fee and commission income	4	**−43,547**	**−10,174**
Net result from items at fair value	5	−22,221	−159,622
Total operating income		**6,749,712**	**7,979,847**
Operating expenses			
General administrative expenses:			
Staff costs	6	−27,702	−26,615
Other expenses	7	−1,461,829	−1,622,905
Total operating expenses		**−1,489,531**	**−1,649,520**
Profit before loan losses		**5,260,181**	**6,330,327**
Net loan losses	8	−18,346	−37,600
Operating profit		**5,241,835**	**6,292,727**
Income tax expense	9	−1,122,243	−1,388,529
Net profit for the year		**4,119,592**	**4,904,198**

Statement of comprehensive income

SEK (000s)	2019	2018
Net profit for the year	**4,119,592**	**4,904,198**
Items that may be reclassified subsequently to the income statement		
Cash flow hedges:		
Valuation gains/losses during the year	287,266	233,382
Tax on valuation gains/losses during the year	−63,199	−51,344
Transferred to the income statement during the year	−292,322	−273,126
Tax on transfers to the income statement during the year	64,311	60,088
Available for sale investments[1]:		
Valuation gains/losses during the year	16,697	−10,902
Tax on valuation gains/losses during the year	−3,638	2,398
Other comprehensive income, net of tax	**9,115**	**−39,504**
Total comprehensive income	**4,128,707**	**4,864,694**

1) Valuation gains/losses related 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 2019	31 Dec 2018
Assets			
Loans to credit institutions	10	5,578,131	5,299,092
Loans to the public	10	579,500,671	548,759,159
Interest-bearing securities	11	21,103,915	21,083,561
Derivatives	12	4,566,105	4,762,400
Fair value changes of the hedged items in portfolio hedge of interest rate risk		–298,624	20,305
Current tax assets	9	98,274	29,106
Other assets	13	814,019	2,798,059
Prepaid expenses and accrued income	14	650,472	690,356
Total assets		**612,012,963**	**583,442,038**
Liabilities			
Deposits by credit institutions	15	235,964,135	222,064,980
Debt securities in issue	16	340,270,319	324,984,129
Derivatives	12	514,871	351,211
Fair value changes of the hedged items in portfolio hedge of interest rate risk		3,168,419	3,721,108
Other liabilities	17	4,777,000	7,020,512
Accrued expenses and prepaid income	18	178,276	40,032
Deferred tax liabilities	9	4,787	5,899
Provisions	19	7,440	3,723
Subordinated liabilities	20	1,650,137	800,136
Total liabilities		**586,535,384**	**558,991,730**
Equity			
Share capital		110,000	110,000
Fair value reserves		21,527	12,412
Retained earnings		21,226,460	19,423,698
Net profit for the year		4,119,592	4,904,198
Total equity		**25,477,579**	**24,450,308**
Total liabilities and equity		**612,012,963**	**583,442,038**

Other notes

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 2019	**110,000**	**20,916**	**−8,504**	**24,327,896**	**24,450,308**
Net profit for the year	–	–	–	4,119,592	4,119,592
Items that may be reclassified subsequently to the income statement					
Fair value through other comprehensive income:					
Valuation gains/losses during the year	–	–	16,697	–	16,697
Tax on valuation gains/losses during the year	–	–	−3,638	–	−3,638
Cash flow hedges:					
Valuation gains/losses during the year	–	287,266	–	–	287,266
Tax on valuation gains/losses during the year	–	−63,199	–	–	−63,199
Transferred to the income statement during the year	–	−292,322	–	–	−292,322
Tax on transfers to the income statement during the year	–	64,311	–	–	64,311
Other comprehensive income, net of tax	**–**	**−3,944**	**13,059**	**–**	**9,115**
Total comprehensive income	**–**	**−3,944**	**13,059**	**4,119,592**	**4,128,707**
Group contribution paid	–	–	–	−3,945,847	−3,945,847
Tax on Group contribution payed	–	–	–	844,411	844,411
Balance at 31 Dec 2019	**110,000**	**16,972**	**4,555**	**25,346,052**	**25,477,579**

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

	Restricted equity	Unrestricted equity			
SEK (000s)	Share capital[1]	Cash flow hedges	Fair value through other comprehensive income:	Retained earnings	Total
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 year5	–	−273,126	–	–	−273,126
Tax on transfers to the income statement during the year5	–	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 effect of group contribution	–	–	–	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.

Cash flow statement

SEK (000s)	2019	2018
Operating activities		
Operating profit	5,241,835	6,292,727
Adjustment for items not included in cash flow	–426,851	–1,346,530
Income taxes paid	–347,000	–37,593
Cash flow from operating activities before changes in operating assets and liabilities	**4,467,984**	**4,908,604**
Changes in operating assets		
Change in treasury bills	248,904	–11,064
Change in loans to the public	–30,760,940	–11,865,323
Change in interest-bearing securities	–20,354	–21,083,828
Change in derivatives, net	125,423	1,235,780
Change in other assets	1,984,039	–1,643,458
Changes in operating liabilities		
Change in deposits by credit institutions	13,797,000	27,513,000
Change in debt securities in issue	15,776,342	5,503,314
Change in other liabilities	–6,189,359	–5,531,881
Cash flow from operating activities	**–570,961**	**–974,856**
Financing activities		
Amortised subordinated liabilities	–800,000	–1,000,000
Issued subordinated liabilities	1,650,000	–
Cash flow from financing activities	**850,000**	**–1,000,000**
Cash flow for the year	**279,039**	**–1,974,856**
Cash and cash equivalents at the beginning of year	5,299,092	7,273,948
Cash and cash equivalents at the end of year	5,578,131	5,299,092
Change	**279,039**	**–1,974,856**

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)	2019	2018
Loan losses	19,428	39,519
Unrealised gains/losses	–14,372	42,132
Change in accruals and provisions	–207,263	–234,058
Change in fair value of the hedge items, assets/liabilities (net)	–233,759	–1,166,141
Other	9,115	–27,982
Total	**–426,851**	**–1,346,530**

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)	2019	2018
Interest payments received	8,567,508	8,034,572
Interest expenses paid	–2,032,061	–596,160

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)	2019	2018
Loans to credit institutions, payable on demand	5,578,131	5,299,092

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

Notes to the financial statements

Contents

Note 1. Accounting policies

Table of contents for Note 1

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 20 February 2020 the Board of Directors approved the annual report, subject to final approval of the Annual General Meeting on 11 March 2020.

In all material respects, the accounting policies, basis for calculations and presentation are unchanged from the 2018 Annual Report, with the exception of changed accounting policies and presentation described in the section below, "Changed accounting policies and presentation".

2. Changed accounting policies and presentation

The new accounting requirements implemented in 2019 and their effects on Nordea Hypotek's financial statements are described below.

IFRS 16 "Leases"

The IASB has published the new standard, IFRS 16 "Leases".

The new standard will not be applied at Nordea Hypotek. On 1 January 2019, Nordea Hypotek started to apply the new rules for leases in RFR 2. The new rules in RFR 2 have not had any 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.

Changed recognition and presentation of resolution fees

As of 1 January 2019, Nordea Hypotek AB recognises resolution fees at the beginning of the year, when the legal obligation to pay arises, and presents the expense as "Other expenses". The former accounting policy was to distribute these fees over the year, and present the cost as "Interest expenses". The change primarily reflects the altered structure of the resolution fees following the relocation to Finland.

Comparative figures have been restated accordingly and the impact, together with the impact on 2019, can be found in the table in the bottom of this page.

Amendments to IAS 39 and IFRS 7 – "Interest rate benchmark reform"

In September 2019, IASB published amendments to IAS 39, IFRS 9 and IFRS 7 as a consequence of the coming reform of benchmark interest rates. The amendments give some relief in relation to hedge accounting. Under the amendments, the hedge accounting requirements should be evaluated assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Early application is permitted, and Nordea Hypotek has exercised this option. The amendments resulted in that the hedge relationships in Nordea Hypotek will pass the effectiveness test and that hedge accounting can continue as before during the relief period.

Other amended requirements

The following new and amended standards and interpretations were implemented by Nordea Hypotek on 1 January 2019 but have not had any significant impact on the financial statements of Nordea Hypotek:

- Amendments to IFRS 9: Prepayment features with negative compensation
- Annual Improvements to IFRSs, 2015–2017

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 2019 but have not had any significant impact on Nordea Hypotek's financial statements.

Furthermore, Finansinspektionen has amended its regulation FFFS 2008:25 by issuing FFFS 2018:20 and 2019:2, and the Swedish Financial Reporting Board has amended its recommendation for legal entities by issuing "RFR 2 – Supplementary accounting rules for legal entities – January 2019".

	Full year 2019			Full year 2018		
SEK (000s)	Former policy	Change	New policy	Former policy	Change	New policy
Interest expense	–2,269,407	348,515	–1,920,892	–1,033,509	482,796	–550,713
Other expenses	–1,113,314	–348,515	–1,461,829	–1,140,109	–482,796	–1,622,905
Taxes	–1,122,243	–	–1,122,243	–1,388,529	–	–1,388,529
Effect on profit for the period		**–**			–	

Note 1. Accounting policies, cont.

These amendments were implemented on 1 January 2019 but have not had any significant impact on the financial statements.

3. Changes in IFRSs not yet applied

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

- 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 subsequently, 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:

- classification of financial assets
- derecognition of financial assets
- impairment testing of loans to the public/credit institutions
- the effectiveness testing of cash flow hedges

Classification of financial assets

Nordea Hypotek classifies financial assets based on the business model used for managing the assets. When determining the business model for the bonds within the liquidly buffer, Nordea Hypotek makes critical judgements. The bonds in the liquidity buffer are split into two portfolios. For the first portfolio, Nordea Hypotek has determined that the business model is to collect contractual cash flows and sell financial assets. For the second portfolio, Nordea has established that the business model is to manage the bonds with the objective of realising cash flows through the sale of assets. The bonds in the first portfolio are measured at fair value through other comprehensive income, and the bonds in the second portfolio are measured at fair value through profit or loss. The value of interest-bearing securities in the liquidity buffer that are measured at fair value through other comprehensive income (the first portfolio) is SEK 10,388m (11,224m) and the value of interest-bearing securities measured at fair value through profit or loss (the second portfolio) is SEK 10,742m (9,860m).

Derecognition of financial assets

Loans and other financial assets for which cash flows are modified, or part of a restructuring, are derecognised, and a new loan recognised, if the terms and conditions of the new loan are substantially different from those for the old loan. Nordea Hypotek applies judgements to determine if the terms and conditions of the new loan are substantially different from those of the old loan. Terms and conditions are considered to be substantially different if the present value of the cash flows of the new loan, discounted by the original interest rate, is more than 10% different from the present value of the remaining expected cash flows of the old loan or if the modified cash flows are solely payments of principal and interest (SPPI), but the original cash flows were not SPPI, and vice versa. The carrying amount of loans and interest-bearing securities on the asset side of the balance sheet amounts to SEK 21,104m (21,084m).

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 585,145m (554,141) 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.

Judgement is exercised to assess when an exposure has experienced a significant increase in credit risk. If this is the case, the provision should reflect the lifetime expected losses, as opposed to a 12-month expected loss for exposures not having increased significantly in credit risk. Judgement is also exercised in the choice of modelling approaches covering other parameters used when calculating the expected losses, such as the expected lifetime used in stage 2, as well as in the assessment of whether the parameters based on historical experience are relevant for estimating future losses.

The statistical models used to calculate provisions are based on macroeconomic scenarios, which requires management to exercise judgement when identifying such scenarios and when assigning the likelihood of the different scenarios transpiring. Judgement is also exercised in the assessment of the extent to which the parameters for the different scenarios, based on historical experience, are relevant for 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.

Note 1. Accounting policies, cont.

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 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 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".

The yield on financial assets is presented on three rows in the income statement, Interest income calculated using the effective interest rate method, Other interest income and Negative yield on financial assets. On the row Interest income calculated using the effective interest method, Nordea Hypotek presents interest income from financial assets measured at amortised cost or 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 presented as on the income statement row Other interest income, except the negative yield on financial assets, which is presented on a separate row. Negative yield on financial liabilities is also disclosed separately in the income statement.

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 loan redemption penalties received and realised gains/losses on buybacks of own debt issued, are also recognised in "Net result from items at fair value".

Other operating income and other expenses

Other operating income that is not related to any other income line is usually recognised when it is probable that the benefits associated with the transaction will flow to Nordea Hypotek, and if the significant risks and rewards have been transferred to the buyer (generally when the transactions are finalised).

Resolution fees are presented as other expenses in the income statement.

Net loan losses

Impairment losses from financial assets classified as amortised cost (see section 10 "Financial instruments"), in the items "Loans to credit institutions", "Loans to the public" and "Interest-bearing securities" 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

Trade-date accounting is applied to the recognition and derecognition (reclassification to the items "Other assets" or "Other liabilities" on the balance sheet between trade date and settlement date) of derivatives, listed securities, debt securities in issue and foreign exchange spot transactions. 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 in which 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".

Note 1. Accounting policies, cont.

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, 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 outcome should be in the range of 80–125%.

Transactions that are entered into in accordance with Nordea'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 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.

If the hedging relationship does not fulfil the hedge accounting requirements, hedge accounting is discontinued. For fair value hedges, the hedging instrument is measured at fair value through profit and loss 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.

Hedge effectiveness

When assessing hedge effectiveness retroactively, 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. The effectiveness measurement is made on a cumulative basis. Hedge ineffectiveness can arise from:

- differences in timing of cash flows of hedged items and hedging instruments
- different interest rate curves applied to discount the hedged items and hedging instruments
- the effect of changes in Nordea Hypotek's or a counterparty's credit risk on the fair value of the hedging instrument or hedged items
- disparity between expected and actual prepayments of the loan portfolio

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 and when hedging interest rate risk in lending with floating interest rates.

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. When hedging interest-rate risk in floating-rate lending,

Note 1. Accounting policies, cont.

Nordea Hypotek uses interest-rate derivatives as hedging instruments, which are always held at fair value.

Hedge effectiveness

The hypothetical derivative method is used when retroactively 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 from the hedged transaction (the currency component).

If the hedging relationship does not fulfil the hedge accounting requirements, hedge accounting is discontinued. 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 cash flow hedge 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 no longer is expected to occur.

If the expected transaction no longer is highly probable, but is still 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.

The possible sources of ineffectiveness for cash flow hedges are generally the same as for those for fair value hedges described above. However, for cash flow hedges, prepayment risk is less relevant, and the causes of hedging ineffectiveness arise from the changes in the timing and the amount of forecast future cash flows. The possible sources of ineffectiveness for cash flow hedges are generally the same as for those for fair value hedges described above. However, for cash flow hedges, prepayment risk is less relevant, and the causes of hedging ineffectiveness arise from the changes in the timing and the amount of forecast future cash flows.

9. Determination of fair value of financial instruments

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

Trade frequency and volume are monitored regularly in order to assess if markets are active or non-active. Nordea Hypotek predominantly uses published price quotations to establish fair value for items disclosed under the following balance sheet items:

- Interest-bearing securities
- Derivatives (listed)
- Debt securities in issue (mortgage bonds).

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 derivatives (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 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 instru-

Note 1. Accounting policies, cont.

ments 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 subportfolios 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 on the effective interest rate method, see Note 3 "Net interest income" and section 5 "Recognition of operating income and impairment". Information about 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.

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 below, 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 agreements 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" on the asset side. 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 with which Nordea Hypotek has agreements.

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 transac-

Note 1. Accounting policies, cont.

tion 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 "Recognition and derecognition of financial instruments on the balance sheet" 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 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 borrower is filed for bankruptcy and the administrator has declared the economic outcome of the bankruptcy procedure, or when Nordea Hypotek forgives its claims either through a legally 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 loan losses". Any fair value adjustments are recognised in "Other comprehensive income".

Impairment testing

Nordea Hypotek classifies all exposures into stages on an individual basis. Stage 1 includes assets where there has been no significant increase in credit risk since initial recognition, stage 2 includes assets where there has been a significant increase in credit risk and stage 3 includes defaulted assets. Nordea Hypotek monitors whether there are indicators of exposures being credit impaired (stage 3) by identifying events that have a detrimental impact on the estimated future cash flows (loss event). Nordea Hypotek 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 without individually calculated allowances will be covered by the model-based 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 model described below but based on the fact that the exposures are already in default.

Model-based allowance calculation

For exposures not impaired on an individual basis, a statistical 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 and 3 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). This is also the case for the insignificant credit impaired exposures in stage 3.

Nordea Hypotek 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 Hypotek has concluded it is not possible to calculate the lifetime PD (probability of default) at origination 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 Hypotek uses a mix of absolute and relative changes in PD as the transfer criterion.

- Retail customers with an original 12-month PD below 1%: Exposures with a relative increase in lifetime PD over 100% and an absolute increase in 12-month PD over 45 bps are transferred to stage 2.
- Retail customers with an original 12-month PD above or equal to 1%: Exposures with a relative increase in lifetime PD over 100% or an absolute increase in 12-month PD over 300 bps are transferred to stage 2.
- Corporate and institutional customers with an original 12-month PD below 0.5%: Exposures with a relative increase in lifetime PD over 150% and an absolute increase in 12-month PD over 20 bps are transferred to stage 2.
- Corporate and institutional customers with an original 12-month PD above or equal to 0.5%: Exposures with a relative increase in lifetime PD over 150% or an absolute increase in 12-month PD over 400 bps are transferred to stage 2.

Note 1. Accounting policies, cont.

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 Hypotek applies 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 provisions.

Write-offs

A write-off is a derecognition of a loan or receivable from the balance sheet and a final realisation of an equivalent credit loss provision. 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 borrower, 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):

- Exposures past due more than 90 days. If an exposure, or part thereof, is considered unrecoverable following this assessment, it is written off.
- Exposures under insolvency proceedings where the collateralisation of the exposure is low.
- Exposures for which legal expenses are expected to absorb proceeds from the bankruptcy procedure and therefore estimated recoveries are expected to be low.
- A partial right-off may be warranted if there is reasonable financial evidence to show an inability of the borrower to repay the full amount, i.e. a considerable part of the debt cannot be reasonably demonstrated to be recoverable, due to forbearance measures or realising collateral.
- Restructuring cases.

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 borrower 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 difficulties (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.

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 to the extent 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 current 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.

Note 1. Accounting policies, cont.

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 2019, 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 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 includes 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 consits of the two new operating segments Business Banking and Business Banking Direct, instead of the precious 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 below.

Operating segments

	Personal Banking		Commercial & Business Banking		Group Treasury		Other operating segments		Total operating segments		Reconciliation		Total	
Income statement, SEKm	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Net interest income	6,994	6,746	1,305	1,112	–1,801	–32	132	92	6,630	7,918	185	232	6,815	8,150
Net fee and commission income	40	46	4	3	–33	–39	–54	–20	–43	–10	—	—	–43	–10
Net result from items at fair value	28	40	1	3	–51	–202	0	–1	–22	–160	—	—	–22	–160
Total operating income	**7,062**	**6,832**	**1,310**	**1,118**	**–1,885**	**–273**	**78**	**71**	**6,565**	**7,748**	**185**	**232**	**6,750**	**7,980**
Other expenses	0	0	0	0	—	–17	–1,490	–603	–1,490	–620	—	–1,030	–1,490	–1,650
Total operating expenses	**0**	**0**	**0**	**0**	**—**	**–17**	**–1,490**	**–603**	**–1,490**	**–620**	**—**	**–1,030**	**–1,490**	**–1,650**
Net loan losses	–16	–12	2	–21	—	—	–4	–4	–18	–37	—	0	–18	–37
Operating profit	**7,046**	**6,820**	**1,312**	**1,097**	**–1,885**	**–290**	**–1,416**	**–536**	**5,057**	**7,091**	**185**	**–798**	**5,242**	**6,293**
Balance sheet, SEKm														
Loans to the public	441,233	421,922	117,486	110,319	—	—	20,779	16,518	579,498	548,759	3	0	579,501	548,759
Other assets	136	125	127	108	32,122	34,396	108	35	32,493	34,664	19	19	32,512	34,683
Total assets	**441,369**	**422,047**	**117,613**	**110,427**	**32,122**	**34,396**	**20,886**	**16,553**	**611,990**	**583,423**	**23**	**19**	**612,013**	**583,442**
Total liabilities	**—**	**0**	**—**	**0**	**582,380**	**554,185**	**209**	**87**	**582,589**	**554,272**	**3,946**	**4,270**	**586,535**	**558,992**
Equity	441,369	422,047	117,613	110,427	–550,258	–519,789	20,677	16,466	29,401	29,151	–3,923	–4,701	25,478	24,450
Total liabilities and equity	**441,369**	**422,047**	**117,613**	**110,427**	**32,122**	**34,396**	**20,886**	**16,553**	**611,990**	**583,423**	**23**	**–431**	**612,013**	**583,442**

Reconciliation between total operating segments and financial statements

	2019		2018	
SEKm	**Operating profit**	**Total assets**	**Operating profit**	**Total assets**
Total operating segments	5,057	611,990	7,091	583,423
Group fuctions and unallocated items	185	23	–798	19
Total	**5,242**	**612,013**	**6,293**	**583,442**

Note 2. Segment reporting, cont.

Total operating income split on product groups

In the company, 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 mortgages, comprise the entire product portfolio in the company.

Lending volume distribution in repotable 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	Sara Mella, 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)	2019	2018
Interest income		
Interest income calculated using the effective interest rate method	8,614,887	8,037,775
Negative yield on financial assets	–36,320	–17,620
Other interest income	21,193	5,677
Negative yield on financial liabilities	136,612	674,524
Interest income	**8,736,372**	**8,700,356**
Loans to the public	8,738,968	8,240,695
Interest-bearing securities	–13,777	–11,940
Yield fees and interest on hedges of assets	–125,431	–202,923
Other interest income	136,612	674,524
Interest income[1]	**8,736,372**	**8,700,356**
Interest expense		
Deposits by credit institutions	–321,826	472,900
Debt securities in issue	–3,049,286	–3,358,532
Subordinated liabilities	–13,407	–18,646
Other interest expenses[1]	1,463,627	2,353,565
Interest expense	**–1,920,892**	**–550,713**
Net interest income	**6,815,480**	**8,149,643**

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 policies".

Note 3. Net interest income, cont.

Interest per measurement categories

SEK (000s)	2019	2018
Financial assets at fair value through other comprensive income	1,350	4
Financial assets at amortised cost	8,743,814	8,245,437
Financial assets at fair value through profit and loss (related to hedging instruments)	–130,277	–207,666
Interest income calculated using the effective interest rate method	**8,614,887**	**8,037,775**
Financial assets at fair value through profit and loss	121,485	662,581
Other interest income	**121,485**	**662,581**
Interest income	**8,736,372**	**8,700,356**
Financial liabilities at amortised cost	–3,511,971	–2,967,746
Financial liabilities at fair value through profit and loss	1,591,079	2,417,033
Interest expenses	**–1,920,892**	**–550,713**

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

Average interest rate, lending

	2019	2018
Lending to the public		
Average volume, SEKm	562,901	541,837
Average interest, %	1.55	1.48

Interest income from financial instruments not measured at fair value through profit and loss amounts to SEK 8,600m (8,026). Interest expenses from financial instruments not measured at fair calue through profit and loss amounts to SEK 3,385m (2,904).

Note 4. Net fee and commission income

SEK (000s)	2019	2018
Issuer services	–34,266	–35,272
- of which income	–	–
- of which expense	–34,266	–35,272
Lending Products	17,814	12,731
- of which income	23,867	32,185
- of which expense	–6,053	–19,454
Guarantees	–	–3
- of which income	–	–
- of which expense	–	–3
Other	–27,095	12,370
- of which income	19,777	17,982
- of which expense	–46,872	–5,612
Total	**–43,547**	**–10,174**

Note 4. Net fee and commission income, cont.

Break down by business Areas

SEKm 2019	Personal Banking	Commercial & Business Banking	Group Treasury	Other
Issuer services	–	–	−34	0
Lending Products	21	3	–	−7
Guarantees	–	1	–	–
Other	19	–	−47	0
Total	**40**	**4**	**−81**	**−7**

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)	2019	2018
Interest-bearing securities and other interest-related instruments[1]	−22,221	−159,622

1) Of which SEK 29,484k (42,707) related to financial assets held at amortised cost.

Net result from categories of financial instruments

SEK (000s)	2019	2018
Financial assets at fair value through other comprensive income	−9,175	−267
Financial assets and liabilities mandatorily at fair value through profit or loss[1]	−72,883	−1,092,572
Financial assets at amortised cost[2]	−288,105	129,241
Financial liabilities at amortised cost	347,971	804,169
Foreign exchange gains/losses excluding currency hedges	−29	−193
Total	**−22,221**	**−159,622**

Note 6. Staff costs

SEK (000s)	2019	2018
Salaries and remuneration[1] (specification below)	−16,750	−16,112
Pension costs (specification below)	−4,071	−4,035
Social security contributions	−6,365	−6,036
Other staff costs	−515	−432
Total	**−27,702**	**−26,615**
Salaries and remuneration		
President:		
- Fixed compensation and benefits	−1,176	−1,153
- Allocation to profit-sharing	−17	−17
Vice President:		
-Fixed compensation and benefits	−1,039	−1,069
-Allocation to profit-sharing	−17	−17
To other employees	−14,159	−13,588
Board of directors	−342	−169
Total	**−16,750**	**−16,013**
Pension costs:		
Defined benefit plans	−2,418	−2,548
Defined contribution plans	−1,653	−1,487
Total	**−4,071**	**−4,035**

1) Allocation to profit-sharing foundation 2019: −237k (−464) consists of a new allocation of −361 k (−364) and related to prior year 124k (−100).

To the Group Board Directors' no directors' fee was paid. For 2019 Nordea Hypotek had no incentive system or any perfor-mace-related compensation to employees.

The President's contract of employment may be terminat-ed by either the President with three (3) months notice or the company with six (6) months notice. In accoradance 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 for 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 51,236k (27,162). Interest income on these loans amounts to 262k (187).

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 cariable interest rate loans i s 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 aboce 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 Hypotek.

Pension commitments to the President and executives

SEK	2019	2018
Pension costs for President	317,891	294,130
Pension commitments for President	9,104,373	8,125,942
Pension costs for previous Presidents	953,784	932,160
Pension commitments for previous Presidents	9,633,997	9,748,948
Pension costs for Vice President	363,528	307,404
Pension commitents for Vice President	6,839,025	5,590,841
Pension costs for previous Vice President	258,336	252,480
Pension commitments for previous Vice President	3,437,715	3,473,902
Pension costs for external member of the board	183,351	227,292
Pension commitments for external member of the board	2,696,101	2,709,816

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 Sveriges Pensionsstiftelse, partly by insurance policies.

Average number of employees

	2019	2018
Full-time equivalents		
Men	10	6
Women	14	14
Total average	**24**	**20**

At year-end the total number of employees was 25 (20).

Gender distribution

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

Note 7. Other expenses

SEK (000s)	2019	2018
Postage, telephone and office expenses	−239	−427
Distribution costs to Nordea	−1,059,553	−1,084,653
Resolution fee	−348,515	−482,796
Other[1]	−53,522	−55,029
Total	**−1,461,829**	**−1,622,905**

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

Auditors' fees

SEK (000s)	2019	2018
Öhrlings PricewaterhouseCoopers		
Auditing assignments	−1,751	−1,616
Audit-related services	−75	−144
Other assignments	−100	−100
Total	**−1,926**	**−1,860**

Note 8. Net loan losses

SEK (000s), 2019	Loans to the public	Interest-bearing securities	Off balance sheet items	Total
Net loan losses, stage 1	−5,885	−53	−3,705	−9,643
Net loan losses, stage 2	4,305	–	−12	4,293
Net loan losses, non-defaulted	**−1,580**	**−53**	**−3,717**	**−5,350**
Stage 3, defaulted				
Net loan losses, individually assssed, collectively calculated	−4,576	–	–	−4,576
Realised loan losses	−32,252	–	–	−32,252
Decrease of provisions to cover realised loan losses	18,700	–	–	18,700
Recoveries on previous realised loan losses	1,082	–	–	1,082
Reversals of provisions	4,050	–	–	4,050
Net loan losses, defaulted	**−12,996**	**–**	**–**	**−12,996**
Net loan losses	**−14,576**	**−53**	**−3,717**	**−18,346**

SEK (000s) 2018	Loans to the public	Off balance sheet items	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 asssed, 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**

Note 9. Taxes

Income tax expenses

SEK (000s)	2019	2018
Current tax[1]	−1,122,243	−1,388,529

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

SEK (000s)	2019	2018
Profit before tax	5,241,835	6,292,727
Tax calculated at a tax rate of 21.4 per cent (22.0)	−1,121,753	−1,384,400
Taxcharges not related to profit	1,240	–
Non-deductible expenses	−4,129	−4,129
Adjustments relating to prior years	2,399	–
Tax charge	**−1,122,243**	**−1,388,529**
Average effective tax rate %	21.4	22.0

Deferred tax

SEK (000s)	2019	2018
Movements in deferred tax liabilities		
Amount at beginning of year	5,899	14,643
Defereed tax realting to items in Other comprehensive income	−1,112	−8,744
Amount at end of year	**4,787**	**5,899**
Deferred tax liabilities		
Deferred tax relating to cash flow hedges	4,787	5,899

Note 10. Loans and impairment

SEK (000s)	31 Dec 2019	31 Dec 2018
Loans measured at amortised cost, not impaired (stage 1 and 2)	584,545,913	553,558,407
Impaired loans (stage 3)	598,698	582,247
- of which servicing	104,108	54,144
- of which non-servicing	494,590	528,103
Loans before allowances	**585,144,611**	**554,140,654**
-of which credit institutions	5,578,131	5,299,092
Allowances for individually assessed impaired loans (stage 3)	−23,138	−41,312
- of which servicing	−4,173	−1,773
- of which non-servicing	−18,965	−39,539
Allowances for collectively assessed impaired loans (stage 1 and 2)	−42,671	−41,091
Allowances	**−65,809**	**−82,403**
Loans, carrying amount	**585,078,802**	**554,058,251**

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 2019	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
Changes due to origination and acquisition	–	–	–	–	138,840,912	425,660	36,016	139,302,588	138,840,912	425,660	36,016	139,302,588
Changes due to transfers between Stage 1 and Stage 2, (net)	–	–	–	–	2,949,884	−2,949,884	–	–	2,949,884	−2,949,884	–	–
Changes due to transfers between Stage 2 and Stage 3, (net)	–	–	–	–	–	−31,668	31,667	−1	–	−31,668	31,667	−1
Changes due to transfers between Stage 1 and Stage 3, (net)	–	–	–	–	−128,055	–	128,055	–	−128,055	–	128,055	–
Changes due to repayments and disposals	–	–	–	–	−106,443,295	−1,955,504	−148,520	−108,547,319	−106,443,295	−1,955,504	−148,520	−108,547,319
Changes due to write-offs	–	–	–	–	–	–	−32,252	−32,252	–	–	−32,252	−32,252
Other changes	279,039	–	–	279,039	418	–	1,484	1,902	279,457	–	1,484	280,941
Closing balance at 31 Dec 2019	**5,578,131**	**–**	**–**	**5,578,131**	**573,149,385**	**5,818,397**	**598,698**	**579,566,480**	**578,727,516**	**5,818,397**	**598,698**	**585,144,611**

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 2019	–	–	–	–	−14,450	−26,641	−41,312	−82,403	−14,450	−26,641	−41,312	−82,403
Changes due to origination and acquisition	–	–	–	–	−13,211	−1,398	−3,091	−17,700	−13,211	−1,398	−3,091	−17,700
Changes due to transfers from Stage 1 to Stage 2	–	–	–	–	440	−14,702	0	−14,262	440	−14,702	0	−14,262
Changes due to transfers from Stage 1 to Stage 3	–	–	–	–	31	0	−6,477	−6,446	31	0	−6,477	−6,446
Changes due to transfers from Stage 2 to Stage 1	–	–	–	–	−1,646	13,946	0	12,300	−1,646	13,946	0	12,300
Changes due to transfers from Stage 2 to Stage 3	–	–	–	–	0	987	−5,530	−4,543	0	987	−5,530	−4,543
Changes due to transfers from Stage 3 to Stage 1	–	–	–	–	−134	0	1,561	1,427	−134	0	1,561	1,427
Changes due to transfers from Stage 3 to Stage 2	–	–	–	–	0	−685	3,431	2,746	0	−685	3,431	2,746
Changes due to changes in credit risk without stage transfer	–	–	–	–	−5,913	−4,733	1,549	−9,097	−5,913	−4,733	1,549	−9,097
Changes due to repayments and disposals	–	–	–	–	3,097	4,280	4,778	12,155	3,097	4,280	4,778	12,155
Write-off through decrease in allowance account	–	–	–	–	0	0	18,700	18,700	0	0	18,700	18,700
Changes due to changes in credit risk without stage transfer					11,451	6,610	3,253	21,314	11,451	6,610	3,253	21,314
Closing balance at 31 Dec 2019	**–**	**–**	**–**	**–**	**−20,335**	**−22,336**	**−23,138**	**−65,809**	**−20,335**	**−22,336**	**−23,138**	**−65,809**

Note 10. Loans and impairment, cont.

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	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	–	–	–396,506	396,506	–	–
Changes due to transfers between Stage 2 and Stage 3, (net)	–	–	–	–	–	–38,625	38,625	–	–	–38,625	38,625	–
Changes due to transfers between Stage 1 and Stage 3, (net)	–	–	–	–	–116,899	–	116,899	–	–116,899	–	116,899	–
Changes due to repayments and disposal	–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	–	–	–	–	–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**

Assets subject to enforcement activities

SEK (000s)	31 Dec 2019	31 Dec 2018
Amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activities	15,267	8,684

Note 10. Loans and impairment, cont

Rating/scoring information on loans measured at amortised cost

	31 Dec 2019				31 Dec 2018			
Gross carring amount, SEK (000s)	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
7+	11,404	4,383	–	15,787	167,246	–	–	167,246
7	15	–	–	15	6,122,606	–	–	6,122,606
7–	–	–	–	–	–	–	–	–
6+ / A+	367,245,634	95,823	4,533	367,345,990	330,174,579	965,401	–	331,139,980
6 / A	60,560,249	60,585	–	60,620,834	57,264,348	674,663	–	57,939,011
6– / A–	41,925,605	71,127	–	41,996,732	41,224,890	659,114	–	41,884,004
5+ / B+	26,450,439	126,421	–	26,576,860	26,606,180	615,980	–	27,222,160
5 / B	18,320,036	235,046	–	18,555,082	17,405,037	689,938	–	18,094,975
5– / B–	12,123,335	357,084	–	12,480,419	12,936,492	554,873	261	13,491,626
4+ / C+	11,220,161	490,362	2,660	11,713,183	9,276,553	857,034	3,163	10,136,750
4 / C	16,615,011	629,522	587	17,245,120	16,628,665	839,096	–	17,467,761
4– / C–	16,329,089	550,538	–	16,879,627	12,628,986	747,303	–	13,376,289
3+ / D+	2,401,581	470,438	4,407	2,876,426	1,948,727	605,083	–	2,553,810
3 / D	1,295,173	495,788	840	1,791,801	1,478,370	615,045	872	2,094,287
3– / D–	1,494,088	809,106	1,154	2,304,348	1,395,814	733,613	820	2,130,247
2+ / E+	427,352	250,091	–	677,443	339,797	388,682	–	728,479
2 / E	656,566	316,980	–	973,546	602,342	376,465	3,789	982,596
2– / E–	256,121	110,456	–	366,577	80,503	84,309	–	164,812
1+ / F+	41,682	42,151	–	83,833	62,048	109,403	–	171,451
1 / F	368,597	282,092	91,272	741,961	276,300	354,514	42,052	672,866
1– / F–	456,956	293,052	–	750,008	381,307	295,593	3,086	679,986
0+ / 0 / 0–	283,966	117,985	493,245	895,196	310,242	106,224	528,205	944,671
Standardised	–	–	–	–	5,299,092	–	–	5,299,092
Unrated	240,073	13,750	–	253,823	618,490	57,459	–	675,949
Total	**578,723,133**	**5,822,780**	**598,698**	**585,144,611**	**543,228,613**	**10,329,793**	**582,248**	**554,140,654**

Key ratios

	31 Dec 2019	31 Dec 2018
Impairment rate (stage 3), gross[1], basis points	10.2	10.5
Impairment rate (stage 3), net[2], basis points	9.8	9.8
Total allowance rate (stage 1, 2 and 3)[3], basis points	1.1	1.5
Allowances in relation to impaired loans (stage 3)[4], %	3.9	7.1
Allowances in relation to loans in stage 1 and 2[5], basis points	0.7	0.0

1) Impaired loans (category 3) before allowances divided by total loans, measured at amortised cost, before allowances.
2) Impaired loans (category 3) after allowances divided by total loans, measured at amortised cost, before allowances.
3) Total allowances divided by total loans, measured at amortised cost, before allowances.
4) Allowances for impaired loans (category 3) divided by impaired loans measured at amortised cost (category 3), before allowances.
5) Allowances for performing loans (category 2) divided by performing loans measured at amortised cost (categories 1 and 2), before allowances

Note 11. Interest-bearing securities

SEK (000s)	31 Dec 2019	31 Dec 2018
States, municipalities and other public bodies	8,912,821	5,431,448
Mortgage institutions	614,049	2,681,300
Other credit institutions	11,121,778	12,514,471
Other	455,267	456,342
Total	**21,103,915**	**21,083,561**

Provisions for credit risks amount to 320 SEKt (267).

Note 12. Derivatives and Hedge accounting

Nordea Hypotek enters into derivatives for trading and risk management purposes. Nordea may take positions with the expectation of profiting from favourable movements in prices, rates or indices. The trading portfolio is treated as trading risk 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 notional amounts. The notional 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 2019, SEKm	Positive	Negative	Total nom amount
Derivatives not used for hedge accounting	26	30	15,815
Fair value hedges	4,540	443	531,404
Cash flow hedges	–	42	9,561
Net investment hedges	–	–	–
Total derivatives	**4,566**	**515**	**556,780**

	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
Net investment hedges	–	–	–
Total derivatives	**4,762**	**351**	**488,399**

Derivatives not used for hedge accounting

	Fair value		
31 Dec 2019, SEKm	Positive	Negative	Total nom amount
Interest rate derivatives	26	30	15,815
Interest rate swaps	**26**	**30**	**15,815**

	Fair value		
31 Dec 2018, SEKm	Positive	Negative	Total nom amount
Interest rate derivatives	2	8	7,600
Interest rate swaps	**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 Hypotek'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	2019	2018
Fair value hedges		
Fair value hedges[1]	179,635	123,621
Carrying amount of hedged assets[3]	–299	20
- of which accumulated amount of fair value hedge adjustment[2]	274,188	250,317
Carrying amount of hedged liabilties[3]	3,168	3,721

1) Presented on the balance sheet rows Loans to central banks, Loan to credit institutions, Loans to the public, Interest-bearing securities and Fair value changes of the hedged items in portfolio hedge of interest rate risk.
2) Presented on the balance sheet rows Deposit by credit institution, Deposit and borrowing from the public, Debt securities in issue and Fair value changes of the hedged items in portfolio hedge of interest rate risk.
3) Of which all relates to continuing portfolio hedges of interest rate risk.

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

Hedging instruments

	Fair value		
31 Dec 2019, SEKm	Positive	Negative	Total nom amount
Fair value hedges			
Interest rate risk	4,540	443	531,404

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

Note 12. Derivatives and Hedge accounting, cont.

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 2019, SEKm	Payable on demand	Maximum 3 months	3–12 months	1–5 years	More than 5 years	Total
Instrument hedging interest rate risk	–	16,917	83,938	420,605	9,944	531,404
Total	**–**	**16,917**	**83,938**	**420,605**	**9,944**	**531,404**

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**

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Foreign exchange 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 the Market risk section in the chapter "Risk management" in the Board of Directors' report).

Nordea Hypotek's issuance of credits and borrowing can be denominated in the currency of the borrower or investor. Borrowing, investing and lending are not always executed in the same currency and thus exposes Nordea 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 hedge accounting relationships related to currency risk, the hedged item is a foreign currency component. The hedging ration is one-to-one and is stablished by matching the notional l of the derivatives against the principle of the hedged item.

Cash flow and net investment hedges

The below tables provide information about the hedging instruments as well as the outcome of the cash flow and net investment hedges addressing currency risks including the notional and the carrying amounts of the hedging instruments and the changes in fair values used for measuring hedge ineffectiveness separately showing the effective and ineffective portions.

Hedging instruments

	Fair value		
31 Dec 2019, SEKm	**Positive**	**Negative**	**Total nom amount**
Cash flow hedges			
Foreign exchange risk	–	42	9,561
Total derivatives used for hedge accounting	**–**	**42**	**9,561**

	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**

Cash flow hedge reserve

	Foreign exchange risk	
SEKm	**2019**	**2018**
Balance at 1 Jan	**21**	**52**
Cash flow hedges:		
Valuation gains/losses during the year	287	233
Tax on valuation gains/losses during the year	–63	–51
Transferred to the income statement during the year	–292	–273
Tax on transfers to the income statement during the year	64	60
Other comprehensive income, net of tax	–4	–31
Total comprehensive income	–4	–31
Balance at 31 Dec	**17**	**21**

Note 12. Derivatives and Hedge accounting, cont.

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 2019, SEKm	Payable on demand	Maximum 3 months	3–12 months	1–5 years	More than 5 years	Total
Instrument hedging foreign exchange risk	–	–	–	7,548	2,013	9,561
Total	**–**	**–**	**–**	**7,548**	**2,013**	**9,561**

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**

Note 13. Other assets

SEK (000s)	31 Dec 2019	31 Dec 2018
Other assets[1]	814,019	2,798,059

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

Note 14. Prepaid expenses and accrued income

SEK (000s)	31 Dec 2019	31 Dec 2018
Accrued interest income	293,448	259,444
Prepaid expenses	357,024	430,912
Total	**650,472**	**690,356**

Note 15. Deposits by credit institutions

SEK (000s)	31 Dec 2019	31 Dec 2018
Swedish banks	235,964,135	222,064,980

Note 16. Debt securities in issue[1]

SEK (000s)	31 Dec 2019	31 Dec 2018
Swedish bonds	330,716,162	314,902,403
Foreign securities	9,554,157	10,081,726
Total	**340,270,319**	**324,984,129**

1) See Specification to Notes, page 73.

Note 17. Other liabilities

SEK (000s)	31 Dec 2019	31 Dec 2018
Accounts payable	51,130	4,090
Liabilities, group contribution	3,945,847	4,719,545
Other liabilites[1]	780,023	2,296,877
Total	**4,777,000**	**7,020,512**

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 2019	31 Dec 2018
Accrued interest	140,215	–
Other accrued expenses	27,608	26,297
Prepaid income	10,453	13,735
Total	**178,276**	**40,032**

Note 19. Provisions

SEK (000s)	31 Dec 2019	31 Dec 2018
Commitments	7,440	3,723

1) For more information regarding off balance committments 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 2019	**3,706**	**17**	**–**	**3,723**
Changes due to origination and acquisition	–	–	–	–
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	3,705	12	0	3,717
Changes due to repayments and disposals	–	–	–	–
Write-off through decrease in allowance account	–	–	–	–
Other changes	–	–	–	–
Translation differences	–	–	–	–
Closing balance at 31 Dec 2019	**7,411**	**29**	**0**	**7,440**

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

	31 Dec 2019				31 Dec 2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
7+	–	–	–	–	–	–	–	–
7	–	–	–	–	–	–	–	–
7–	–	–	–	–	–	–	–	–
6+ / A+	3,546	–	–	3,546	32,514	–	–	32,514
6 / A	2,428	–	–	2,428	2,930	–	–	2,930
6– / A–	40,509	–	–	40,509	2,094	–	–	2,094
5+ / B+	1,163	–	–	1,163	1,324	–	–	1,324
5 / B	624	–	–	624	981	–	–	981
5– / B–	1,524	–	–	1,524	533	–	–	533
4+ / C+	346	–	–	346	420	–	–	420
4 / C	961	–	–	961	289	–	–	289
4– / C–	443	–	–	443	511	–	–	511
3+ / D+	86	–	–	86	106	–	–	106
3 / D	119	–	–	119	90	–	–	90
3– / D–	105	–	–	105	97	–	–	97
2+ / E+	–	46	–	46	–	32	–	32
2 / E	–	10	–	10	–	51	–	51
2– / E–	–	35	–	35	–	9	–	9
1+ / F+	–	56	–	56	–	5	–	5
1 / F	–	57	–	57	–	50	–	50
1– / F–	–	4	–	4	–	48	–	48
0+ / 0 / 0–	–	–	–	–	–	–	–	–
Standardised	–	–	–	–	–	–	–	–
Unrated	–	–	–	–	–	–	–	–
Total	**51,854**	**208**	**–**	**52,062**	**41,889**	**195**	**–**	**42,084**

Note 20. Subordinated liabilities[1]

SEK (000s)	31 Dec 2019	31 Dec 2018
Dated subordinated debenture loans	1,650,137	800,136

1) See Specification to Notes, page 73.

These debenture loans are subordiated to other liabilities.

Note 21. Assets pledged as security for own liabilities

SEK (000s)	31 Dec 2019	31 Dec 2018
Assets pledged for own liabilities		
Loans to the public	560,311,631	527,896,937
The aboce pledges certain to the following liability		
Debt securities in issue	335,802,211	321,385,786

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 2019	31 Dec 2018
Credit commitments	52,062,075	42,084,464

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.

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

	2019	2018	2017	2016	2015
Risk-weighted exposure amount, excl. Basel I floor, SEKm	160,206	161,402	37,362	34,937	34,765
Own funds, SEKm[1]	27,012	25,120	24,899	26,176	21,795
Total capital ratio, excl. Basel I floor, %[1]	16.9	15.6	66.6	74.9	62.7
Tier 1 capital ratio, excl. Basel I floor, %[1]	15.8	15.1	61.8	66.0	49.2

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	21,226	–
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	22	–
5a	Independently reviewed interim profits net of any foreseeable charge of dividend	4,120	–
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**25,478**	**–**
	Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	–3	–
11	Fair value reserves realted to gains or losses on cash flow hedges	–17	–
12	Negative amounts resulting from the calculation of expected loss amounts	–102	–
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	–7	–
15	Defined-benefit pension fund assets (negative amount)	–8	–
28	Total regulatory adjustments to Common equity Tier 1 (CET1)	–137	–
29	Common Equity Tier 1 (CET1) capital	25,340	–
	Additional Tier 1 (AT1) capital: regulatory adjustments		
45	Tier 1 capital (T1 = CET1 + AT1)	25,340	–
	Tier 2 (T2) capital: instruments and provisions		
46	Capital instruments and the related share premium accounts	1,650	–
50	Credit risk adjustments	22	–
51	Tier 2 (T2) capital before regulatory adjustments	1,672	–
	Tier 2 (T2) capital:regulatory adjustments		
58	Tier 2 (T2) capital	1,672	–
59	Total capital (TC = T1 + T2)	27,012	–
60	Total risk weighted assets	160,206	–
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	15.8%	–
62	Tier 1 (as percentage of risk exposure amount)	15.8%	–
63	Total capital (as percentage of risk exposure amount)	16.9%	–
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	9.5%	–
65	of which: capital conservation buffer requirement	2.5%	–
66	of which: countercyclical buffer requirement	2.5%	–
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	8.9%	–
	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)	22	–
79	Cap for inclusion of credit risk adjustments in T2 under internal ratingsbased approach	212	–
	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	0	–

Note 23. Capital adequacy, cont.

Leverage ratio

	31 Dec 2019[1]	31 Dec 2018[1]
Tier 1 capital, transitional definition, SEKm	25,340	24,299
Leverage ratio exposure, SEKm	624,208	646,340
Leverage ratio, percentage	4.1	3.8

1) Including profit of the period.

Minimum capital requirements buffers

			Capital buffers			
Percent	Minimum capital requirements	Pillar II requirements[1]	CCoB	CCyB	Capital buffers total[2]	Total requirement
Common Equity Tier 1 Capital	4.5	0	2.5	2.5	5.0	9.5
Tier 1 capital	6.0	0	2.5	2.5	5.0	11.0
Own funds	8.0	0	2.5	2.5	5.0	13.0
SEKm						
Common Equity Tier 1 Capital	7,209	0	4,005	3,998	8,003	15,212
Tier 1 capital	9,612	0	4,005	3,998	8,003	17,615
Own funds	12,816	0	4,005	3,998	8,003	20,820

1) In line with Finansinspektionens position communicated in FI Ref. 14-6258 the authority has not made a formal decision on a specific own funds requirement for Nordea Hypotek AB. In the 2018 SREP, the supervisor has informed Nordea Hypotek AB of its supervisory capital assessment where pillar 2 is approximately 1.1% in own funds requirement as of Q4 2019.

2) Nordea Hypotek AB is not subject to any SRB or SII capital buffers requirements.

Common Equity Tier 1 available to meet Capital Buffers

Percentage of REA	31 Dec 2019[1]	31 Dec 2018[1]
Common Equity Tier 1 Capital	8.9	7.6

1) Including profit of the period.

Capital ratios

Percentage	31 Dec 2019	31 Dec 2018
Common Equity Tier 1 capital ratio, including profit	15.8	15.1
Tier 1 capital ratio, including profit	15.8	15.1
Total capital ratio, including profit	16.9	15.6
Common Equity Tier 1 capital ratio, excluding profit	13.2	12.0
Tier 1 capital ratio, excluding profit	13.2	12.0
Total capital ratio, excluding profit	14.3	12.5

Note 23. Capital adequacy, cont.

Table A3 – Capital instruments' 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" inserted if the question is not applicable.

Note 23. Capital adequacy, cont.

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

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	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 1,650m
9	Nominal amount of instrument	SEK 1,650m
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-2019
12	Perpetual or dated	Dated
13	Original maturity date	30-Dec-2029
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	"30-Dec-2024 In addition tax/regulatory call 100 per cent of Nominal amount"
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 +1.40 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	Convertible
24	If convertible, conversion trigger(s)	Point of non-viability, subject to decision by the Resolution authority. Contractual and statutory
25	If convertible, fully or partially	Fully or partially
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	Common Equity Tier 1
29	If convertible, specify issuer of instrument it converts into	Nordea Hypotek AB
30	Write-down features	Yes
31	If write-down, write-down trigger(s)	Point of non-viability, subject to decision by the Resolution authority. Contractual and statutory
32	If write-down, full or partial	Fully or partially
33	If write-down, permanent or temporary	Permanent
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" inserted if 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:
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	**98,578**	**–**	**94,663**	**–**	**17.8**
- rating grades 6	58,016	–	57,431	–	6.7
- rating grades 5	15,621	–	13,573	–	22.9
- rating grades 4	22,887	–	21,915	–	41.5
- rating grades 3	1,547	–	1,514	–	41.9
- rating grades 2	149	–	122	–	57.3
- rating grades 1	33	–	31	–	73.1
- unrated	317	–	69	–	52.9
- defaulted	8	–	8	–	29.2
Institutions, foundation IRB	**9,905**	**–**	**9,905**	**–**	**7.0**
- rating grades 6	9,045	–	9,045	–	6.8
- rating grades 5	860	–	860	–	8.8
- rating grades 4	–	–	–	–	–
- rating grades 3	–	–	–	–	–
- rating grades 2	–	–	–	–	–
- rating grades 1	–	–	–	–	–
- unrated	–	–	–	–	–
- defaulted	–	–	–	–	–
Retail, of which secured by real estate	**464,347**	**52,062**	**516,410**	**52,062**	**3.2**
- scoring grades A	415,024	46,537	461,561	46,537	2.2
- scoring grades B	28,603	3,236	31,839	3,236	5.5
- scoring grades C	15,542	1,791	17,333	1,791	12.6
- scoring grades D	2,570	290	2,861	290	23.3
- scoring grades E	777	89	866	89	37.0
- scoring grades F	1,054	119	1,173	119	61.4
- not scored	159	–	159	–	21.1
- defaulted	618	–	618	–	124.0
Retail, of which other retail	**10,467**	**–**	**10,457**	**–**	**6.6**
- scoring grades A	8,683	–	8,683	–	4.3
- scoring grades B	858	–	854	–	9.8
- scoring grades C	767	–	761	–	19.5
- scoring grades D	75	–	75	–	25.3
- scoring grades E	32	–	32	–	28.8
- scoring grades F	25	–	25	–	42.8
- not scored	8	–	8	–	25.5
- defaulted	19	–	19	–	234.4
Other non credit-obligation assets	**357**	**–**	**357**	**–**	**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.

Note 24. Classification of financial instruments

Assets

31 Dec 2019, SEKm	Amortised cost (AC)	Financial assets at fair value through profit or loss (FVPL)		Fair value through other comprehensive income (FVOCI)	Non-financial assets	Total
		Mandatorily	Derivatives used for hedging			
Loans to credit institutions	5,578	–	–	–	–	5,578
Loans to the public	579,501	–	–	–	–	579,501
Interest-bearing securities	–	10,716	–	10,388	–	21,104
Derivatives	–	26	4,540	–	–	4,566
Fair value changes of the hedged items in portfolio hedge of interest rate risk	−299	–	–	–	–	−299
Current tax assets	–	–	–	–	98	98
Other assets	814	–	–	–	0	814
Prepaid expenses and accrued income	650	–	–	–	–	650
Total	**586,244**	**10,742**	**4,540**	**10,388**	**98**	**612,012**

Liabilities

31 Dec 2019, SEKm	Amortised cost (AC)	Financial liabilities at fair value through profit or loss (FVPL)		Non-financial liabilities	Total
		Mandatorily	Derivatives used for hedging		
Deposits by credit institutions	235,964	–	–	–	235,964
Debt securities in issue	340,270	–	–	–	340,270
Derivatives	–	30	485	–	515
Fair value changes of the hedged items in portfolio hedge of interest rate risk	3,169	–	–	–	3,169
Other liabilities	4,774	–	–	3	4,777
Accrued expenses and prepaid income	151	–	–	27	178
Deferred tax liabilities	–	–	–	5	5
Provisions	–	–	–	7	7
Subordinated liabilities	1,650	–	–	–	1,650
Total	**585,978**	**30**	**485**	**42**	**586,535**

Assets

31 Dec 2018, SEKm	Amortised cost (AC)	Financial assets at fair value through profit or loss (FVPL)		Fair value through other comprehensive income (FVOCI)	Non-financial assets	Total
		Mandatorily	Derivatives used for hedging			
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**

Note 24. Classification of financial instruments , cont.

Liabilities

31 Dec 2018, SEKm	Amortised cost (AC)	Financial liabilities at fair value through profit or loss (FVPL)		Non-financial liabilities	Total
		Mandatorily	Derivatives used for hedging		
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**

Note 25. Assets and liabilities at fair value

Fair value of financial assets and liabilities

SEKm	31 Dec 2019		31 Dec 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans	584,780	603,045	554,079	574,584
Interest-bearing securities	21,104	21,104	21,084	21,084
Derivatives	4,566	4,566	4,762	4,762
Other assets	814	814	2,798	2,798
Prepaid expenses and accrued income	651	651	691	691
Total financial assets	**611,915**	**630,180**	**583,414**	**603,919**
Financial liabilities				
Deposits and debt instruments	581,053	583,645	551,570	554,213
Derivatives	515	515	351	351
Other liabilities	51	51	7,004	7,004
Accrued expenses and prepaid income	151	151	14	14
Total financial liabilities	**581,770**	**584,362**	**558,939**	**561,582**

For information about valutation of items measured at fair value on the balance sheet, see Note 1 and the section ”Determination of fair value on the balance sheet” on page 39. For information about valuation of items not measured at fair value on the balance sheet, see the section ”Financial assets and liabilities not held att fair value on the balance sheet” on page 65.

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

Assets and liabilities held at fair value on the balance sheet

31 Dec 2019, 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	–	21,104	–	21,104
Derivatives	–	4,566	–	4,566
Total	**–**	**25,670**	**–**	**25,670**
Liabilities at fair value on the balance sheet[1]				
Derivatives	–	515	–	515
Total	**–**	**515**	**–**	**515**

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

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 sheet1				
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.

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.

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.

The fair value measurement is categorised into Level 3 in the fair value hierarchy.

Interest bearing-securities

The fair value is 21,104 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

	31 Dec 2019		31 Dec 2018		
SEKm	Carrying amount	Fair value	Carrying amount	Fair value	Level in fair value hierarchy
Assets not held at fair value on the balance sheet					
Loans	584,780	603,045	554,079	574,584	3
Interest bearing-securities	21,104	21,104	21,084	21,084	2
Other assets	814	814	2,798	2,798	3
Prepaid expenses and accrued income	651	651	691	691	3
Total	**607,349**	**625,614**	**578,652**	**599,157**	
Liabilities not held at fair value on the balance sheet					
Deposits and debt instruments	581,053	583,695	551,570	554,213	3
Other liabilities	51	51	7,004	7,004	3
Accrued expenses and prepaid income	151	151	14	14	3
Total	**581,255**	**583,897**	**558,588**	**561,231**	

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

31 Dec 2019, 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	4,566	–	4,566	–524	4,042
Liabilities					
Derivatives	515	–	515	–524	–9

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 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	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 conseques-nce Nordea Hypotek would be alowed 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 2019 is set out.

Note 27. Assets and liabilities in foreign currencies

The only exposure that Nordea Hypotek has in foreign currency 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 2019 SEKm	EUR
Assets	
Derivatives and other assets	2,427
Total assets	**2,427**
Liabilities	
Debt securities in issue	9,554
Other liabilities	2,125
Total liabilities	**11,679**

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**

Note 28. Maturity analysis for assets and liabilities

Expected maturity 31 Dec 2019, SEKm	Note	Expected to be recovered or settled: Within 12 months	After 12 months	Total
Loans to credit institutions	10	5,578	–	5,578
Loans to the public	10	51,796	527,705	579,501
Interest-bearing securities	11	5,325	15,779	21,104
Derivatives	12	222	4,344	4,566
Fair value changes of the hedged items in portfolio hedge of interest rate risk		–299	–	–299
Current tax assets	9	98	–	98
Other assets	13	814	–	814
Prepaid expenses and accrued income	14	438	213	651
Total assets		**63,972**	**548,041**	**612,013**
Deposits by credit institutions	15	59,551	176,413	235,964
Debt securities in issue	16	52,660	287,610	340,270
Derivatives	12	18	497	515
Fair value changes of the hedged items in portfolio hedge of interest rate risk		3,168	–	3,168
Other liabilities	17	4,777	–	4,777
Accrued expenses and prepaid income	18	179	–	179
Deferred tax liabilities	9	–	5	5
Provisions	19	7	–	7
Subordinated liabilities	20	–	1,650	1,650
Total liabilities		**120,360**	**466,175**	**586,535**

Expected maturity 31 Dec 2018, SEKm	Note	Expected to be recovered or settled: 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	–	6	6
Provisions	19	4	–	4
Subordinated liabilities	20	800	–	800
Total liabilities		**116,950**	**442,042**	**558,992**

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

Contractual undiscounted cash flows

31 Dec 2019, SEKm	Payable on demand	Maximum 3 months	3–12 months	1–5 years	More than 5 years	Total
Loans to credit institutions	5,578	–	–	–	–	5,578
Loans to the public	–	20,238	39,916	121,126	514,043	695,323
Interest-bearing securities	–	45	5,698	16,209	–	21,952
Other	–	1,274	–	4,557	–	5,831
Total financial assets	**5,578**	**21,557**	**45,614**	**141,892**	**514,043**	**728,684**
Deposits by credit institutions	–	22,438	37,937	177,014	–	237,389
Debt securities in issue	–	310	57,613	289,380	9,913	357,216
- of which Debt securities in issue	–	304	57,593	287,609	9,913	355,419
- of which Other	–	6	20	1,771	–	1,797
Other	–	8,131	–	–	–	8,131
Total financial liabilities	**–**	**30,879**	**95,550**	**466,394**	**9,913**	**602,736**
Derivatives, cash inflow	–	303	1,575	12,445	2,814	17,137
Derivatives, cash outflow	–	–77	–598	–10,184	–2,531	–13,390
Net exposure	**–**	**226**	**977**	**2,261**	**283**	**3,747**
Exposure	**5,578**	**–9,096**	**–48,959**	**–322,241**	**504,413**	**129,695**
Cumulative exposure	**5,578**	**–3,518**	**–52,477**	**–374,718**	**129,695**	**–**

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 wich 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**	**–**

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 52,062m (42,084). 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 transationcs on the Nordea Hypotek figures.

Balance sheet

	Key management personnel		Nordea Group companies	
SEK (000s)	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Assets				
Loans to credit institutions	–	–	5,578,131	5,299,092
Loans to the public[1]	51,236	27,162	–	–
Derivatives	–	–	4,598,794	4,801,162
Other assets	–	–	813,788	2,283,599
Prepaid expenses and accrued income	–	–	21,189	20,367
Total assets	**51,236**	**27,162**	**11,011,902**	**12,404,220**
Liabilities				
Deposits by credit institutions	–	–	235,964,135	222,064,980
Debt securities in issue	–	–	5,454,130	3,558,818
Derivatives	–	–	507,046	292,719
Other liabilities	–	–	4,775,261	7,014,171
Subordinated liabilities	–	–	1,650,137	800,136
Total liabilities	**–**	**–**	**248,350,709**	**233,730,824**
Off balance[2]	–	–	540,964,498	480,798,037

1) Lending divided by collateral type: Single family properties 41,242k; Tentant-owner apartments 9,994k.
2) Including nominal values on derivatives.

Income statement

	Key management personel		Nordea Group compaines	
SEK (000s)	2019	2018	2019	2018
Interest income	262	187	101,152	23,949
Interest expense	–	–	1,296,526	3,497,937
Net fee and commission income	–	–	–54,410	–15,120
Net result from items at fair value	–	–	–159,147	–1,073,189
General administrative expenses:				
-Staff costs	–	–	–	–
-Other expenses	–	–	–1,057,404	–1,083,001
Total	**262**	**187**	**126,717**	**1,350,576**

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	Not	31 Dec 2019	31 Dec 2018
Loans to credit institutions	10	–	–
Loans to the public	10	66	82
Interest bearing securities measured at fair value through other comprehensive income or amortised cost	11	0	0
Off balance sheet items	19	7	4
Total		**73**	**86**

Maximum exposure to credit risk

		31 Dec 2019		31 Dec 2018	
SEKm	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	5,578	–	5,299	–
Loans to the public	10	579,566	–	548,841	–
Interest bearing securities	11	10,388	10,716	11,224	9,860
Derivatives	12	–	4,566	–	4,762
Total		**597,228**	**15,282**	**565,364**	**14,622**

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 mortgage exposures are broken down into different LtV ranges. In 2019, mortgage exposures increased in all ranges, except in the 70–75% range where the volume was unchanged.

Retail mortgage exposure[1]

	31 Dec 2019		31 Dec 2018	
	SEKbn	%	SEKbn	%
<50%	454.9	83	427.9	82
50–60%	49.7	9	47.5	9
60–70%	34.9	6	34	7
70–75%	11.2	2	11.2	2
>75%	–	–	–	–
Total	**550.7**	**100**	**520.6**	**100**

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

Loans to corporate customers, by size of loan

Size in SEKm	31 Dec 2019	%	31 Dec 2018	%
0–10	8,959	9	9,174	10
10–50	41,334	41	38,697	41
50–100	19,742	19	18,457	19
100–250	16,364	16	14,875	15
250–500	8,038	8	7,317	8
500–	7,289	7	6,631	7
Total	**101,726**	**100**	**95,151**	**100**

Note 30. Credit risk disclosures, cont.

Past due loans, excluding impaired loans

	31 Dec 2019		31 Dec 2018	
SEKm	Corporate customers	Household customers	Corporate customers	Household customers
6–30 days	317	23	224	7
31–60 days	21	183	16	246
61–90 days	–	51	–	53
91–180 days	8	176	–	37
Total	**346**	**433**	**240**	**343**
Past due not impaired loans divided by loans to the public after allowances, %	0.33	0.09	0.24	0.08

Sensitivites

One important factor in estimating expected credit losses in accordance with IFRS 9 is to assess what constitutes a significant increase in credit risk.

To understand the sensitvities for these relative triggers Nordea Hypotek has by using models calculated provisions based on two different scenarios:

	Scenario 1	Scenario 2
Retail portfolios		
Relative threshold	50%	150%
Absolute threshold, 12 months	35 basis points	55 basis points
Absolute threshold, remaining maturity	250 basis points	350 basis points
Notch[1]	1 less	1 more
Other customer portfolios		
Relative threshold	100%	200%
Absolute threshold, 12 months	15 basis points	25 basis points
Absolute threshold, remaining maturity	350 basis points	450 basis points
Notch[1]	1 less	1 more

1) For exposures that was accounted for the first time before the transition to IFRS 9 (1 Jan 2018) the category is determined based on changed in the rating classes. The threshold value in scenario 1 is set to one notch less than in the model actually used and in scenario 2 the threshold value is set one notch more than in the model.

The provisions would have increased by SEK 2.8m in scenario 1 and decreased by SEK 2.6m in scenario 2. For more information on the rating scale and average PDs, see table below.

The provisions are sensitive to rating migration even if triggers are not reached. The table below shows the impact on provisions from a one notch downgrade on all exposures. It includes both the impact of the higher risk for all exposures as well as the impact of transferring from Stage 1 to Stage 2 for those exposures that reach the trigger.

SEK (000s)	Model based provisions	Provisions if one notch downgrade
Commercial and Business Banking	7,819	13,096
Personal Banking	48,169	70,845
Wholesale Banking	232	311
Other	2,265	3,562
Total	**58,485**	**87,814**

Note 30. Credit risk disclosures, cont.

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 estimates three macro-economic scenarios, a baseline together with an upside and a downside scenario.

The baseline macroeconomic and financial scenario is provided by Nordea Economic Research based on an Oxford Economics model. The macro economic forecast is a combination of modelling and expert judgement, subject to thorough checks and quality control processes. The 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 forecast period in the model is ten years and for periods beyond, a long-term average is used.

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. For 2019, the following weights have been applied: base 60%, adverse 20% and favourable 20%. The model results are assessed and, if needed, adjusted by Nordea's country responsible macro and financial analysts, using judgement based on previous similar episodes to ensure consistency across countries and asset prices. Adjustments are for instance needed when certain industries are impacted, or when sanctions are placed on individual countries, but changes have not yet been reflected in rating migrations.

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's economists, the data is also subject to a number of statistical tests.

Scenarios and provisions

		2020	2021	2022	Unweighted ECL, SEK (000s)	Probability weight	Model based provisions, SEK (000s)	Adjustment model based provisions, SEK (000s)	Total provisions, SEK (000s)
Favorable scenario	GDP growth, %	1.7	2.7	2.6	57,420	20%			
	Unemployment, %	6.7	6.3	5.7					
	Change in household consumption, %	1.8	2.6	2.1					
	Change in house prices, %	1.1	2.6	3.3					
Base scenario	GDP growth, %	1.4	1.9	2.3	58,362	60%	58,485	7,644	66,129
	Unemployment, %	6.9	6.7	6.3					
	Change in household consumption, %	1.4	2.0	2.2					
	Change in house prices, %	1.1	2.4	2.9					
Adverse scenario	GDP growth, %	1.1	1.3	1.7	59,918	20%			
	Unemployment, %	6.9	7.0	7.1					
	Change in household consumption, %	1.0	1.6	2.9					
	Change in house prices, %	1.0	1.8	2.9					

Note 31. Proposed distribution of earnings

After the company paid group contributions amounting to SEK 3,945,846,966 the following amount is available for distruibution by the Annual General Meeting of Shareholders:

Other reserve	21,526,556
Retained profit	21,226,460,477
Net profit for the year	4,119,592,190
Total	**25,367,579,223**

The Board of Directors proposes that these earnings are distributed as follows:	
To be carried forward:	**25,367,579,223**

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 2019
5521[1]	SE0001542341	2005-10-19	3.2500	2020-06-17	2020-06-17	SEK	49,565,500
5531[1]	SE0006991246	2015-04-08	1.0000	2020-04-08	2022-04-08	SEK	86,515,000
5532[1]	SE0007897186	2016-01-11	1.2500	2020-05-19	2021-05-19	SEK	73,300,000
5533[1]	SE0010442731	2017-10-11	1.2500	2020-09-20	2023-09-20	SEK	53,600,000
5703	SE0004269363	2011-10-19	3.4600	2020-10-19	2026-10-19	SEK	3,000,000
5704	SE0004297125	2011-11-09	3.5350	2020-11-09	2021-11-09	SEK	1,000,000
5705	SE0004329506	2011-12-02	3.1250	2020-12-02	2026-12-02	SEK	1,000,000
5716	SE0007158597	2015-06-01	1.8375	2020-06-01	2027-06-01	SEK	500,000
5717	SE0008015358	2016-02-05	1.5600	2020-02-15	2023-02-15	SEK	1,300,000
5718	SE0009414584	2016-12-15	1.6900	2020-12-15	2026-12-15	SEK	300,000
5720	SE0011088772	2018-05-02	1.8430	2020-05-02	2030-05-02	SEK	1,000,000
5724	SE0011762137	2018-10-08	1.8000	2020-10-08	2030-10-08	SEK	250,000
5725	SE0010599373	2018-10-15	2.2500	2020-10-15	2048-10-15	SEK	400,000
5534	SE0012230415	2014-02-26	3m Stibor + 0.31	2020-09-18	2024-09-18	SEK	44,750,000
5728	SE0013358405	2018-04-27	3m Stibor + 1.00	2020-10-22	2032-10-22	SEK	500,000
5721[2]	SE0011062926	2018-08-15	3m Stibor + 0.75	2020-01-16	2023-01-16	SEK	500,000
5722[2]	SE0011062934	2018-09-24	3m Stibor + 0.75	2020-03-16	2023-06-15	SEK	500,000
5723[2]	SE0011721232	2018-09-24[3]	3m Stibor + 0.75	2020-02-24	2023-05-24	SEK	1,000,000
5719[2]	SE0011167360	2018-04-27[3]	3m Stibor + 1.00	2020-03-27	2022-09-27	SEK	1,500,000
5726	SE0011426006	2019-01-21[3]	3m Stibor + 0.75	2020-03-02	2022-12-01	SEK	500,000
5727	SE0012256675	2019-02-15[3]	3m Stibor + 0.75	2020-02-17	2024-02-15	SEK	1,750,000

1) Tap issues.
2) Quarterly payment of interest first payment date in table.
3) Refers to the loan date.

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) 2019[1]
Total other bonds issued (converted into SEK):	**9,277,086**

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 2019
Loan 11	2019-12-30	SEK	3 months Stibor + 1.70	2024-12-30	2029-12-30	1,650,000

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, 20 February 2020

Nicklas Ilebrand
Chariman

Maria Härdling

Nils Lindberg

Peter Dalmalm

Elisabeth Olin

Marte Kopperstad

Per Långsved

Magnus Montan

Michael Skytt
CEO

Our audit report was submitted on 21 February 2020

Öhrlings PricewaterhouseCoopers AB

Catarina Ericsson
Authorised Public Accountant
Auditor in charge

Frida Main
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

Opinions

We have audited the annual accounts of Nordea Hypotek AB (publ) for the year 2019 except for the corporate governance statement on pages 22–26.

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 2019 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. Our opinions do not cover the corporate governance statement on pages 22–26. The statutory administration report is consistent with the other parts of the annual 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 annual accounts are consistent with the content of the additional report that has been submitted to the 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 matters 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 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.

Key audit matter	How our audit addressed the Key audit matter
Impairment of loans to customers	
A high level of judgement is involved in determining the appropriate impairment loss to be recognised. For individually assessed loans, judgement is involved in determining whether a loan has a loss event and in assessing the loan loss amount. Expected credit losses (ECL) 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. The company 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. 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. We obtained an understanding of the loan origination process, credit risk management and the impairment allowances for loans and advances customers. We had a special focus on ECL model updates and its key parameters. We involved our modelling specialists to assess the methodology, challenge the underlying assumptions and to independently reperform the calculation for a sample of loans. We assessed the disclosures related to impairment of loans.

Responsibilities of the Board of Director's and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and that they give a fair presentation in accordance with the Annual Accounts Act for Credit institutions and Securities Companies. 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 intend 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, we have also audited the administration of the Board of Director's and the Managing Director of Nordea Hypotek AB (publ) for the year 2019 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 Director's 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 Director's 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 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. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets 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 administration is available on Revisorsinspektionen's website: www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor's report.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 22–26 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and are in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies.

Öhrlings PricewaterhouseCoopers AB, 113 97 Stockholm, was appointed auditor of Nordea Hypotek AB (publ) by the general meeting of the shareholders on the 11 March 2019 and has been the company's auditor since the 12 March 2015.

Stockholm 21 February 2020

Öhrlings PricewaterhouseCoopers AB

Catarina Ericsson
Authorized Public Accountant
Auditor in charge

Frida Main
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 Business 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

Marte Kopperstad,b 1979
Nordea Bank Abp
Strategic Leader in Products &
Development

Per Långsved, b 1976
Nordea Bank Abp
Head of Banking, Sweden

Magnus Montan, b 1972
Nordea Bank Abp
Strategic Leader in Business Banking

Auditor

Öhrlings Pricewaterhouse Coopers AB

Catarina Ericsson
Authorised Public Accountant

Frida Main
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)

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