

Annual Report 2003  
**Nordea Hypotek AB (publ)**

*Nordea Hypotek AB (publ) belongs to the Nordea Group. Nordea is the leading financial services group in the Nordic and Baltic Sea region and operates through three business areas: Retail Banking, Corporate and Institutional Banking, and Asset Management & Life. The Nordea Group has almost 11 million customers and 1,240 bank branches. The Nordea Group is a world leader in Internet banking, with 3.7 million e-customers. The Nordea share is listed in Stockholm, Helsinki and Copenhagen.*

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## Statement by the President

### Continued volume and earnings growth

For Nordea Hypotek the year 2003 was yet another consecutive year of successful operations. The trend of volume growth through increased market share in a growing overall market continued and operating profit achieved a new record level. Moreover, new loan losses in 2003 were almost negligible and were below recoveries.

### Increased lending generated record income

Overall lending from the Swedish mortgage institutions increased at a pace that exceeded not only my expectations, but also the expectations of several analysts one year ago. Total lending by mortgage institutions (including securitisations) amounted at the end of the year to SEK 1,295 bn, an increase during the year of SEK 84 bn or 6.9%. Behind these figures lie a significant expansion of lending to self-contained houses and tenant-owner apartments, which increased by just over SEK 88 bn – an increase of no less than 12.2% – while loans to multi-family houses declined by SEK 5 bn. An important reason for the development curves in the different sectors pointing in different directions is the continued conversion of apartment with right of tenancy to tenant-owner apartments in the major cities which, among other things, meant that previous lending for multi-family houses was partly converted to loans to the individual buyers of tenant-owner apartments. Other contributory factors behind the robust increase of household loans are low interest rates and rising house prices. I find it difficult to believe that housing loans can see continued growth on a par with last year for an extended period, even if the currently low level of interest should persist.

Nordea Hypotek's lending increased by a total of 9.8%, of which self-contained houses and tenant-owner apartments comprised no less than 13.9%. Regarding multi-family houses we achieved, despite an overall decline in the market, an increase of 3.7%. Our strong position in municipality-related lending was strengthened further. We increased our market share in all sectors and, altogether, our market share at the end of the year was 16.4%.

Net interest income, the most vital source of earnings for us, increased by 6.3%. Net interest

income was positively influenced by the growing lending volume while a negative effect was encountered due to lower interest rates during the year, and this meant a decline in the yield from shareholders' equity. Primarily in the household sector price competition sharpened further during the year with somewhat shrinking margins in connection with new lending and conversions as the result, which also contributed to net interest income increasing at a lower pace than lending volume.

Operating income increased for the fourth year in a row to a new record level of SEK 2,179 m, an increase of SEK 131 m.

### Credit quality

Gross volume of impaired loans is lower today in absolute terms than five years ago – at the same time as lending during the same period increased by 68% – and our accumulated loan losses during the most recent five-year period are less than zero. I see this as confirmation that our credit policy, our tools of analysis and follow up are in compliance with the rigorous requirements for good credit quality. This does not mean that we can rest on our laurels and regard the developments that have so far taken place as a sure indication of the future. Moreover, in recognition of the general conditions in the form of, among other things, the level of interest rates and price trend have been favourable from the standpoint of credit risk, we continue with the assistance of other units within Nordea, to carefully monitor individual customers and we follow up, analyse and react to the effects of a variety of market and macroeconomic development tendencies and scenarios. We strive to maintain our leading position in this area.

### Interest rates are fluctuating

The Riksbank's repo rate of interest was at the beginning of last year 3.75%. After three reductions during the spring and summer the interest rate from July was unchanged at 2.75% for the rest of the year, which was the lowest level seen in modern time. Our wholly floating interest rate was lowered at the same time and to the same extent as the repo rate of interest and, where homes are concerned, amounted at the end of the year to 4.40%, which means a reduction during the year of one percentage unit.

Fixed interest rates fluctuated strongly during the year. We changed our advertised rates for housing loans to private individuals on no less than 38 occasions. Our five-year rate of interest for home loans was at the beginning of the year 5.65%. It was at its highest at 5.90% (November) and at its lowest 4.70% (June), and was at the end of the year 5.45%. Periodically, certain several-year fixed interest rate were lower than the floating rate of interest; our biennial interest rate for homes was for example in June 4.00%, which is 0.65 percentage units lower than the floating interest at that time and 0.15 percentage units lower than the rate eight months later, at the time of writing. This illustrates that it is difficult to find simple rules of thumb for which the interest-fixing period is most advantageous for the borrowers.

Our customers are sensitive to changes in the difference between floating and fixed interest rates. This is clearly evidenced through the proportion that chose the floating rate (including three months' roll-overs) in connection with new lending or loan conversions varying monthly between 23 and 50 per cent during the year. At the end of the year the floating portion of our lending stock to households was in the region of 25 per cent.

Percentage calculations can sometimes be misleading. One can easily get the impression that a change of interest by one percentage unit is quite marginal and has little significance. It is worth mentioning that an existing reduction from 5 to 4 percentage units means that the annual interest expense for the borrower falls by 20%, which for an ordinary loan of SEK one million represents an amount equal to SEK 10,000.

### **Continuously rising housing prices and weakened office market**

Housing prices continued on the whole to rise, however with considerable regional differences. On a national level there was an increase in the prices of self-contained houses according to Statistics Sweden by 7% on an annual basis. In metropolitan areas great differences in the price trend could be observed; in Stockholm prices increased by only 1% while prices in Göteborg and Malmö rose by 11% and respectively 13%.

There are no official statistics for tenant-owner apartments but according to the major real estate agents prices increased during the year by around 15% on average throughout the country. Even here the biggest price increases were in Göteborg and Malmö while the increases in Stockholm and particularly in the inner city area took place at a much more modest pace.

According to the National Board of Housing, Building and Planning, housing construction in the county of Stockholm declined by 20% while for the rest of the country there was an increase of 30%. In total this means a smaller increase and that production of around 21,000 new dwellings was started. In an international comparison housing construction in Sweden is still at a low level. In the majority of urban communities in the country there is a housing shortage, which is why it is essential to speed up the rate of housing construction.

In the commercial property market the general picture is that well-situated business premises have low vacancy rates and stable rent levels. For office premises however the market continued to weaken during the year with falling rents and increased vacancy rates. This is particularly true for Stockholm, where vacancies in the inner city are now estimated to be over 10% and in certain suburban areas are considerable higher. Unanimous assessments indicate that this situation is unlikely to improve very much this year. Despite the negative trend property transactions last year assumed record proportions, with a clear dominance of foreign buyers. It is also worth mentioning that in spite of the decline in the office premises market, most of the major real-estate companies are still economically viable and have strong cash flows, which has also had an effect of the stock market in the form of higher share prices.

### **Covered bonds ready**

As expected the Swedish parliament, the Riksdag decided in November 2003 without much debate to introduce a law regarding covered bonds, which enters into force 1 July 2004. The new law provides us with similar conditions to those already prevailing in several other European countries, and facilitates access to a bigger circle of investors and therefore also more secure long-

term conditions for refinancing. The volume of Swedish mortgage bonds is the third largest in Europe and we anticipate growing international interest for our bonds once the new law is in place.

### **An important instrument in a big orchestra**

By way of introduction I touched on the issue of our continued successes that have resulted in increased market shares in all sectors. Behind these successes lie not only competitive rates of interest and other loan terms. What is of at least equal importance is good accessibility via our various information and distribution channels, a well-developed cooperation with estate agents as well as a dedicated, professional and customer-friendly treatment on the part of Nordea's advisers and account managers. Investment in a house, apartment or a business property is for most customers a very major and important event, which has prolonged consequences for their economy and well-being. Financing is in this context of course a matter of great importance, but is seldom the only service that is required. It is therefore a crucial advantage for the customers that

our mortgage loans in one and the same package can be integrated with personal advisory services and other financial services that the customer requires, and which Nordea offers via branch offices, the telephone service and the internet. I believe that this cross-fertilization between different units and products within Nordea is the main attributor to our successes.

I think one can therefore describe Nordea Hypotek as "an important instrument in a big orchestra".

### **Thank You**

In conclusion I would like to thank our old and new customers and investors as well as all employees of Nordea for their confidence in us, which in a variety of ways has contributed to the company's so far best result.

Stockholm, February 2004

Leif Ronander  
President

## Five-year summary

### Income Statement

SEKm	2003	2002	2001	2000	1999
Net interest income	2,138	2,011	1,848	1,553	1,174
Net commission income	49	42	39	32	36
Other operating income	2	2	0	0	0
<b>Total operating income</b>	<b>2,189</b>	<b>2,055</b>	<b>1,887</b>	<b>1,585</b>	<b>1,210</b>
Personnel expenses	-4	-4	-7	-21	-27
Other operating expenses	-10	-13	-15	-16	-19
<b>Total operating expenses</b>	<b>-14</b>	<b>-17</b>	<b>-22</b>	<b>-37</b>	<b>-46</b>
<b>Profit before loan losses</b>	<b>2,175</b>	<b>2,038</b>	<b>1,865</b>	<b>1,548</b>	<b>1,164</b>
Loan losses, net	4	10	6	-1	-14
<b>Operating profit</b>	<b>2,179</b>	<b>2,048</b>	<b>1,871</b>	<b>1,547</b>	<b>1,150</b>
Appropriations	-1	-10	3	6	375
Tax on profit for the year	-610	-571	-525	-435	0
<b>Net profit for the year</b>	<b>1,568</b>	<b>1,467</b>	<b>1,349</b>	<b>1,118</b>	<b>1,525</b>

### Balance sheet at 31 December

SEKm	2003	2002	2001	2000	1999
<b>Assets</b>					
Loans to credit institutions	103	1	76	273	73
Lending	212,108	193,133	176,306	164,802	150,074
Bonds and other interest-bearing securities	-	-	-	810	2,080
Other assets	1,223	1,489	3,579	3,722	3,769
<b>Total assets</b>	<b>213,434</b>	<b>194,623</b>	<b>179,961</b>	<b>169,607</b>	<b>155,996</b>
<b>Liabilities and shareholders' equity</b>					
Loans from credit institutions	60,684	62,847	66,924	49,134	30,205
Debt securities in issue	128,959	116,391	99,042	105,394	109,612
Other liabilities	13,306	6,606	4,916	6,400	8,553
Subordinated liabilities	940	40	340	440	940
<b>Total liabilities</b>	<b>203,889</b>	<b>185,884</b>	<b>171,222</b>	<b>161,368</b>	<b>149,310</b>
<b>Shareholders' equity</b>	<b>9,545</b>	<b>8,739</b>	<b>8,739</b>	<b>8,239</b>	<b>6,686</b>
<b>Total liabilities and shareholders' equity</b>	<b>213,434</b>	<b>194,623</b>	<b>179,961</b>	<b>169,607</b>	<b>155,996</b>

## Ratios and key figures

	2003	2002	2001	2000	1999
Return on average equity, % <sup>1</sup>	16.6	16.0	15.5	15.4	14.9
Return on total capital, %	1.1	1.1	1.1	0.9	0.8
Investment margin, %	1.04	1.08	1.06	0.94	0.81
Cost/income ratio before loan losses, %	0.7	0.8	1.2	2.3	3.8
Cost/income ratio after loan losses, %	0.5	0.3	0.9	2.4	5.0
Reserves for impaired loans	39.2	44.5	42.1	38.0	33.3
Non-performing loans ratio, %	0.06	0.05	0.07	0.09	0.10
Loan loss level, %	-0.002	-0.006	-0.004	0.001	0.01
Risk-weighted amount, SEKm	106,980	94,774	85,483	79,086	66,905
Capital base, SEKm	10,453	8,755	9,063	8,671	7,626
Total capital ratio, %	9.77	9.24	10.60	10.96	11.40
Tier 1 capital ratio, %	8.92	9.22	10.22	10.42	9.99
Average number of employees	5	6	14	44	60

<sup>1</sup> Up until 2000 the calculations are based on the operating profit minus 28 percent standard tax in relation to average shareholders' equity and 72 percent of retained profits.

## Definitions

### Capital base

The capital base constitutes the numerator in calculating the capital ratio. It consists of the sum of tier 1 capital (see separate definition) and supplementary capital (consisting of subordinated debenture loans).

### Cost/income ratio after loan losses

Operating expenses plus loan losses as a percentage of operating income.

### Cost/income ratio before loan losses

Operating expenses as a percentage of operating income.

### Investment margin

Net interest income as a percentage of average total assets.

### Loan loss level

Loan losses as a percentage of the opening balance of lending.

### Non-performing loans ratio

Net non-performing loans as a percentage of the lending.

### Reserves for impaired loans

Reserves for possible loan losses in relation to gross impaired loans.

### Return on average equity

Net profit for the year as a percentage of equity, quarterly average.

### Return on total capital

Operating profit before tax as a percentage of average total assets.

### Risk-weighted amounts

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.

### Tier 1 capital

Part of the capital base (see definition). Consists of shareholders' equity.

### Tier 1 capital ratio

Tier 1 capital as a percentage of risk-weighted amounts.

### Total capital ratio

Capital base as a percentage of risk-weighted amounts.

## Board of Directors' report

*The Board of Directors and the President of Nordea Hypotek AB (publ) (Corp. reg. no. 556091-5448) hereby presents the Annual Report for 2003. The company is a wholly owned subsidiary of Nordea Bank Sweden AB (publ) (Corp. reg. no. 502010-5523), which forms a part of the Nordea Group with Nordea Bank AB (publ) (Corp. reg. no. 516406-0120) as parent company. It has been decided that Nordea Bank Sweden AB (publ) are to merge with Nordea Bank AB (publ). The merger will be effective as of 1 March 2004.*

### Operations

The company is active in the Swedish market and grants loans, primarily long-term in nature, to private individuals, individual businessmen, municipalities and other legal entities through the parent bank's network of bank branches. The purpose of the lending is primarily to finance properties, agriculture and municipal activities. The central emphasis is housing financing. Collateral consists mainly of mortgages on residential property or tenant-owner apartments, or against municipal guarantees.

### Result

Operating profit before appropriations increased to SEK 2,179m (2,048), an increase of 6.4 percent.

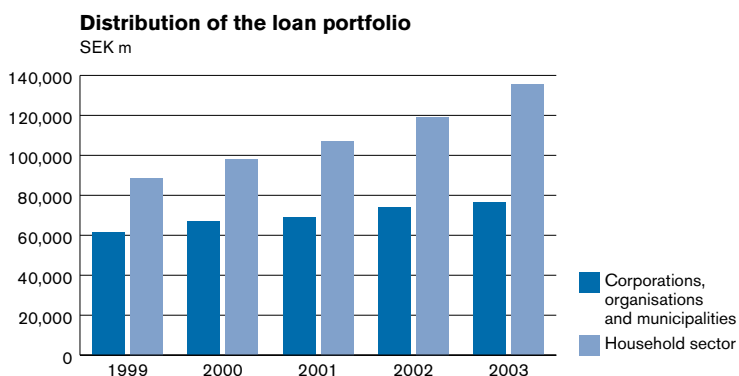
This year's net interest income amounted to SEK 2,138m (2,011).

Return on equity was 16.6 percent (16.0), calculated as net profit for the year in relation to the quarterly average shareholders' equity.

Like in previous years, Nordea Hypotek's parent company has performed services that have not been debited.

### Lending

Lending during the year increased by 9.8 percent to SEK 212,108m at year-end.



### Lending to corporations, organisations and municipalities

The lending to legal entities increased by SEK 2,553m (3.5 percent) to SEK 76,506m at the end of the financial year.

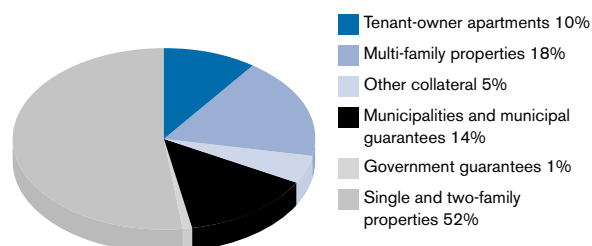
### Lending to personal customers

The lending to households increased by SEK 16,422m (13.8 percent) to SEK 135,602m.



Over the year, 101,564 loans (80,359) totalling SEK 35,923m (27,506) were disbursed. On 31 December 2003, there were 446,155 (411,944) loans outstanding.

#### Lending distribution in collateral

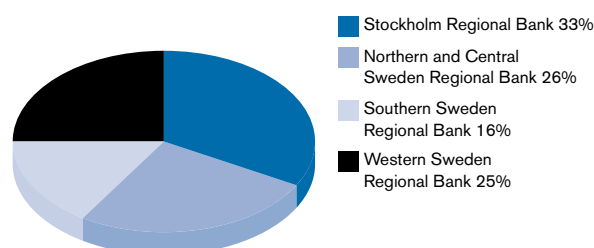


#### Mortgage limits

The company applies the following loan to value ratios:

Single and two-family properties	75%
Multi-family properties	75%
Office and commercial properties	70%
Agricultural properties	65%
Tenant-owner apartments	75%

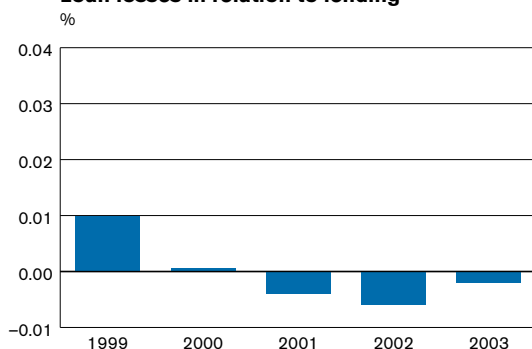
#### Lending by geographical area



#### Loan losses

From previous years recovered, written-off and reserved amounts exceeded new incurred and expected losses by SEK 4m (10). On closing day, the provision for expected loan losses amounted to SEK 82m (81).

#### Loan losses in relation to lending



#### Currency policy

During 2003, the company has pursued a policy of not accepting any exposure to currency risks. Consequently, the company had no such exposure at the balance sheet date. As is explained below, the company has as from the fiscal year 2004 changed its reporting currency to Euro. As a result, currency risks will appear in the future since the company has the majority of its income, costs and dealings with counterparties in Swedish currency. The company's assets and liabilities are currency-matched, and therefore currency risk primarily pertains to the share capital and items of income and cost that originate in Swedish currency. The currency risks are limited through an active management of the positions.

#### Funding

The company issued fixed-rate bonds with maturities of more than one year for SEK 60bn (43) in the Swedish market. The issues are carried out on an ongoing basis (tap issues) in current benchmark bonds. The company has agreements with six market makers that ensure high liquidity in the bonds. During the year the company has issued a subordinated debenture loan of SEK 0.9 bn, which in its entirety was endorsed by the Parent Company.

In addition, the counter value of SEK 3.6bn (2.1) was issued in the international market under the company's EMTN program, hedged in Swedish kronor. The frame for this programme is EUR 5bn. The total number of outstanding bonds at year-end amounted to a nominal value of SEK 153.2bn, of which Swedish bonds accounted for SEK 147.1bn, EMTN for SEK 5.8bn, and Swedish retail bonds for SEK 0.3bn.

#### International rating

The company's ratings did not change during the year. The rating from Moody's Investors Service for long-term funding is Aa3, and for short-term, P-1. The company's rating from Standard & Poor's is A-1 for short-term funding.

#### Risk management

Nordea Hypotek is entirely integrated with Nordea's risk management system. Group Credit and Risk Control is in charge of the drafting of rules and guidelines for risk assessment, central control and reporting for Nordea Hypotek and for Nordea as a whole. It is the customer responsible units in the parent bank that are primarily responsible to identify and control the risks in Nordea Hypotek's business.

Nordea Hypotek's Board of Directors is ultimately responsible for limiting and monitoring the company's risk. The Board of Directors approves all main principles, instructions and exposure restrictions. The Board of Directors is informed of exposure and risk management through regular reports.

### **Credit risk**

Credit risk is defined as the risk that the company's counterparty does not fulfil agreed obligations and that any collateral deposited does not cover the company's claim. Most of the credit risk in respect of Nordea Hypotek arises from lending, but also in connection with other types of present and future claims, such as in relation to counterparties in funding. Credit risk can also arise in connection with off-balance-sheet commitments, such as unutilised credit commitments and trading in financial instruments, like derivatives. Nordea's definition of credit risk includes transfer risk and settlement risk.

Risk limitation is primarily accomplished by maintaining quality and discipline in the credit process. The credit policy, and the credit and other instructions provide support and guidance in credit operations.

### **Risk management and control**

The Group has a special decision-making process to establish credit limits. For most corporate engagements, a credit limit is set, establishing conditions for lending, the effect of which is to limit the credit risk.

One account manager in the parent bank is appointed for each customer account. This person is responsible for ensuring that the credit extended is adapted to the individual customer's repayment capacity. Credit risk is controlled through monitoring the customer's financial development, compliance with agreements, and in that any lessening of the customer's ability to pay triggers measures that restrict credit risk.

A rating is also set to customers who are legal entities, in accordance with Nordea's internal rating system. If the repayment ability is deemed to have deteriorated in respect of a credit exposure, it is categorised as substandard. Besides normal monitoring, an action plan is prepared for how a possible loan loss should be minimised.

If it is considered probable that a loan will not be fully paid, either by the customer, through assets pledged or by other sources, the loan is considered impaired. A provision is set up for the amounts not expected to be received. Exposures that are considered substandard or doubtful are reviewed quarterly with regard to their development, outlook, future repayment ability, and the possible need and size of provisions.

In the past few years, Nordea has developed a framework for quantitative measurement of credit risks. The core of this framework is Nordea's internal rating and scoring models that rank the customer's repayment ability. The customer rating is used when calculating economic profit and economic capital.

### **Analysis of credit risk**

#### *Lending*

Nordea Hypotek's lending increased by 9.8 percent in 2003 to SEK 212,108m (193,133). Lending to the corporate sector accounted for 36 percent (38) of the exposure, thereof the public sector (state and municipal) 15 percent (17). The household sector's percentage of exposure was 64 percent (62). The distribution of the lending on maturities and types of collateral is shown below in note 13. The company only mortgages properties in Sweden.

Credit commitments and unutilised credit facilities amounted to SEK 767m (3,869).

As the previous year, the company did not have any assets in the form of bonds or other interest-bearing securities at the balance sheet date. The credit risk exposure in derivatives amounted to SEK 367m (199).

#### *Loans to credit institutions*

Lending to credit institutions amounted at the end of the year to SEK 103m (1), all of which was placed in Group companies for terms of less than one year.

### **Impaired loans**

Impaired loans, gross amounted to SEK 210m (181), of which SEK 185m (160) were loans to households. The net amount, after a SEK 82m (81) deduction for provisions for impaired loans, was SEK 128m (100), corresponding to 0.06 percent (0.05) of the total volume of loans outstanding.

**Transfer risk**

Transfer risk is a credit risk that arises in connection with the transfer of money between countries and that is influenced by changes in the economic and political landscape, which can lead to difficulties in transferring liquid funds and make it more difficult for counterparties to fulfil their commitments. The credit risk in connection with transfer risk is assessed with the help of an external institution that continuously assesses different countries' economic and political status.

**Off-balance-sheet commitments**

Nordea Hypotek's business operations include off-balance-sheets commitments. Such items include commercial products like credit commitments, etc., as well as financial commitments in the form of derivatives. The latter concern particularly agreements to exchange currencies (currency forwards) and agreements about exchanges of interest payments (swaps). Total exposure to counterparty risk pertaining to off-balance-sheet commitments amounted to SEK 164m (968) at the end of the year, measured as the risk-weighted amount in accordance with capital adequacy rules.

**Market risk**

Nordea defines market risk as potential loss in the form of reduced market value resulting from movements in financial market variables, such as interest rates, currency exchange rates, equities and commodities prices. Market risk is divided into interest rate, currency, equities and commodity risk.

Nordea Hypotek's market risk exposure is primarily connected to the company's funding.

The Board of Directors decides risk levels, methods of risk measurement and limits regarding total market risk.

Exposure to interest-rate risk arises when there is a lack of balance in the interest rate structure between assets and liabilities and corresponding off-balance-sheet items. The company limits its exposure to interest-rate fluctuation by matching the interest rate and due date structure for assets and liabilities. The company's interest risk is analysed on a daily basis. "Interest risk" refers

here to the change in the value of the portfolio that arises in connection with a parallel shift of the yield curve by one percentage point. On closing day, the interest risk amounted to SEK 3m (16) for interest-rate decline.

Exposure to currency risk arises when assets and liabilities in the same currency are of unequal amounts. See further under the heading Currency policy, above. Nordea Hypotek had at the balance sheet date no currency risk exposures. Nor does the company have any exposures related to equity or commodities.

**Operational risk**

Nordea defines operational risk as the risk of incurring losses, including damaged reputation, due to deficiencies or errors in internal processes and control routines or by external events and relations that affect operations.

Solid internal control and quality management, consisting of a risk-management framework, leadership and skilled personnel, is the key to successful operational risk management.

Since financial services are to a great extent information processing, considerable emphasis is placed on information security in the processes. Nordea Hypotek share the computer system and the majority of other processes with the parent bank. Preparedness planning and increased readiness to act in crisis management are key considerations for the management of larger incidents. The physical safety of the Group's employees and customers is also high in priority.

**Environmental concern**

In accordance with the Nordea Group's principles, Nordea Hypotek has committed itself to pursuing a sustainable business operation by combining economic performance with social and environmental responsibility. Concern for the environment shall guide the efforts to reduce the negative and increase the positive environmental impact of the company's operations.

The Group will adopt an environmental policy that should serve as a guideline for how the units within the Group are to perform the environmental review of their daily operations. This is also to

reduce the costs and business risks related to these issues. The environmental policy should guide both the financial operations and the choice of contractors.

### **Legal proceedings**

There are no disputes or legal proceedings in which material claims have been raised against Nordea Hypotek AB (publ).

### **Change of reporting currency**

On account of the Parent Company's impending merger with Nordea Bank AB (publ), which has occasioned a change of reporting currency to Euro, it was decided by an Extraordinary General Meeting in Nordea Hypotek on 5 November 2003 to amend the articles of association so that Euro will be the reporting currency as from the fiscal year 2004. The Swedish Financial Supervisory Authority has approved the amendment. The company's share capital, registered with the Swedish Patent- and Registration Office, subsequently amount to 11 016 855.789358 EUR, and the nominal amount per share is 110.168558 EUR.

### **IAS implementation**

Nordea will change to International Financial Reporting Standards (IFRS) as basis for the Group's accounting policies when preparing the consolidated financial statements for 2005.

For 2003 and for 2004 the Annual report will be prepared in accordance with the local rules as explained in the notes to the financial statements.

The major adjustments to be included in the accounting policies in 2005 include implication of the final versions of IFRS 32 and 39 on financial instruments, and of IAS 19 on employee benefits.

The International Accounting Standards Board (IASB) has indicated that the standards to be used in 2005 should be final at the end of the first quarter of 2004. Nordea will participate in an ongoing alignment process of the more detailed implementation of the standards into the accounting policies of the European financial sector. This alignment process will continue even after 2005.

### **Outlook for 2004**

Economic growth is expected to increase in Sweden in 2004, and private consumption is expected to continue to rise. Short-term interest rates are not expected to turn upwards until late this year, at the earliest. The effect in areas important to the company, such as demand for housing and premises, appears to be limited. The demand for self-contained houses and tenant-owner apartments was very strong already last year. This level of demand is expected to remain during the year in most locations, partly as a result of persistent low housing construction and expectations of continued low interest rates. Housing prices are expected to continue to rise also in 2004. Conversions of multi-family properties into tenant-owner apartments will probably decrease as a result of the ban on conversion of municipal properties in Stockholm and a certain saturation in the market in other locations. The demand for office space is fairly weak, and is not expected strengthen significantly during this year, in spite of the anticipated economic upturn. The turnover of commercial properties is nevertheless expected to remain high. All in all, a moderate increase in total lending is expected, primarily stemming from the household sector.

### **Distribution of earnings**

The proposed distribution of earnings is provided on page 29.

# Income Statement

SEK (000s)	Note	2003	2002
<b>Operating income</b>			
Interest income	2	10,269,342	10,270,671
Interest expenses	2	-8,131,093	-8,259,993
<b>Net interest income</b>	2	<b>2,138,249</b>	<b>2,010,678</b>
Commission income	3	64,581	56,112
Commission expenses	4	-15,566	-13,906
Other operating income	5	2,165	2,101
<b>Total operating income</b>		<b>2,189,429</b>	<b>2,054,985</b>
<b>Operating expenses</b>			
<b>General administrative expenses</b>			
Personnel expenses	6	-4,187	-3,775
Other administrative expenses	7	-10,210	-13,278
Depreciation and write-down of tangible fixed assets	8	-59	-65
<b>Total operating expenses</b>		<b>-14,456</b>	<b>-17,118</b>
<b>Profit before loan losses</b>		<b>2,174,973</b>	<b>2,037,867</b>
Loan losses, net	9	3,933	10,064
<b>Operating profit</b>		<b>2,178,906</b>	<b>2,047,931</b>
Appropriations	10	-1,080	-10,450
Tax on profit for the year	11	-609,773	-570,481
<b>Net profit for the year</b>		<b>1,568,053</b>	<b>1,467,000</b>
Net commission income	3, 4	49,015	42,206

## Balance sheet

31 December, SEK (000s)	Note	2003	2002
<b>Assets</b>			
Loans to credit institutions	12	102,837	692
Lending	13, 14	212,107,809	193,133,056
Tangible assets	15	157	217
Other assets	16	308,713	414,090
Prepaid expenses and accrued income	17	914,066	1,074,470
<b>Total assets</b>		<b>213,433,582</b>	<b>194,622,525</b>
Assets pledged		None	None
<b>Liabilities and shareholders' equity</b>			
Loans from credit institutions	18	60,684,096	62,847,330
Debt securities in issue	19	128,959,307	116,390,443
Other liabilities	20	10,266,075	3,271,655
Accrued expenses and prepaid income	21	3,039,523	3,334,169
Subordinated liabilities	22	940,000	40,000
<b>Total liabilities</b>		<b>203,889,001</b>	<b>185,883,597</b>
<b>Shareholders' equity</b>	23		
<b>Restricted equity</b>			
Share capital		100,000	100,000
Statutory reserve		20,000	20,000
<b>Unrestricted shareholders' equity</b>			
Retained profit		7,856,528	7,151,928
Net profit for the year		1,568,053	1,467,000
<b>Total shareholders' equity</b>		<b>9,544,581</b>	<b>8,738,928</b>
<b>Total liabilities and shareholders' equity</b>		<b>213,433,582</b>	<b>194,622,525</b>
Contingent liabilities		None	None
Commitments	24	37,182,094	38,264,218
<b>Other notes</b>			
Accounting policies	1		
Credit portfolio	14		
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## Shareholders' equity

SEK (000s)	2003	2002
<b>Restricted</b>		
Share capital (100,000 shares, each with a nominal value of SEK 1,000)	100,000	100,000
Statutory reserve	20,000	20,000
	<b>120,000</b>	<b>120,000</b>
<b>Unrestricted</b>		
Retained profit	7,856,528	7,151,928
Net profit for the year	1,568,053	1,467,000
	<b>9,424,581</b>	<b>8,618,928</b>
<b>Total</b>	<b>9,544,581</b>	<b>8,738,928</b>

<b>Movements in shareholders' equity, 2002</b>	Share capital	Statutory reserve	Unrestricted	Total
Balance at beginning of year	100,000	20,000	8,618,880	8,738,880
Group contributions paid	–	–	–2,037,434	–2,037,434
Tax effect of group contributions	–	–	570,481	570,481
Net profit for the year	–	–	1,467,000	1,467,000
<b>Balance at year-end</b>	<b>100,000</b>	<b>20,000</b>	<b>8,618,928</b>	<b>8,738,928</b>

<b>Movements in shareholders' equity, 2003</b>	Share capital	Statutory reserve	Unrestricted	Total
Balance at beginning of year	100,000	20,000	8,618,928	8,738,928
Shareholders' contributions received	–	–	800,000	800,000
Group contributions paid	–	–	–2,170,000	–2,170,000
Tax effect of group contributions	–	–	607,600	607,600
Net profit for the year	–	–	1,568,053	1,568,053
<b>Balance at year-end</b>	<b>100,000</b>	<b>20,000</b>	<b>9,424,581</b>	<b>9,544,581</b>

## Cash flow statement

SEK (000s)	2003	2002
<b>Operating activities</b>		
Operating profit	2,178,906	2,047,931
Adjustment for items not included in cash flow	-126,967	76,603
Appropriations affecting cash flow	-1,080	-10,450
<b>Cash flow from operating activities before changes in ordinary business assets and liabilities <sup>1</sup></b>	<b>2,050,859</b>	<b>2,114,084</b>
Change in ordinary business assets	-18,878,763	-14,741,608
Change in ordinary business liabilities	4,698,620	-3,122,874
<b>Cash flow from operating activities</b>	<b>-12,129,284</b>	<b>-15,750,398</b>
<b>Financial operations</b>		
Change in debt securities in issue	12,568,863	17,348,562
Shareholders' contributions received	800,000	500,000
Group contributions paid	-2,037,434	-1,873,725
Change in subordinated liabilities	900,000	-300,000
<b>Cash flow from financial operations</b>	<b>12,231,429</b>	<b>15,674,837</b>
<b>Cash flow for the year</b>	<b>102,145</b>	<b>-75,561</b>
Liquid assets at the beginning of the year	692	76,253
Liquid assets at the end of the year <sup>2</sup>	102,837	692
<b>Change</b>	<b>102,145</b>	<b>-75,561</b>
<b><sup>1</sup> Interest payments</b>		
Interest payments received	10,425,388	10,282,539
Interest payments made	-8,473,961	-8,168,741
<b><sup>2</sup> Additional information</b>		
Liquid assets include loans to credit institutions, payable on demand	102,837	692



# Notes to the financial statements

## Note 1

### Accounting policies

#### Basis for presentation

The accounts are prepared in accordance with the Swedish Act on Annual Accounts of Credit Institutions and Securities Companies (1995:1559), the regulations of the Swedish Financial Supervisory Authority (FFFS), the recommendations of the Swedish Financial Accounting Standards Council (RR) and the interpretations by the RR's Standing Interpretations Committee.

The application of FFFS in certain cases takes precedence over the recommendations and interpretations of the Swedish Financial Accounting Standards Council. Departures have not had any significant effect on the financial statements.

In preparing the annual report, FFFS 2002:22 has been applied. Information about the transition to International Financial Reporting Standards (IFRS) in accordance with FFFS 2003:11 is presented in the Board of Directors' report.

#### Changed accounting policies

In all material respects the accounting policies and the basis for calculations are unchanged in comparison to the previous year's annual report. On 1 January 2003, a number of the Swedish Financial Accounting Standards Council's recommendations entered into force, of which the following affect Nordea Hypotek AB (publ): RR22 Presentation of Financial Statements, RR25 Segment reporting, RR26 Events after the balance sheet date. Implementing these has mainly affected the presentation and disclosure of the financial items. The comparative figures have been adjusted accordingly.

#### Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles in certain cases requires the use of estimates and assumptions by management, for instance in provisioning for loan losses, fair value adjustments and actuarial calculations of pensions. These estimates and assumptions affect the reported amounts of assets, liabilities and commitments, as well as income and expenses in the financial statements presented. Actual outcome can later to some extent differ from the estimates and the assumptions made.

#### Assets and liabilities denominated in foreign currencies

Assets and liabilities denominated in foreign currencies are translated at the year-end exchange rate, corresponding to the average of official buying and selling rates at closing. Forward positions in foreign currencies have been valued at the current rate for forward contracts with the equivalent remaining maturity.

When currency-related derivative instruments are used for currency hedging, the currency hedging instrument and the corresponding hedged item are translated at the year-end rates.

#### Hedge accounting

Deferral hedge accounting is applied to hedge holdings of financial instruments which are not valued at fair value.

Hedge accounting is applied to all derivatives. An example of this is derivatives entered into to neutralise the interest rate risk in fixed-interest lending or borrowing. The balance sheet

item is according to applicable rules reported at acquisition value, and the derivatives need to be treated commensurately to assure a true and fair view in the accounting.

The hedging and hedged positions are reported without taking into account changes in values provided that changes in fair value for the hedging and the hedged positions essentially offset each other in terms of the amounts involved. Any additional unrealised losses are reported immediately.

#### Reporting of business transactions

Business transactions are reported at the time that risks and rights are transferred between the parties. Trade date accounting is applied for transactions in the money and bond markets, and in the stock and currency markets.

Assets and liabilities are in most cases reported in gross amounts. The netting of assets and liabilities is used, however, if a statutory right to offset the commitments exists and settlement occurs simultaneously.

Receivables and payables arising from the sale and purchase of securities are also reported net in those cases where the transaction is settled through a clearinghouse.

#### Financial assets and liabilities

##### Financial fixed assets

Loan receivables for which there is an intent and ability to hold until maturity constitute financial fixed assets.

All of Nordea Hypotek AB's (publ) loan receivables belong to this category.

##### Financial liabilities

Financial liabilities are reported at acquisition value or amortised cost. This implies that initially the amount is recognised equal to the proceeds received, net of transaction costs incurred. In subsequent periods, accrual accounting is applied to the difference between the proceeds (net) and the redemption value together with interest and any fees over the period of the borrowings. Loans from credit institutions payable on demand are reported at nominal value.

##### Lending

Loans are initially reported in the balance sheet at acquisition value. Thereafter, the loan claims are reported on an ongoing basis at acquisition value (amortised cost) after deductions for write-downs and provisions for loan losses appraised individually and by category.

##### Impaired loans

An impaired loan is a claim for which it is probable that future payments will not be made in accordance with the contractual terms of the loan and security does not cover the claim. Impaired loans are measured by applying the assessed recovery value and a provision is made corresponding to the amount which is not covered by the recovery value.

The recovery value is calculated in accordance with the following methods:

- The discounted value of the estimated future cash flow to be received from the borrower.

- The estimated value of the collateral pledged for the loan and/or the real value of guarantee commitments.
- The fair value identified for the loan claim.

When a claim is classified as impaired, it is transferred to cash-based interest accounting. Accrued interest income is thus no longer included in earnings, and amounts related to earlier accruals are reversed. Accrued interest carried over from the previous year is reported as a loan loss. For impaired loans, which are measured according to the discounted value of estimated future cash flows, any changes in recovery value are reported as interest, if the assessment of the future cash flow is unchanged between two dates of assessment. If, however, the estimated future cash flow is changed, the corresponding change in recovery value is reported as a loan loss or as a recovery.

Previously impaired loans are judged to be normal loans when the contractual terms of payments are likely to be fulfilled.

Loan losses are booked as realised losses when it is deemed that the loan amount will not be paid by the borrower or through other means.

#### **Restructured loan obligations**

A loan is restructured when the creditor has granted the borrower interest deferments because of deterioration of the borrower's financial situation. A portion of the original loan amount, which the creditor defers in connection with the restructuring, constitutes a realised loan loss.

#### **Provisions for loans and advances appraised by category**

For groups of loans and advances, where it is deemed probable that loan losses are incurred, but where the individual loan receivables within the category cannot yet be identified, a provision is made in respect of the entire category of loans.

#### **Evaluation of minor loans and advances with similar credit risk**

Homogenous groups of receivables with limited value and similar credit risk are evaluated on cluster basis. The evaluation is based on the experience of realised loan losses and the assessment of the probable loss trend for the group in question. The principle for the split into groups is documented considering previous loan losses, assessment of future development and the basis applied for assessment.

#### **Financial commitments**

##### **Derivatives**

Derivative instruments with positive fair value are reported in the balance sheet as "Other assets", while derivatives with negative fair value are reported as "Other liabilities". Accrued interest income and expenses pertaining to interest-rate swaps which are accounted for as hedges are also reported as "Other assets" or "Other liabilities".

##### **Tangible assets**

Tangible assets are reported at their acquisition value less any accumulated depreciation according to plan and any accumulated impairment losses.

Depreciation is calculated on a straight-line basis as follows:  
Equipment 5 years

#### **Group contributions**

Group contributions paid or received between Swedish companies for the purpose of optimising the tax of the Group are in the legal entity reported as a decrease/increase of unrestricted equity, after adjustment for tax.

#### **Shareholders' equity**

In accordance with Swedish law, shareholders' equity is split into funds available for distribution, unrestricted reserves, and not available for distribution, restricted reserves.

#### **Restricted reserves**

Apart from the share capital, the company has a statutory reserve.

Statutory reserves: In accordance with local legislation, 10 percent of the net profit of each Swedish company in the Nordea Group is transferred to a non-distributable statutory reserve until this reserve represents 20 percent of the share capital of the company in question. The reserve can only be utilised after decision by the Annual General Meeting for issue of shares or for covering of losses, not covered by unrestricted equity.

#### **Unrestricted reserves**

The principal purpose of the company's unrestricted reserves is to retain a sufficient shareholders' equity to ensure a total capital ratio, which by an adequate margin fulfils the legal requirement in this respect. Surplus unrestricted reserves may be transferred to the company's owners.

#### **Pensions**

##### **Pension costs**

In 2003, pension costs comprise premiums and fees to insurance companies and pension funds as well as actuarially calculated pension costs for other commitments. The actuarial pension costs refer to commitments guaranteed by a pension foundation. In accordance with instructions from the Swedish Financial Supervisory Authority, the costs are reversed in the item Pension adjustment and substituted by pension benefits paid, contributions made to or received from the pension foundation, and recognised changes in the pension provisions. Special payroll tax and return tax applicable to the Swedish pension system are also recognised in the Pension adjustment.

#### **Future change of accounting policy**

In 2003 and in previous years national rules have been applied to the accounting for pension obligations. From the start of 2004, RR29/IAS19 will be implemented.

#### **Taxes**

Tax on profit for the year is based on taxable income before group contributions paid.

#### **Segment reporting**

Nordea's operations are organised into three business areas and group functions. The business areas are Retail Banking, Corporate and Institutional Banking and Asset Management & Life.

**Note 2****Interest income and interest expenses**

SEK (000s)	2003	2002
<b>Interest income</b>		
Loans to credit institutions	1,369	1,567
Lending	10,267,904	10,269,061
Other assets	69	43
<b>Total interest income*</b>	<b>10,269,342</b>	<b>10,270,671</b>
* Of which, Group companies	144,430	118,581
<b>Interest expenses</b>		
Loans from credit institutions	-2,218,582	-3,031,557
Debt securities in issue	-5,894,356	-5,223,093
Subordinated liabilities	-18,145	-5,342
Other liabilities	-10	-1
<b>Total interest expenses*</b>	<b>-8,131,093</b>	<b>-8,259,993</b>
* Of which, Group companies	-2,201,471	-3,027,879
<b>Net interest income</b>	<b>2,138,249</b>	<b>2,010,678</b>
<b>Average interest rate, lending</b>		
Lending		
Average volume	202,334,070	184,106,697
Average interest, %	5.07	5.58

**Note 3****Commission income**

SEK (000s)	2003	2002
Loan commissions	64,581	56,112
<b>Total</b>	<b>64,581</b>	<b>56,112</b>

**Note 4****Commission expenses**

SEK (000s)	2003	2002
Security commissions	-12,959	-10,852
Other commissions	-2,607	-3,054
<b>Total</b>	<b>-15,566</b>	<b>-13,906</b>

**Note 5****Other operating income**

SEK (000s)	2003	2002
Other	2,165	2,101
<b>Total</b>	<b>2,165</b>	<b>2,101</b>

**Average balances**

SEK (000s)	2003		2002	
	Average balance	Interest, %	Average balance	Interest, %
<b>Assets</b>				
Loans to credit institutions	107,909	0.93	90,394	2.22
Lending	202,334,070	5.07	184,106,697	5.58
<b>Total interest-bearing assets</b>	<b>202,441,979</b>	<b>5.07</b>	<b>184,197,091</b>	<b>5.58</b>
Non-interest-bearing assets	2,045,254	–	2,604,423	–
<b>Total assets</b>	<b>204,487,233</b>	<b>5.02</b>	<b>186,801,514</b>	<b>5.50</b>
<b>Liabilities and shareholders' equity</b>				
Loans from credit institutions	61,799,056	3.59	68,731,494	4.41
Debt securities in issue	124,916,519	4.72	103,952,063	5.02
Subordinated liabilities	524,615	3.43	109,231	4.59
<b>Total interest-bearing liabilities</b>	<b>187,240,190</b>	<b>4.34</b>	<b>172,792,788</b>	<b>4.78</b>
Non-interest-bearing liabilities	7,562,625	–	4,477,100	–
Shareholders' equity	9,684,418	–	9,531,626	–
<b>Total liabilities and shareholders' equity</b>	<b>204,487,233</b>	<b>3.98</b>	<b>186,801,514</b>	<b>4.42</b>
Investment margin, %	1.04		1.08	

## Note 6

### Personnel expenses

SEK (000s)	2003	2002
Salaries and remuneration (specification below)	-2,471	-2,307
Pension costs (specification below)	-649	-700
Social insurance contributions	-883	-833
Allocations to profit-sharing foundation	-70	213
Other	-114	-148
<b>Total</b>	<b>-4,187</b>	<b>-3,775</b>

### Salaries and remuneration:

To former <sup>1</sup> and present <sup>2</sup>		
Presidents and their deputies	-1,509	-1,188
To other employees	-962	-1,119
<b>Total</b>	<b>-2,471</b>	<b>-2,307</b>

<sup>1</sup> Of which, performance-based salary\* – 270

<sup>2</sup> Of which, performance-based salary -110 -104

\* The amount SEK 270,000 in 2002 is a reversal of provisions made for performance-based salaries pertaining to the former President and her deputy; no payment has been made by the company.

### Pension costs:

Actuarial pension costs	-648	-633
Pension premiums	-1	-67
<b>Total</b>	<b>-649</b>	<b>-700</b>

Actuarial pension costs and pension premiums include an increment for special wage tax. The actual tax paid is reported among appropriations under the item "Pension adjustment".

The company's pension commitments are covered both by transfers to the pension fund of Nordea Bank Sweden and by insurance policies.

The total pension costs for the year, with regard to the presidents, amounted to SEK 1,170,000. The corresponding cost for pensions for former presidents amounted to SEK 7,062,000.

The company's total pension obligations regarding presidents amounted to SEK 5,744,000. The corresponding pension obligations regarding former presidents amounted to SEK 16,708,000.

### Remunerations to the Board of Directors and the President

No directors' fee was paid to board members.

The President had a car benefit during the whole year.

For the President the notice pay and severance pay may not exceed 24 months' salary. The total amount will be reduced by any salary the President receives as a result of other employment during the payment period.

### Loans to the Board of Directors and Presidents

Loans to board members and presidents amounted at year-end to SEK 6,547,000 (5,704,000).

## Average number of employees

Full-time equivalents	2003	2002
Men	4	4
Women	1	2
<b>Total</b>	<b>5</b>	<b>6</b>

At year-end the total number of employees was 3 (6).

## Note 7

### Other administrative expenses

SEK (000s)	2003	2002
Computer systems and equipment	-2,992	-2,686
Rents and other costs of premises	-673	-942
Postage and telephone	-4,878	-5,059
Other expenses	-1,667	-4,591
<b>Total</b>	<b>-10,210</b>	<b>-13,278</b>

### Fees and remuneration to auditors:

#### KPMG Bohlins AB

Auditing assignments	-467	-632
Other assignments	-105	-106

#### Öhrlings PriceWaterhouseCoopers AB

Auditing assignments	-27	-47
<b>Total</b>	<b>-599</b>	<b>-785</b>

## Note 8

### Depreciation and write-down of tangible fixed assets

SEK (000s)	2003	2002
Equipment	-59	-65
<b>Total</b>	<b>-59</b>	<b>-65</b>

## Note 9

### Loan losses, net

SEK (000s)	2003	2002
<b>Specific reserves for individually appraised receivables</b>		
Losses incurred during the year	-1,048	-10,717
Amount of previous provisions used during the year	1,048	6,217
The year's provisions for possible loan losses	-5,900	-4,400
Recovery of previously incurred losses	-	6,487
Reversal of previous provisions	3,195	4,300
<b>Total</b>	<b>-2,705</b>	<b>1,887</b>

### Homogenous groups of receivables with limited value and similar credit risk appraised by category

Losses incurred during the year	-6,683	-4,331
Recovery of previously incurred losses	13,321	12,508
<b>Total</b>	<b>6,638</b>	<b>8,177</b>
<b>Net costs for loan losses during the year</b>	<b>3,933</b>	<b>10,064</b>

## Note 10

### Appropriations

SEK (000s)	2003	2002
<b>Other allocations</b>		
<b>Pension adjustments</b>		
Actuarial pension costs	648	633
Allocations/compensation	-	-9,466
Pension benefits paid	-1,728	-1,617
<b>Total</b>	<b>-1,080</b>	<b>-10,450</b>

## Note 11

### Tax on profit for the year

SEK (000s)	2003	2002
<b>Actual tax</b>		
Tax on the year's taxable income	-609,773	-570,481
<b>Total</b>	<b>-609,773</b>	<b>-570,481</b>
Profit before tax	2,177,826	2,037,481
Group contributions	-2,170,000	-2,037,434
Tax-exempt income	-69	-59
Other non-deductible costs	2	11
<b>Taxable income</b>	<b>7,759</b>	<b>-</b>

Group contributions are, in accordance with the interpretations by the RR's Standing Interpretations Committee, charged or credited directly to the shareholders' equity.

## Note 12

### Loans to credit institutions

SEK (000s)	2003	2002
<b>Financial fixed assets</b>		
Swedish banks	102,837	692
<b>Total</b>	<b>102,837</b>	<b>692</b>
Of which, Group companies	102,837	692

### Maturity information

#### Remaining maturity

#### Book value, SEK (000s)

Payable on demand	102,837	692
<b>Total</b>	<b>102,837</b>	<b>692</b>

Average remaining maturity	-	-
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## Note 13

### Lending

SEK (000s)	2003	2002
Financial fixed assets	212,107,809	193,133,056
<b>Total</b>	<b>212,107,809</b>	<b>193,133,056</b>

Lending is reported net after deduction of provisions for possible loan losses in the amount of

-82,398	-80,741
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### Maturity information

#### Remaining maturity

#### Book value, SEK (000s)

Maximum 3 months	82,358,714	83,444,654
3 months - 1 year	30,681,378	34,467,160
1-5 years	96,388,229	72,208,826
More than 5 years	2,679,488	3,012,416
<b>Total</b>	<b>212,107,809</b>	<b>193,133,056</b>

Average remaining maturity	491 days	426 days
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For assets and liabilities which are subject to payment by instalments the remaining maturity has been calculated as the time remaining until each instalment.

For credits with consecutively running periods of fixed terms the remaining maturity has been calculated as the time remaining until the next date of change of conditions.

### Lending, gross, divided by collateral type

SEK (000s)	2003	2002
Single and two-family properties	110,345,476	98,827,856
Tenant-owner apartments	21,666,880	16,489,243
Multi-family properties	37,688,014	34,533,215
Municipalities and municipal guarantees	30,840,457	31,471,477
Government guarantees	1,600,691	1,763,729
Other collateral	10,048,689	10,128,277

## Note 14

### Credit portfolio

SEK (000s)	2003				2002			
	Total lending	Impaired loans, net	Non-performing loans, gross	Provisions	Total lending	Impaired loans, net	Non-performing loans, gross	Provisions
Companies	66,379,394	9,093	11,988	16,410	64,499,732	3,590	5,172	18,653
Personal customers	135,602,071	118,665	184,653	65,988	119,180,492	97,044	158,432	62,088
Public sector	10,126,344	–	–	–	9,452,832	–	–	–
<b>Total</b>	<b>212,107,809</b>	<b>127,758</b>	<b>196,641</b>	<b>82,398</b>	<b>193,133,056</b>	<b>100,634</b>	<b>163,604</b>	<b>80,741</b>

SEK (000s)	2003	2002
<b>Impaired loans</b>		
Impaired loans, gross	210,156	181,375
Reserves for impaired loans	–82,398	–80,741
of which		
– specific	–21,760	–20,103
– by category	–60,638	–60,638
<b>Impaired loans, net</b>	<b>127,758</b>	<b>100,634</b>
Reserve in % of impaired loans, gross	39%	45%
Impaired loans, net/lending	0.06%	0.05%
Non-performing loans with interest reported on an accrual basis	–	–

## Note 15

### Tangible assets

SEK (000s)	2003	2002
<b>Fixed assets</b>		
<b>Equipment</b>		
Opening acquisition value	378	660
Divestments/disposals during the year	–83	–282
Accumulated depreciation according to plan in previous years	–162	–378
Accumulated depreciation on equipment divested/disposed during the year	83	282
Depreciation according to plan for the year	–59	–65
<b>Book value, net</b>	<b>157</b>	<b>217</b>

## Note 16

### Other assets

SEK (000s)	2003	2002
Derivative instruments		
Interest-related	291,108	279,779
Currency-related	6,345	123,073
Claims on securities settlement proceeds <sup>1</sup>	–	–
Tax assets	–	1,633
Other	11,260	9,605
<b>Total*</b>	<b>308,713</b>	<b>414,090</b>

<sup>1</sup> Claims on securities settlement proceeds, gross

\* Of which, Group companies

## Note 17

### Prepaid expenses and accrued income

SEK (000s)	2003	2002
Accrued interest income <sup>1</sup>	893,956	1,050,001
Prepaid expenses	20,110	24,469
<b>Total</b>	<b>914,066</b>	<b>1,074,470</b>

<sup>1</sup> Of which, unpaid interest payment due

## Note 18

### Loans from credit institutions

SEK (000s)	2003	2002
Swedish banks	60,586,196	61,467,490
Foreign banks	97,900	1,379,840
<b>Total*</b>	<b>60,684,096</b>	<b>62,847,330</b>

\* Of which, Group companies

### Maturity information

#### Remaining maturity

#### Book value, SEK (000s)

Payable on demand	–	14,382
Maximum 3 months	49,035,730	53,975,254
3 months – 1 year	8,093,346	3,840,806
1–5 years	3,555,020	4,331,888
More than 5 years	–	685,000
<b>Total</b>	<b>60,684,096</b>	<b>62,847,330</b>

Average remaining maturity

95 days 111 days

## Note 19

### Debt securities in issue

SEK (000s)	2003	2002
ECP	–	87,069
Swedish retail bonds	309,423	642,611
Other Swedish bonds	122,808,017	109,010,196
EMTN	5,841,867	6,650,567
<b>Total*</b>	<b>128,959,307</b>	<b>116,390,443</b>

\* Of which, Group companies 1,877,545 12,260,660

### Maturity information

#### Remaining maturity

#### Book value, SEK (000s)

Maximum 1 year	41,401,849	44,902,190
1–5 years	86,769,969	70,673,140
5–10 years	787,489	815,113
<b>Total</b>	<b>128,959,307</b>	<b>116,390,443</b>

Average remaining maturity 735 days 627 days  
For a specification, see page 28.

## Note 20

### Other liabilities

SEK (000s)	2003	2002
Derivative instruments		
Interest-related	247,666	169,144
Currency-related	119,136	29,489
Liabilities on securities settlement proceeds <sup>1</sup>	7,718,496	1,009,427
Accounts payable	718	679
Current tax liabilities	2,618	–
Other	2,177,441	2,062,916
<b>Total*</b>	<b>10,266,075</b>	<b>3,271,655</b>

<sup>1</sup> Liabilities on securities settlement proceeds, gross 15,583,440 2,332,689

\* Of which, Group companies 8,463,989 3,403,330

## Note 21

### Accrued expenses and prepaid income

SEK (000s)	2003	2002
Accrued interest expenses	2,936,655	3,279,524
Other accrued expenses	7,181	8,296
Prepaid income	95,687	46,349
<b>Total*</b>	<b>3,039,523</b>	<b>3,334,169</b>

\* Of which, Group companies 351,899 388,017

## Note 22

### Subordinated liabilities

SEK (000s)	2003	2002
Dated subordinated debenture loans	940,000	40,000
<b>Total*</b>	<b>940,000</b>	<b>40,000</b>

\* Of which, Group companies 940,000 40,000

These debenture loans are subordinated to other liabilities.

SEK (000s)	Loan amount	Interest rate	Maturity date
Loan 1	40,000	5.945%	2005-06-21
Loan 2	900,000	3 month stibor +0.50%	2013-06-30

Total interest expense for the year: SEK 18,145,000 (5,342,000).

## Note 23

### Shareholders' equity

SEK (000s)	2003	2002
<b>Restricted</b>		
Share capital (100,000 shares, each with a nominal value of SEK 1,000)	100,000	100,000
Statutory reserve	20,000	20,000
	<b>120,000</b>	<b>120,000</b>
<b>Unrestricted</b>		
Retained profit	7,856,528	7,151,928
Net profit for the year	1,568,053	1,467,000
	<b>9,424,581</b>	<b>8,618,928</b>
<b>Total</b>	<b>9,544,581</b>	<b>8,738,928</b>

<b>Movements in shareholders' equity, 2002</b>	Share capital	Statutory reserve	Unrestricted	Total
Balance at beginning of year	100,000	20,000	8,618,880	8,738,880
Group contributions paid	–	–	–2,037,434	–2,037,434
Tax effect of group contributions	–	–	570,481	570,481
Net profit for the year	–	–	1,467,000	1,467,000
<b>Balance at year-end</b>	<b>100,000</b>	<b>20,000</b>	<b>8,618,928</b>	<b>8,738,928</b>

<b>Movements in shareholders' equity, 2003</b>	Share capital	Statutory reserve	Unrestricted	Total
Balance at beginning of year	100,000	20,000	8,618,928	8,738,928
Shareholders' contributions received	–	–	800,000	800,000
Group contributions paid	–	–	–2,170,000	–2,170,000
Tax effect of group contributions	–	–	607,600	607,600
Net profit for the year	–	–	1,568,053	1,568,053
<b>Balance at year-end</b>	<b>100,000</b>	<b>20,000</b>	<b>9,424,581</b>	<b>9,544,581</b>

## Note 24

### Commitments

Nominal amount, SEK (000s)	2003	2002
Interest- and currency-related contracts	36,415,120	34,395,380
<b>Other commitments</b>		
Unutilised credit commitments	766,974	3,868,838
<b>Total</b>	<b>37,182,094</b>	<b>38,264,218</b>



## Note 25

### Capital adequacy

SEKm	2003	2002
------	------	------

#### Capital base, after proposed distribution of earnings

##### Tier 1 capital

Shareholders' equity	9,545	8,739
<b>Total tier 1 capital</b>	<b>9,545</b>	<b>8,739</b>

##### Supplementary capital

Dated subordinated debenture loans	908	16
<b>Total supplementary capital</b>	<b>908</b>	<b>16</b>
<b>Total capital base</b>	<b>10,453</b>	<b>8,755</b>

#### Risk-weighted amount for credit risks

Credit risks as specified below	106,980	94,774
<b>Total risk-weighted amount</b>	<b>106,980</b>	<b>94,774</b>

Tier 1 capital ratio, %	8.9	9.2
Total capital ratio, %	9.8	9.2

### Specification of risk-weighted amounts, credit risks

Risk-weighting by category <sup>1</sup>	Items in the balance sheet		Off-balance sheet items		Risk weighted	Total risk-weighted amount
	Reported	Risk weighted	Nominal	Adjusted		
A 0%	34,136	–	7,939	393	–	–
B 20%	4	1	29,140	689	138	139
C 50%	144,361	72,180	103	51	26	72,206
D 100%	34,635	34,635	–	–	–	34,635
<b>Total</b>	<b>213,136</b>	<b>106,816</b>	<b>37,182</b>	<b>1,133</b>	<b>164</b>	<b>106,980</b>

<sup>1</sup> Risk categories include:

A Claim on, or guarantee by the Swedish government, a Swedish municipality and receivables from Group companies

B Claim on, or guarantee by banks and mortgage institutions

C Claim backed by mortgages on residential property

D Other receivables and claims

Class C is the highest risk category for interest- and currency-related derivatives.

## Note 26

### Derivative instruments

#### Derivatives with positive values 2003

SEKm	Fully or partially reported in the balance sheet			Not reported in the balance sheet	
	Fair value	Book value	Nom amount	Fair value	Nom amount
<b>Interest-related contracts</b>					
Interest-rate swaps	559	291	18,648	268	–
Other derivatives	–	–	–	0	62
<b>Currency-related contracts</b>					
Currency-interest rate swaps	17	6	320	11	–
<b>Total positive values</b>	<b>576</b>	<b>297</b>	<b>18,968</b>	<b>279</b>	<b>62</b>
Of which cleared	–	–	–	–	–

#### Derivatives with negative values 2003

SEKm	Fully or partially reported in the balance sheet			Not reported in the balance sheet	
	Fair value	Book value	Nom amount	Fair value	Nom amount
<b>Interest-related contracts</b>					
Interest-rate swaps	544	248	11,710	296	–
<b>Currency-related contracts</b>					
Currency-interest rate swaps	126	119	5,675	7	–
<b>Total negative values</b>	<b>670</b>	<b>367</b>	<b>17,385</b>	<b>303</b>	<b>–</b>
Of which cleared	–	–	–	–	–

Deferral hedge accounting is applied to the company's holding of derivatives. Deferred gains and losses for derivatives not reported in the balance sheet have offsetting differences between the fair value and the book value for the respective items, which are recorded in the balance sheet. Thus, the reporting of a positive value of SEK 279m (267) and a negative value of SEK 303m (289) has been deferred.

#### Derivatives with positive values 2002

SEKm	Fully or partially reported in the balance sheet			Not reported in the balance sheet	
	Fair value	Book value	Nom amount	Fair value	Nom amount
<b>Interest-related contracts</b>					
Interest-rate swaps	535	280	15,157	255	–
Swaptions	–	–	–	0	1
Other derivatives	–	–	–	0	69
<b>Currency-related contracts</b>					
Currency-interest rate swaps	135	123	7,679	12	–
<b>Total positive values</b>	<b>670</b>	<b>403</b>	<b>22,836</b>	<b>267</b>	<b>70</b>
Of which cleared	–	–	–	–	–

#### Derivatives with negative values 2002

SEKm	Fully or partially reported in the balance sheet			Not reported in the balance sheet	
	Fair value	Book value	Nom amount	Fair value	Nom amount
<b>Interest-related contracts</b>					
Interest-rate swaps	449	169	11,220	280	–
<b>Currency-related contracts</b>					
Currency-interest rate swaps	22	13	164	9	–
Currency forwards	16	16	105	0	–
<b>Total negative values</b>	<b>487</b>	<b>198</b>	<b>11,489</b>	<b>289</b>	<b>–</b>
Of which cleared	–	–	–	–	–

## Note 27

### Assets and liabilities at fair value

SEKm	2003			2002		
	Book value	Adjustment to fair value	Market value	Book value	Adjustment to fair value	Market value
<b>Assets</b>						
Loans to credit institutions	103	–	103	1	–	1
Lending	212,108	2,152	214,260	193,133	2,128	195,261
Tangible assets	0	–	0	0	–	0
Other assets	309	279	588	414	267	681
Prepaid expenses and accrued income	914	–	914	1,075	–	1,075
<b>Total assets</b>	<b>213,434</b>	<b>2,431</b>	<b>215,865</b>	<b>194,623</b>	<b>2,395</b>	<b>197,018</b>
<b>Liabilities and shareholders' equity</b>						
Loans from credit institutions	60,684	172	60,856	62,847	188	63,035
Debt securities in issue	128,959	1,356	130,315	116,391	389	116,780
Other liabilities	10,266	303	10,569	3,272	289	3,561
Accrued expenses and prepaid income	3,040	–	3,040	3,334	–	3,334
Subordinated liabilities	940	39	979	40	1	41
<b>Total liabilities</b>	<b>203,889</b>	<b>1,870</b>	<b>205,759</b>	<b>185,884</b>	<b>867</b>	<b>186,751</b>
<b>Shareholders' equity</b>						
Share capital	100	–	100	100	–	100
Statutory reserve	20	–	20	20	–	20
Retained earnings	7,857	–	7,857	7,152	–	7,152
Net profit for the year	1,568	–	1,568	1,467	–	1,467
<b>Total liabilities and shareholders' equity</b>	<b>213,434</b>	<b>1,870</b>	<b>215,304</b>	<b>194,623</b>	<b>867</b>	<b>195,490</b>
Surplus value, net		561			1,528	

Re-evaluation of lending is performed on account of changes in market interest rate. The discount rates used are based on the market rate for each term. Securities are revalued at the market price. The company applies hedge accounting.

## Note 28

### Fixed-interest terms for assets and liabilities

#### Fixed interest terms at 31 December 2003

SEKm	On demand	< 3 months	3–12 months	1–5 years	>5 years	Non repricing
<b>Assets</b>						
Interest-bearing assets	103	82,359	30,681	96,388	2,680	–
Off-balance sheet items	–	12,825	8,126	9,407	–	–
Non-interest-bearing assets	–	–	–	–	–	1,223
<b>Total assets</b>	<b>103</b>	<b>95,184</b>	<b>38,807</b>	<b>105,795</b>	<b>2,680</b>	<b>1,223</b>
<b>Liabilities and shareholders' equity</b>						
Interest-bearing liabilities	–	55,512	43,919	90,365	787	–
Off-balance sheet items	–	17,396	3,710	8,168	1,084	–
Non-interest-bearing liabilities/ incl shareholders' equity	–	–	–	–	–	22,851
<b>Total liabilities and shareholders' equity</b>	<b>–</b>	<b>72,908</b>	<b>47,629</b>	<b>98,533</b>	<b>1,871</b>	<b>22,851</b>
Exposure	103	22,276	–8,822	7,262	809	–21,628
Cumulative exposure	103	22,379	13,557	20,819	21,628	–

## Note 29

### Assets and liabilities in foreign currencies

31 December, SEKm	EUR	USD	Other	Total
<b>Assets</b>				
Other assets	137	-128	154	163
<b>Total assets</b>	<b>137</b>	<b>-128</b>	<b>154</b>	<b>163</b>
<b>Liabilities</b>				
Debt securities in issue	5,576	-	151	5,727
Other liabilities	-5,439	-128	3	-5,564
<b>Total liabilities</b>	<b>137</b>	<b>-128</b>	<b>154</b>	<b>163</b>
Net position, foreign currencies	-	-	-	-

## Note 30

### Segment reporting

Primary segments Customer responsible units SEKm	Retail Banking	Corporate and Institutional Banking	Group Treasury	Other	Total
Net interest income	1,907	5	144	82	2,138
Other income	84	0	-15	-18	51
<b>Total income</b>	<b>1,991</b>	<b>5</b>	<b>129</b>	<b>64</b>	<b>2,189</b>
<b>Total expenses</b>	<b>-14</b>	<b>-</b>	<b>0</b>	<b>0</b>	<b>-14</b>
Loan losses	4	-	-	0	4
<b>Operating profit</b>	<b>1,981</b>	<b>5</b>	<b>129</b>	<b>64</b>	<b>2,179</b>
Cost/income ratio, %	1	-	0	0	0
<b>Other information</b>					
<b>Total assets</b>	<b>207,031</b>	<b>419</b>	<b>916</b>	<b>5,068</b>	<b>213,434</b>
- of which lending	206,618	419	-	5,071	212,108
<b>Total liabilities</b>	<b>198,359</b>	<b>414</b>	<b>-8</b>	<b>5,124</b>	<b>203,889</b>
Depreciation	0	-	-	-	0

**Specification to Note 19:****Swedish retail bonds, SEK (000s)****At 31 December 2003**

Number	Issue/final due date	Interest rate %	Issued nominal amount
7509*	990304/040915	–	320,000

\* Tap issues

**Other Swedish bonds, SEK (000s)****At 31 December 2003**

Number	Issue date	Interest rate %	Interest maturity dates	Final due date	Nominal amount outstanding
5002*	94-06-15	7.50	15 June	04-06-15	–
5513*	98-04-20	5.00	20 April	09-04-20	1,050,000
5514*	98-06-16	5.25	16 June	04-06-16	48,948,600
5515*	00-04-28	5.75	21 Sept	05-09-21	37,912,000
5516*	01-04-17	5.00	21 June	06-06-21	25,856,000
5517*	02-04-18	6.00	19 Sept	07-09-19	18,345,000
5518*	03-03-19	4.50	17 Sept	08-09-17	15,000,000

Loan 5002–5518: No interest rate adjustment

\* Tap issues

**EMTN (bonds issued in foreign currencies), SEK (000s)****At 31 December 2003**

Currency	Issue/final due date	Interest rate % <sup>1</sup>	Amount in currency <sup>1</sup>	Amount in SEK closing date rate
EUR	990504/090504	3 months' Euribor + 0.125	15,000	135,997
EEK	991208/041208	7.50	40,000	23,180
HKD	020711/090828	5.34	137,000	127,993
EUR	021004/041004	3 months' Euribor + 0.035	200,000	1,813,295
SEK	021216/081201	Index bond	100,000	100,000
EUR	030207/050207	3 months' Euribor + 0.03	100,000	906,648
EUR	030328/050328	3 months' Euribor + 0.03	100,000	906,648
EUR	030407/050407	3 months' Euribor + 0.03	200,000	1,813,295

<sup>1</sup> Refers to original issue. The currency exposure and interest rate on certain loans have been changed by using currency and interest rate swaps.

## Proposed distribution of earnings

After having paid a group contribution of SEK 2,170,000,000, the following amount is available for distribution by the Annual General Meeting of Shareholders.

Retained profits	7,856,528,000
Net profit for the year	1,568,053,000
<b>Total</b>	<b>9,424,581,000</b>

The Board of Directors and the President propose as follows:

To be carried forward	9,424,581,000
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Stockholm, 1 March 2004

Hans Jacobson  
Chairman

Göran Lind

Håkan Nordblad

Kurt Gustafsson

Leif Ronander  
President

Our audit report was submitted on 2 March 2004

KPMG Bohlins AB

Hans Åkervall  
Authorised Public Accountant

Olle Gunnarsson  
Authorised Public Accountant  
Öhrlings PricewaterhouseCoopers  
Appointed by the  
Swedish Financial Supervisory Authority

# Audit report

## To the general meeting of the shareholders of Nordea Hypotek AB (publ), (Corp. reg. no. 556091-5448)

We have audited the annual accounts, the accounting records and the administration of the board of directors and the managing director of Nordea Hypotek AB (publ) for the year 2003. These accounts and the administration of the company are the responsibility of the board of directors and the managing director. Our responsibility is to express an opinion on the annual accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the managing director, as well as evaluating the overall presentation of information in the annual accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the managing director. We also examined whether any board member or the managing director has, in any other way, acted in contravention of the Companies Act, the Financing Operations Act, the Annual Accounts Act of Credit Institutions and Securities Companies or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act of Credit Institutions and Securities Companies and, thereby, give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden.

We recommend to the general meeting of shareholders that the income statement and balance sheet be adopted, that the profit be dealt with in accordance with the proposal in the administration report and that the members of the board of directors and the managing director be discharged from liability for the financial year.

Stockholm, 2 March 2004

KPMG Bohlins AB

Hans Åkervall  
Authorised Public Accountant

Olle Gunnarsson  
Authorised Public Accountant  
Öhrlings PricewaterhouseCoopers  
Appointed by the  
Swedish Financial Supervisory Authority

# Board of Directors, Auditors and Management

## Board of directors

### Chairman

**Hans Jacobson**

Nordea Bank Sweden AB (publ)  
Head of Retail Sweden

### Members

**Göran Lind**

Nordea Bank Sweden AB (publ)  
Head of Credits in Retail Sweden

**Håkan Nordblad**

Head of Nordea Corporate Retail  
Banking

**Kurt Gustafsson**

Head of Nordea Household and  
General Insurance

**Leif Ronander**

President of  
Nordea Hypotek AB (publ)

## Auditors

### Chief auditor

**KPMG Bohlins AB****Hans Åkervall**

Authorised Public Accountant

**Olle Gunnarsson**

Authorised Public Accountant  
Öhrlings PricewaterhouseCoopers  
Appointed by the Swedish Financial  
Supervisory Authority

## Management

**Leif Ronander**

President

**Sten Roghe**

Head of Credits and Deputy President

## Addresses

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