Nordea

Annual Report 2007
Nordea Hypotek AB (publ)

Nordea is the leading financial services group in the Nordic and Baltic Sea region. Nordea makes it possible for the customers to reach their objectives through a broad range of products, services and solutions in banking, asset management and insurance. Nordea Group has almost 10 million customers and 1,200 bank branches, and with its 4.8 million e-customers is a leader in Internet banking. The Nordea share is listed in Stockholm, Helsinki and Copenhagen.

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Statement by the President

No mortgage loan crisis for us

Internationally, the mortgage loan market in 2007 was affected mainly by major problems which surfaced during the second half of the year in the subprime market in the USA. We still haven't seen the end of the consequences and the after effects of this. The problem was caused by mortgage loans in the USA being granted on a large scale to consumers who did not fulfil the normal requirements of long-term repayment capacity and creditworthiness. Insufficient solvency was in many cases concealed by the fact that loan interest rates in the initial phase were strongly subsidised. When these interest rates at a later stage were progressively raised to more normal levels many of these borrowers could no longer repay their loans, which caused large-scale forced sales resulting in falling house prices. This also led to sharply falling values of the bonds and other securities issued for the refinancing of mortgage loans, which caused great losses in the form of writedowns of asset values for the banks and other investors who had invested in such borrowing instruments.

Credit granting of this type to financially weak consumers hardly occurs among any of the leading credit institutions in Sweden and definitely not for Nordea Hypotek. Our already previously high-quality credit portfolio today appears stronger than ever; our share of impaired loans is at a record low level (see the diagram in the income statement) and we are able for the seventh year in a row to show positive credit losses, meaning that recoveries from earlier years' depreciation and provisions exceeded losses for the financial year. Neither do I see any sign of an imminent break in this positive trend.

However, Swedish mortgage institutions have not come out entirely unscathed. Turbulence and uncertainty in the wake the developments in America led to the European market for covered bonds being hit by great disturbance which periodically either stopped or strongly limited trading. During these periods new issues were practically impossible to carry out. In spite of these disturbances we were able in November 2007 to carry out major borrowing in Jumbo format on favourable terms, which shows that Nordea Hypotek has a good reputation among international investors. The fact that Swedish issuers of covered bonds are considered to be of good standing is also confirmed by an issue in the beginning of this year by one of our domestic competitors.

Our primary source of funds is however the Swedish bond market where we have a longstanding tradition of issuing bonds - now covered bonds – in the form of tap issues of outstanding benchmark loans via contracted market makers. In contrast to the international market this domestic bond market has functioned well, without any serious disturbances. The fact that Swedish issuers have had continuous access to long-term funding via the domestic market has been increasingly noticed by international investors and has contributed to very stable trade in Swedish covered bonds that are denominated in euro also in the international arena. Moreover, we will henceforth secure the main part of our long-term funding requirements from the domestic bond market with supplementary borrowing internationally.

Growth but at slower pace

Swedish GNP growth during 2007 according to Nordea's macroeconomic calculations was 2.7 per cent, which was clearly lower than last year's strong increase. Forecasts for the current year indicate that the growth rate will decline somewhat more, chiefly due to weaker trends in exports and investments. In the labour market however the employment trend remains positive and consumers' strengthened purchasing power improved further this year due to tax reductions and increases in real wages but it is hard to judge how the greater purchasing power will be utilised.

Consumers' disposal incomes rose already last year, which had an impact on overall lending to self-contained houses and tenant-owner apartments. According to the Swedish Bankers Association's statistics lending increased by slightly more than 12 per cent in 2007, which was close to the growth rate of the previous year. Towards the end of the year, however, one could see signs of the rapid lending expansion of recent years slackening somewhat.

House prices also tend to be heading towards a cooling off. The long-term trend of continued rapid prices increases was broken at the end of last year and for tenant-owner apartments in urban areas there a was even a fall in prices, following a strong rise during the first half-year. The dampening of house prices in the last quarter was probably accelerated by a rather substantial supply prompted by a decision taken regarding changed tax regulations starting from 1 January 2008. House prices were nevertheless clearly higher in December 2007 than twelve months earlier. According to estate agents' statistics the average price increase during the year was roughly 10 per cent for self-contained houses and 5 per cent for tenant-owner apartments, with considerable local and regional deviations.

Uncertainty

There is marked uncertainty as to the continued trend. One uncertainty factor is the development in interest rates. The Riksbank has to strike a balance between on the one hand inflation tendencies chiefly due to increased prices for energy and food products as well as salary costs, and on the other hand, clear signs of a global economic slowdown based on fears of a recession in the USA and its after effects. After the latest increase this month the Riksbank envisions a largely unchanged repo rate during the rest of the year, however.

Another uncertainty factor is the development of share prices. The Stockholm Stock Exchange plummeted during 2007 and has continued to fall substantially in the beginning of 2008. A negative stock exchange trend is expected to affect house prices, chiefly more expensive properties.

Contrasting to the uncertainty or negative factors are not only the previously mentioned increased purchasing power but also the strong demand due to demographical factors and a continued housing shortage in growth areas. The latest reactions from estate agents also indicate the prospect of a certain recovery in house prices.

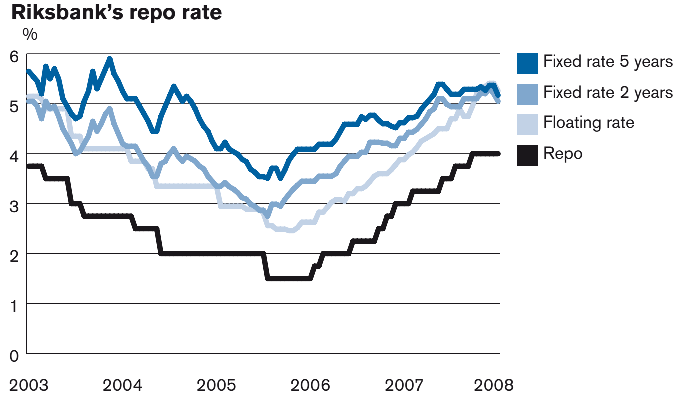
Reason for optimism

As mentioned, there is uncertainty regarding the short-term trend in house prices and lending volume. I believe however that our lending will continue grow, though not at the same pace as previously. One reason for expected growth is that Nordea has during the year increased accessibility for and service to the customers through a large number of new branches and personal banking advisers. It will be exciting to follow the results of this. I also note that several years of downward pressure on our margins is now starting to recede, thus contributing to our net interest income in the last quarter of 2007 being higher than in the previous year. This improvement in net interest income should be sustainable throughout 2008 as well provided that the present margins continue, which would also facilitate a higher operating profit.

Stockholm 22 February 2008

Leif Ronander
President

Nordea Hypotek's mortgage rates and the Riksbank's repo rate



Five-year summary

Income statement

SEKm	2007	2006	2005	2004	2003
Net interest income	1,911	1,969	1,946	2,133	2,138
Net fee and commission income	52	51	44	40	49
Net gains/losses on items at fair value	–6	22	105	124	–
Other income	0	7	0	0	2
Total operating income	**1,957**	**2,049**	**2,095**	**2,297**	**2,189**
General administrative expenses:					
Staff costs	–3	–3	–2	–3	–4
Other expenses	–503	–504	–498	–451	–10
Depreciation, amortisation and impairment of charges of tangible assets	0	0	0	0	0
Total operating expenses	**–506**	**–507**	**–500**	**–454**	**–14**
Loan losses	7	14	8	77	4
Disposals of tangible asstes	0	–	–	0	–
Operating profit	**1,458**	**1,556**	**1,603**	**1,920**	**2,179**
Appropriations	–2	–2	477	–487	–1
Income tax expense	–408	–435	–579	–408	–610
Net profit for the year	**1,048**	**1,119**	**1,501**	**1,025**	**1,568**

Balance sheet at 31 December

SEKm	2007	2006	2005	2004	2003
Assets					
Loans to credit institutions	429	100	740	1,836	103
Lending to the public	316,689	283,637	262,586	234,537	212,108
Derivatives	1,940	396	695	139	298
Fair value changes of the hedged items in portfolio hedge of interest rate risk	–561	–323	569	–	–
Tangible assets	0	0	0	0	0
Tax assets	0	5	0	2	0
Other assets	165	366	420	12	11
Prepaid expenses and accrued income	996	753	654	800	914
Total assets	**319,658**	**284,934**	**265,664**	**237,326**	**213,434**
Liabilities					
Deposits by credit institutions	73,122	84,030	108,609	104,032	60,684
Debt securities in issue	226,425	182,274	138,333	115,222	128,959
Derivatives	1,109	1,287	877	451	367
Fair value changes of the hedged items in portfolio hedge of interest rate risk	–1,528	–1,104	–	–	–
Tax liabilities	–	4	3	405	3
Other liabilities	1,457	1,554	2,084	2,289	9,897
Accrued expenses and prepaid income	3,857	3,073	2,942	2,515	3,039
Subordinated liabilities	3,800	2,400	1,400	1,440	940
Total liabilities	**308,242**	**273,518**	**254,248**	**226,354**	**203,889**
Untaxed reservs	–	–	–	479	–
Equity	**11,416**	**11,416**	**11,416**	**10,492**	**9,545**
Total liabilities and equity	**319,658**	**284,934**	**265,664**	**237,326**	**213,434**

For the years 2005–2007, the accounting principles are according to limited IFRS.

Ratios and key figures

	2007	2006	2005	2004	2003
Yield on average shareholders' equity, %	8.9	9.5	10.1	13.4	16.8
Return on total capital (%)	0.5	0.6	0.6	0.8	1.1
Investment margin, %	0.63	0.72	0.77	0.94	1.04
C/I ratio, %	25.5	24.1	23.5	16.4	0.5
Risk-weighted amount, SEKm[1)]	161,373	153,378	139,966	130,267	106,980
Capital base, SEKm[1)]	15,088	13,816	12,816	12,237	10,453
Total capital ratio, %[1)]	9.3	9.0	9.2	9.4	9.8
Tier 1 capital ratio, %[1)]	7.0	7.4	8.2	8.3	8.9
Average number of employees	2	2	2	2	5

1) Key ratios as per 2007 are calculated on the basis of the floor rules that are to be applicable according to the new capital cover regulations (Basel II).
For the years 2005–2007, the accounting principles are according to limited IFRS.

Definitions

Return on average shareholders' equity
Net profit for the year as a per centage of equity, quarterly average.

Return on total capital
Operating profit as a per centage of average total assets.

Cost/income ratio after loan losses
Operating expenses plus loan losses as a per centage of operating income.

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

Total capital ratio
Capital base as a per centage of risk-weighted amounts

Investment margin
Net interest income as a per centage of average total assets.

Tier 1 capital
Part of the capital base (see definition). Consists of shareholders' equity.

Tier 1 capital ratio
Tier 1 capital as a per centage 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.

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 2007. The company is a wholly owned subsidiary of Nordea Bank AB (publ) (Corp. reg. no. 516406-0120).

Definitions

In this report of the Board of Directors the terms below shall have the following meanings: "The company" means Nordea Hypotek AB (publ), "The parent company" and "the parent bank" means Nordea Bank AB (publ), "The Nordea Group" "the Group" and "Nordea" means Nordea Bank AB (publ) and its subsidiaries.

Operations

The company operates 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 on housing financing. Collateral consists mainly of mortgages on residential property, tenant-owner apartments or of municipal guarantees.

Result

Operating profit amounted to SEK 1,458m (1,556), which is a decrease by 6.3 per cent compared to the previous year. When comparing to operating profit the previous year, the following major items effecting comparability should be taken into consideration:

- Net interest income amounted to SEK 1,911m (1,969), a decrease of 2.9 per cent. Net interest income was influenced positively by higher lending volume, which was however offset by lower margins in connection with new lending and change of conditions for existing loans. Furthermore, higher interest earnings on shareholders' equity due to higher interest rates contributed positively to the development of net interest income.
- Net gains/losses on items at fair value amounted to SEK –6m (22).

Return on equity was 8.9 per cent (9.5).

Lending

Lending and receivables to the public during the year increased by 11.7 per cent (8.0) to SEK 316,689m (283,637) at year-end.

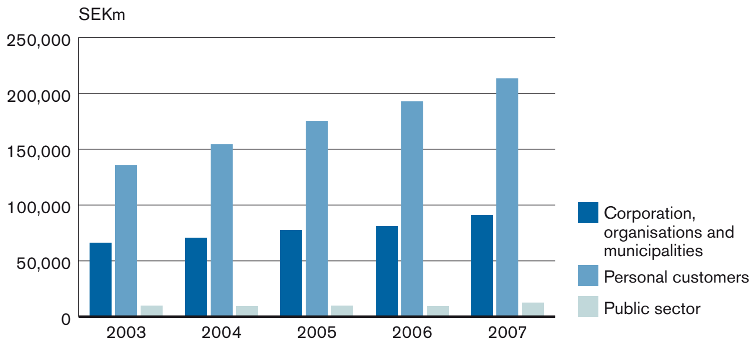
Lending and receivables to corporations, organisations and municipalities

Lending and receivables to legal entities increased by SEK 12,789m (14.1 per cent) to SEK 103,610m at the end of the financial year.

Lending and receivables to personal customers

Lending and receivables to households increased by SEK 20,262m (10.5 per cent) to SEK 213,079m.

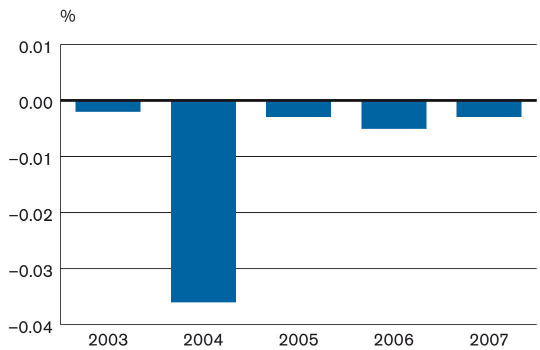
Distribution of the loan portfolio



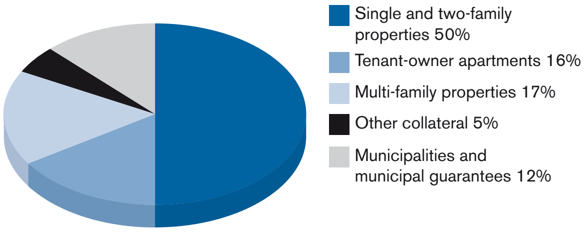
Loan losses

Recoveries of previously written-off claims and reversals of provisions in previous years exceeded new incurred and expected losses by SEK 7m (14).

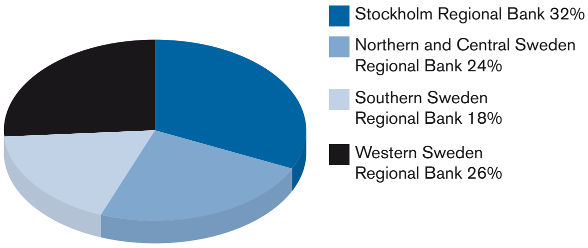
Loan losses in relation to lending



Lending distribution in collateral



Lending by geographical area



Currency policy

The company's policy is not to have any exposure to currency risk. In all essential the assets and liabilities are hedged by currency swaps.

Funding

During 2007 all long-term borrowing, with the exception of subordinated debenture loans, has taken place in the form of covered bonds. A covered bond is a borrowing instrument, regulated under the Act governing the issue of covered bonds (SFS 2003:1223), that gives investors special priority in the event the borrower's bankruptcy. Covered bonds may only be issued after special permission from the Financial Supervisory Authority and on the basis of assets of high quality. As shown below the company's covered bonds have received the highest credit ratings from two well-reputed rating institutes, which among other things has resulted in access to a wider circle of investors, not least in the international capital markets.

In the Swedish market the company issued in 2007 fixed-rate bonds with maturities of more than one year for SEK 64.4bn (58.3). The issues take place repeatedly in existing and new series of which the majority are so-called benchmark bonds. The company has agreements with six banks that ensure high liquidity in the bonds. During the year the company also issued a subordinated debenture loan of SEK 1,4bn (1,0), which in its entirety was endorsed by the Parent Company.

The company has an EMTN programme for international funding. The framework for this programme is EUR 10bn. During the year covered bonds were issued in an amount equivalent to 30.9 bn Swedish kronor (11.3) under this programme.

Total outstanding covered bonds at yearend amounted to SEK 228.0bn (180.7). In addition to that the company had outstanding subordinated debenture loans of SEK 3.8bn (2.4).

In addition to long-term borrowing according to the above the company successively during the year raised short-term borrowing with the parent company. At the end of the year the outstanding amount from such borrowing stood at SEK 72.9bn (84.0).

International rating

The company has since June 2006 been rated Aaa / AAA by Moody's Investor Service and respectively Standard & Poor´s for the covered bonds that account for the company's main long-term borrowing.

Risk management

Risk exposure is an integrated part of all financial operations and Nordea takes on a number of risks in its normal operations. These are credit risk, market risk, liquidity risk and operative risks. Foremost among these is credit risk in connection with lending and receivables to the public. None of the above exposures and risks is expected to have any significant adverse effect on the company or its financial position in the next year. Risk management is one of the key elements for success in the financial services sector and Nordea has clearly defined policies and instructions for risk management. Nordea Hypotek is entirely integrated with Nordea's risk management system. More can be found in the section Management and control of risk and capital, page 30.

Responsibility and control processes

The relevant decision-making bodies on different levels in the Group make decisions in respect of credit risk limits for customer and customer groups.

The primary responsibility for credit risks that affect Nordea Hypotek lies with the customer-responsible units in the parent bank, which continuously assesses the customer's ability to fulfil its obligations and identify deviations from the agreed terms and weaknesses in the customer's financial position. The company's management regularly monitors customers' weakened financial positions or payment delays through detailed reporting and also following up by implementing necessary measures.

If credit weaknesses are identified in relation to a customer exposure, that exposure is assigned special attention in terms of review of the risk. In addition to continuous monitoring a plan of action is created to minimise the potential credit loss. If necessary a special team is set up to support the customer-responsible unit.

Nordea continuously examines the credit portfolio's quality and then seeks indications of write-down needs.

Weak and uncertain exposures are examined at least once a quarter with respect to the present financial position, future prospects, future repayment capacity and also possible provision requirements.

A claim is reported as impaired and a provision is made if there is objective evidence, in the form of loss occurrences or observable data, which shows that the customer's future cash flow has been affected to such an extent that full repayment, including security, is no longer probable. The size of the provision corresponds to the expected loss with consideration to the discounted value of future cash flow and the value of pledged collateral. Impaired exposures can be either performing or non-performing.

Environmental risks in respect of corporate customers are included in the aggregate risk assessments using a process called the Environmental Assessment Tool.

Rating and scoring

Rating and scoring are the key components in the risk management framework for credit risk. The common denominator for the rating/scoring models is the ability to rank the customers and to predict defaults. While the rating models are used for corporate customers and bank counterparts, scoring models are used for personal customers and smaller companies.

Ratings are normally assigned in connection with limit/credit proposals or annual reviews and are approved by the credit committees.

Scoring models are purely a statistical method used to predict the probability of default among customers. Nordea uses three types of scoring models in the credit processes – assessment models based on information derived from the customer's credit application, from the customer's behaviour in other respects or from credit-rating agencies. The models are used primarily for the personal customer segment, and also for small-sized companies.

Analysis of credit risk

Lending and receivables to the public

Nordea Hypotek's lending increased during 2007 by 11.7 per cent in 2007 to SEK 316,689m (283,637). Lending and receivables to the corporate sector accounted for 33 per cent (32) of the exposure, thereof the public sector (state and municipal) 12 per cent (11). The household sector's per centage of exposure was 67 per cent (68). 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 2,306m (1,296).

As in the previous year, the company did not have any assets in the form of bonds or other interest-bearing securities. The credit risk exposure in derivatives amounted to SEK 1,109m (1,287).

Lending and receivables to credit institutions

Lending and receivables to credit institutions amounted at the end of the year to SEK 429m (100), all of which was placed in Group companies for terms of less than one year.

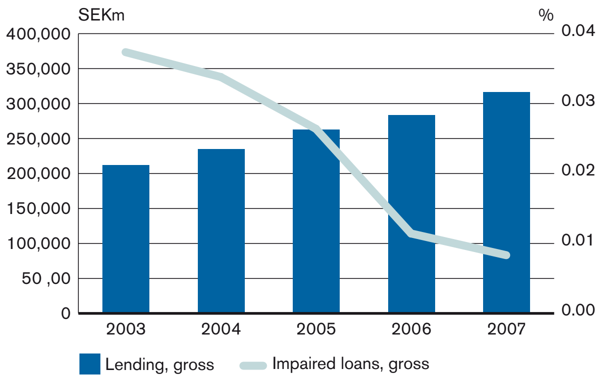
Impaired loans

Impaired loans, gross amounted to SEK 26m (32), of which SEK 9m (7) were lending and receivables to households. The net amount, after a SEK 9m (11) deduction for provisions for impaired loans, was SEK 17m (21), corresponding to 0.005 per cent (0.008) of the total volume of loans outstanding.

Commitments

Nordea Hypotek's business operations include commitments. Such items include commercial

Lending to the public and impaired loans



products such as credit commitments etc., as well as repurchase of own bonds and financial commitments in the form of derivative instruments. The latter concern particularly agreements to exchange currencies (currency forwards) and agreements about exchanges of interest payments (swaps). The balance sheet items ”Derivatives” reflects the net present value of derivatives contracts. The nominal value of derivatives contracts is disclosed in Note 24.

Total exposure to counterparty risk pertaining to off-balance-sheet commitments amounted to SEK 505m (69) at the end of the year, measured as the risk-weighted amount in accordance with capital adequacy rules.

Capital adequacy

The application of the new set of rules and regulations applicable beginning from 1 February 2007 (Basel II) is described exhaustively in the section Management and control of risk and capital on page 30. The paragraph also shows the numerical data for the assessment of the company’s capital adequacy.

Environmental issues

In accordance with the Nordea Group’s Corporate Citizenship principles Nordea Hypotek is committed to sustainable development by combining financial activity with responsibility for the environment and society. The Group shows concern for the environment and strives to reduce the negative and increase the positive environmental impact of the company’s operations.

The Nordea Group applies an environmental policy that serves as a guideline for how the units within Group can take environmental aspects into consideration in their own operations, and at the same time strives towards reducing the costs and risks involved.

The policy should also serve as a guideline for decisions regarding financial operations and choice of contractors.

Legal proceedings

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

Outlook for 2008

The outlook for the Swedish economy’s development in 2008 is overshadowed by a looming recession in the USA and its resulting effects do not appear as favourable as in the previous year. Growth is indeed expected to be lower than in 2007 and employment is set to level out. Private consumption is stimulated however by lower income taxes increasing real wages, in spite of an expected higher level of inflation. The development of house prices is difficult to judge but price increases in the same order of magnitude as in the first three quarters of 2007 appear less probable. Overall demand for credit from households for purchases and home improvements is therefore set to be lower than in the previous year. The company’s lending to households is expected to continue to rise though at a lower rate than in 2007.

The expected weakening trend in the economy will also mean a lower level of activity in the commercial property market, hence corporate lending is expected to grow at a slower rate.

Intense competition in the company’s sphere of operations remains but the previous trend with declining interest margins appears to have bottomed out. The company consequently sees possibilities for increased net interest income.

Change in the Board of Directors

At the Annual General Meeting of Shareholders on 20 March 2007 Ulla Hermann, Head of Group Credit Nordic Banking, Group Credit and Risk Control in Nordea, was elected ordinary member of Nordea Hypotek’s board of directors after the retiring member Göran Lind. Later during the year at the General Meeting of Sharholders on the 28 September 2007 Torsten Allqvie, Head of Western Sweden Nordic Banking, Regional Banks and CMB in Nordea, was elected chairman of Nordea Hypotek’s Board of Directors after the retiring chairman Hans Jacobsson.

Important changes after the end of the financial year

The board of directors has appointed Karin Markstedt as new president starting from 1 May 2008 when the current present retires.

Distribution of earnings

The proposed distribution of earnings is provided on page 35.

Income statement

SEK (000s)	Note	2007	2006
Operating income			
Interest income		12,572,587	9,940,237
Interest expense		–10,661,641	–7,971,207
Net interest income	3	**1,910,946**	**1,969,030**
Fee and commission income		67,007	66,192
Fee and commission expense		–14,990	–15,355
Net fee and commission income	4	**52,017**	**50,837**
Net gains/losses on items at fair value	5	–5,555	21,604
Other operating income	6	1	7,218
Total operating income		**1,957,409**	**2,048,689**
Operating expenses			
General administrative expenses:			
Staff costs	7	–2,792	–2,671
Other expenses	8	–503,459	–504,206
Depreciation, amortisation and impairment charges of tangible assets	9	–82	–63
Total operating expenses		**–506,333**	**–506,940**
Loan losses	10	7,071	14,004
Disposals of tangible assets		10	-
Operating profit		**1,458,157**	**1,555,753**
Appropriations	11	–1,719	–1,917
Income tax expense	12	–407,806	–435,270
Net profit for the year		**1,048,632**	**1,118,566**

Balance sheet

SEK (000s)	Note	2007	2006
Assets			
Loans to credit institutions	13	428,825	99,768
Lending to the public	13	316,688,931	283,637,184
Derivatives	14	1,939,916	395,553
Fair value changes of the hedged items in portfolio hedge of interest rate risk	15	–561,051	–322,654
Tangible assets	16	292	179
Tax assets		521	4,808
Other assets	17	164,560	365,550
Prepaid expenses and accrued income	18	995,895	753,529
Total assets		**319,657,889**	**284,933,917**
Liabilities			
Deposits by credit institutions	19	73,121,748	84,030,000
Debt securities in issue	20	226,424,531	182,273,535
Derivatives	14	1,109,390	1,286,725
Fair value changes of the hedged items in portfolio hedge of interest rate risk	15	–1,528,151	–1,104,084
Tax liabilities		–	3,818
Other liabilities	21	1,457,324	1,554,722
Accrued expenses and prepaid income	22	3,857,344	3,073,487
Subordinated liabilities	23	3,800,000	2,400,000
Total liabilities		**308,242,186**	**273,518,203**
Equity			
Share capital		110,000	110,000
Retained earnings		10,257,071	10,187,148
Net profit for the year		1,048,632	1,118,566
Total equity		**11,415,703**	**11,415,714**
Total liabilities and equity		**319,657,889**	**284,933,917**
Assets pledged		None	None
Contingent liabilities		None	None
Commitments	24	178,135,446	137,344,631

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Movements in equity

Equity

SEK (000s)	Share capital[1]	Unrestricted	Total
Balance at 1 Jan 2007	**110,000**	**11,305,714**	**11,415,714**
Net profit for the year	–	1,048,632	1,048,632
Total recognised income and expense in equity	*110,000*	*12,354,346*	*12,464,346*
Group contribution paid	–	–1,456,448	–1,456,448
Tax effect of group contribution	–	407,805	407,805
Balance at 31 Dec 2007	**110,000**	**11,305,703**	**11,415,703**

SEK (000s)	Share capital	Statutory reserve	Unrestricted	Total
Balance at 1 Jan 2006	**103,432**	**20,686**	**11,291,779**	**11,415,897**
Net profit for the year	–	–	1,118,566	1,118,566
Total recognised income and expense in equity	*103,432*	*20,686*	*12,410,345*	*12,534,463*
Group contribution paid	–	–	–1,553,818	–1,553,818
Tax effect of group contribution	–	–	435,069	435,069
Bonus issue	6,568	–20,686	14,118	–
Balance at 31 Dec 2006	**110,000**	**–**	**11,305,714**	**11,415,714**

[1] A 100,000 shares.

Cash flow statement

SEK (000s)	2007	2006
Operating activities		
Operating profit	1,458,157	1,555,753
Pension adjustments	–1,719	–1,917
Adjustment for items not included in cash flow	459,021	15,624
Income taxes paid	–407,336	–438,794
Cash flow from operating activities before changes in operating assets and liabilities	**1,508,123**	**1,130,666**
Changes in operating assets		
Change in lending to the public	–33,056,910	–21,048,376
Change in derivatives, net	–1,819,663	509,810
Change in other assets	200,990	54,171
Changes in operating liabilities		
Change in deposits by credit institutions	–10,908,252	–24,578,900
Change in debt securities in issue	44,150,995	43,940,391
Change in other liabilities	–97,398	–529,470
Cash flow from operating activities	**–22,115**	**–521,708**
Investing activities		
Acquisition of equipment	–316	–
Sale of equipment	131	–
Cash flow from investing activities	**–185**	**–**
Financing activities		
Issued subordinated liabilities	1,400,000	1,000,000
Group contribution paid	–1,048,643	–1,118,749
Cash flow from financing activities	**351,357**	**–118,749**
Cash flow for the year	**329,057**	**–640,457**
Cash and cash equivalents at the beginning of year	99,768	740,225
Cash and cash equivalents at the end of year	428,825	99,768
Change	**329,057**	**–640,457**

Comments on the cash flow statement
The cash flow statement has been prepared in accordance with IAS 7 with the exception of the classification of debt securities in issue. The cash flow statement shows inflows and outflows of cash and cash equivalents during the year. 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, investing 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)	2007	2006
Depreciation	82	63
Loan losses	5,162	–2,687
Unrealised gains/losses	97,965	199,255
Capital gains/losses (net)	–10	–
Change in accruals and provisions	541,491	32,024
Other	–185,669	–213,031
Total	**459,021**	**15,624**

Changes in operating assets and liabilities consist of assets and liabilities that are part of normal business activities, such as lending 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)	2007	2006
Interest payments received	12,333,179	9,841,976
Interest expenses paid	–9,804,149	–7,785,066

Investing activities
Investing activities include acquisitions and disposals of tangible assets.

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

SEK (000s)	2007	2006
Lending to credit institutions, payable on demand	428,825	99,768

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

Notes to the financial statements

Note 1

Accounting policies

Basis for presentation

Nordea Hypotek's annual report is prepared in accordance with the Swedish Act on Annual Accounts of Credit Institutions and Securities Companies (ÅRKL) and the regulations and general directions of the Swedish Financial Supervisory Authority in respect of annual reports of credit institutions and securities companies (FFFS 2006:16), with amendments (FFFS 2007:28) and the recommendations of the Swedish Financial Accounting Standards Council RR 32 (06). Nordea Hypotek applies so called limited IFRS and this refers to the standards approved for application in the EU with the limitations that follow from RR 32 and FFFS 2006:16. This means that all of the EU-approved IFRS and declarations are applicable as far as possible within the framework of ÅRKL and with consideration to the connection between financial reporting and taxation.

IASB has issued, during 2007, amendments to some standards. These amendments will come into force on 1 January, 2009. It is, however, voluntarily to adopt all these amendments already in 2007. Nordea has chosen to not adopt earlier than on 1 January, 2009.

The additional information, including risk information, required according to the above mentioned standards and legislation, has been included in the Notes and the Board of Directors' report.

On 26 February 2008 the board of directors approved the annual report, which is subject to final approval by the Annual General Meeting of Shareholders on 14 March 2008.

Changed accounting principles

In all other material respects the accounting policies and the basis for calculations are unchanged in comparison with the 2006 Annual report.

Critical judgments and key sources of estimation uncertainty

The preparation of financial statements in accordance with generally accepted accounting principles in certain cases requires the use of estimates and assumptions by management. The estimates are based on previous experience and assumptions that the management consider to be correct and reasonable. These estimates and underlying assumptions affect the reported amounts for assets, liabilities and commitments outside the balance sheet, 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.

Certain accounting principles may be considered to be of special significance for Nordea Hypotek's financial position, since they are based on difficult, complex and subjective estimates and assessments from the management, which are in most cases uncertain in nature. These critical estimates and assessments are mainly in reference to:

- fair valuation measurement of:
  – financial instruments and
- impairment testing of loans and receivables.

Fair value measurement

Financial instruments

Critical judgments are exercised when determining fair value of financial instruments in the following areas:

- The choice of valuation techniques.
- The determination of when quoted prices do not represent fair value
- The construction of fair value assessments in order to incorporate relevant risk factors such as credit risk, model risk and liquidity risk.
- The judgment of which market parameters are observable.

In all these instances the decisions are based on professional judgment in accordance with Nordea's accounting and valuation policies. All such decisions are subject to approval by the relevant group functions.

Impairment testing

Loans and receivables

When testing individual loans for impairment, the most critical judgment, containing the highest uncertainty , related to the estimation of the most probable future cash flow generated from the customer.

When testing a group of loans collectively for impairment, the key aspect is to identify the events and/or the observable data that indicate that losses have been incurred in the group of loans. Assessing the net present value of the cash flows generated by the customers in the group contains a high degree of uncertainty when using historical data and the acquired experience when adjusting the assumptions based on historical data to reflect the current situation.

See also the separate section "Loans and receivables".

Recognition of operating income and expense

Net interest income

Interest income and interest expenses are calculated and reported through application of the effective interest method or, if considered suitable, through application of a method that results in an income from interest or an interest expense that constitutes a reasonable estimate of what a calculation based on the effective interest method would give.

Net fee and commission income

Commission income and expenses are transaction-based and reported in the period when the services are received.

Net gains/losses on items at fair value

Realised and unrealised gains and losses on financial instruments measured at fair value are recognised in the item "Net gains/losses on items at fair value".
Realised and unrealised gains and losses derive from:

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

Assets and liabilities denominated in foreign currency

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

IAS 39 includes principles and rules concerning accounting for hedging instruments and the underlying hedged item, so called hedge accounting. Nordea Hypotek applies the EU carve out version of IAS 39 for portfolio hedges of both assets and liabilities.

The company's hedge accounting policy has been formulated to fulfil the requirements specified in IAS 39. Nordea Hypotek uses hedge accounting to achieve symmetric handling in terms of reporting the changes in fair value for the hedged item and changes in fair value in respect of the hedged instrument. The overall purpose is to have and fair representation of Nordea Hypotek's economical hedges in the financial statements.

According to IAS 39 there are in general mainly three types of hedge accounting:

- Cash flow hedge accounting
- Fair value hedge accounting
- Hedges of net investments in foreign operations.

In Nordea Hypotek, fair value hedge accounting is used for all hedges apart from hedges of net investments, meaning that both the hedging instrument and the hedged item are measured at fair value, with changes in fair values recognised directly in the income statement.

Hedge instruments

The hedge instruments used in Nordea Hypotek are predominantly interest-rate swaps. Currency interest rate swaps (CIRS) are only used in a few transactions.

Hedged items

According to IAS 39 a hedged item can be a single asset or liability as well as a group of assets or liabilities with similar risk characteristics. Hedged items in Nordea consist of both individual assets or liabilities and portfolios of assets or liabilities.

Hedge effectiveness

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

When assessing hedge effectiveness retrospectively Nordea 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.

If the hedge relationship does not fulfil the requirements, hedge accounting will be terminated. The change in the unrealised value of the derivatives will, prospectively from the last time it was last proven effective, be accounted for in the income statement at fair value through profit or loss. The change in the fair value on 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

Determination of fair value of financial instruments

Fair value is defined by IAS 32 and IAS 39 as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The best evidence of fair value is the existence of published price quotations in an active market and, insofar as they are available, that they are used in connection with the valuation of financial assets and financial liabilities. Nordea Hypotek uses published price quotations to establish the fair value of instruments.

Reporting of business transactions

Business transactions are reported at the time that risks and rights are transferred between the parties and payment is deemed likely. Trade date accounting is applied for transactions in the money and bond markets, and in the currency market. In the income statement, gross amounts are reported. Income and expense items are offset only when a statutory rule or an accounting standard requires or permits it.

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.

Classification of financial instruments

Each financial instrument within the scope of IAS 39 has been classified into one of the following categories:

Financial assets:

- Financial assets at fair value through profit or loss:
  – Financial assets designated as measured at fair value in the income statement
- Loans and receivables

Financial liabilities

- Financial liabilities at fair value through profit or loss
  – Financial liabilities designated as measured at fair value through profit or loss
- Other financial liabilities

The classification of financial instrument in different categories constitutes the basis for how each financial instrument is measured in the balance sheet and how the changes in this value is entered in the books.

Financial assets and liabilities are valued at fair value through profit or loss. Financial assets and liabilities at fair value through profit or loss are estimated at fair value. All changes in value in respect of these items are reported directly in the income statement under the item "Net gains/losses on items at fair value".

Loans outstanding

Loan receivables constitute financial assets that are not derivatives, with fixed or specific payments, and which are not quoted on an active market. These assets together with impaired loans are described further in the section "Loans and receivables".

Other financial liabilities

Other financial liabilities, which have not been classified as belonging to the category "Financial liabilities" are measured at fair value via profit or loss, and valued at accrued acquisition value. Interest from "Other financial liabilities are reported in the income statement under the item "Interest expenses".

Derivative instruments

All derivatives are reported in the balance sheet and estimated at fair value. Derivatives with positive fair value, including accrued interest, are reported as assets under the item "Derivatives". Derivatives with negative fair value, including accrued interest, are reported as liabilities under the item "Derivatives".

Realised and unrealised profit and losses on derivatives are reported in the income statement under the item "Net gains/losses on items at fair value".

Loans and receivables

Impairment test of loans attached to individual customers
Nordea tests significant loans for impairment on an individual basis. The purpose of the impairment tests is to find out if the loans have been impaired. As a first step in the identification process for impaired loans, Nordea monitors whether there are indicators for impairment and whether those can be regarded to be objective evidence of impairment.

In the process to conclude whether there is objective evidence of impairment, an assessment is done to estimate the most probable future cash flows generated by the customer. These cash flows are then discounted by the effective interest rate giving the net present value. Collaterals received to mitigate the credit risk will be assessed at fair value. If the book value of the loan is higher than the net present value of the estimated future cash flows, including the fair value of the collaterals, the loan is impaired.

Loans that are not individually impaired will be transferred to a group of loans with similar risk characteristics for a collective impairment test.

Impairment test of loans attached to groups of customers

Groups of loans with similar risk characteristics are assessed for impairment for:

- loans that are individually significant but not impaired, and for
- loans that are not significant, which have not been tested for impairment on an individual basis.

Nordea monitors its portfolio through the credit decision and annual review process supplemented by quarterly risk reviews. Through these processes Nordea identifies loss events indicating incurred losses in the group. Common for the customers in the group is that they have similar risk characteristics. The methods used to perform the impairment tests differ somewhat depending on if the loans are not significant or significant. For groups of loans where the loans are not significant the methods used are based mostly on historical data and experienced judgment performed by management. For groups of loans where the loans are significant, Nordea uses the existing rating system as a basis when assessing the credit risk.

Impairment loss

If the book value of the loans is higher than the sum of the net present value of estimated cash flows, including the fair value of the collaterals, the difference is the impairment loss.

If the impairment loss is not regarded as final, the impairment loss is accounted for on an allowance account representing the accumulated impairment losses. Changes in the credit risk and accumulated impairment losses will be recorded as changes in the allowance account and as "Loan losses" in the income statement.

If the impairment loss is regarded as final, it is reported as a realised loss. An impairment loss is regarded as final when the obligor is filed for bankruptcy and the administrator has stated a likely economic outcome of the bankruptcy procedure, or when Nordea forgives its claims either through a legal based or voluntary reconstruction or when Nordea, for other reasons, deem it unlikely that the claim will be recovered.

Discount rate

The discount rate used to measure impairment is the original effective interest rate for loans attached to an individual customer and, if applicable, to a group of loans.

Restructured loans

In this context a restructured loan is defined as a loan where the creditor has granted concessions to the obligor due to its deteriorated financial situation and where this concession has resulted in an impairment loss for the creditor. After a reconstruction the loan is normally regarded as not impaired under new conditions. Concessions made in a reconstruction are regarded as a final loss. If the creditor retains a possibility to regain the realised loan loss incurred, this is, in the event of a recovery, reported as a recovery of realised loan losses.

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.

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	3–5 years

Group contributions

Group contributions paid or received between Swedish companies for the purpose of optimising the tax of the Group are reported in accordance with URA 7 issued by the Swedish Financial Accounting Standards Council 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 equity), and respectively non-distributable (restricted funds) equity.

Restricted funds
In accordance with local legislation, 10 per cent 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 per cent of the share capital of the company in question. The reserve can only be utilised after decision by the Annual General Meeting.

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

Pensions

Pension costs
In 2007, pensions 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.

Taxes
Income tax comprises current tax and deferred tax. Income tax is reported as a cost respectively income and is taken up in the income statement as a tax expense, apart from income tax pertaining to transactions that are reported directly against shareholders' equity.

Current tax is based on Nordea Hypotek's taxable income and is calculated on the basis of local tax regulations and local tax rates.

Deferred tax claims and tax arrears are reported, in accordance with the balance sheet method, for all temporary differences that arise between booked and respectively fiscal value on assets and liabilities. Deferred tax claims are reported for unutilised fiscal losses and tax deductions. Tax claims are only reported insofar as it is probable that future taxable profit that is available, against which temporary differences, unutilised fiscal losses and tax deductions can be utilised. Deferred tax claims, as well as reporting of deferred taxes going forward, are evaluated continuously. Deferred tax liabilities are calculated for temporary differences and untaxed reserves.

Deferred tax claims and tax liabilities are not discounted. Claims and liabilities are estimated at the tax rate that is expected to apply to for the period when the asset is realised or the debt settled, based on the tax rates as per the counting date.

Current tax claims and tax debts, as well as deferred tax claims and tax debts, are set off when statutory right to setting off is in effect.

Related party transactions

Nordea defines related parties as:
- The parent company
- Key management personnel

The parent company
The parent company means Nordea Bank AB (publ) (Corp.reg.no.516406-0120)

Key management personnel
Key management personnel includes the following positions:
- The Board of Directors
- The President of Nordea Hypotek
- The Management

For information about compensation and pensions as well as loans to key management personnel, see Note 7 "Staff costs". Information around other transactions between Nordea Hypotek and key management personnel is found in Note 30 "Related-party transactions".

Segment reporting

New Segment reporting structure
As a consequence of the new operating model and Nordea's changed organisation as of 1 July, 2007, the financial reporting structure has been adjusted accordingly.

Financial results are presented for the two main Customer areas, Nordic Banking and Institutional and International Banking.

Group Corporate Centre, which is reported separately, is responsible for the finance, accounting, planning and control activities. It is furthermore responsible for the capital management and treasury operations. The latter includes funding, asset and liability management as well as the Group's own centralised market risk-taking in financial instruments.

Within Nordea, customer responsibility is fundamental. Nordea's total business relations with customers are reported in the customer responsible unit's income statement and balance sheet.

Allocation principles
Costs are allocated based on calculated unit prices and the individual Customer areas' and Product areas' consumption. Income is allocated with the underlying business transactions as driver combined with the identification of the customer responsible unit.

Assets, liabilities and economic capital are allocated to the Customer areas. Group Functions and Eliminations consists of income statement and balance sheet items that are related to the unallocated items/units.

Transfer pricing
Funds transfer pricing is based on current market interest rate and applied to all assets and liabilities allocated to or booked in the Customer areas or Group Functions.

Group internal transactions between legal entities are performed according to arm's length principles in conformity with OECD requirements on transfer pricing. The financial result of such transactions is reported in the relevant Customer area based on assigned product and customer responsibilities.

Group Functions and Eliminations
Group Functions and Eliminations include the unallocated results of the four Group Functions: Group Services and Technology, Group Credit and Risk Control, People and Identity and Group Legal and Compliance. Expenses in Group Functions, not defined as services to business areas, and profits from associated undertakings that are not included in the customer responsible units are reported under this heading.

Note 2

Segment reporting

Business segments	Nordic Banking		Inst. & International Banking		Group Corporate Center		Group Functions and Eliminations		Total	
Income statement, SEKm	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Customer responsible units										
Net interest income	1,489	1,586	0	0	–63	23	485	360	1,911	1,969
Net fee and commission income	103	100	0	0	–15	–15	–36	–34	52	51
Net gains/losses on items at fair value	–	0	–	–	–6	22	–	0	–6	22
Other income	–	–	–	–	–	–	0	7	0	7
Total operating income	**1,592**	**1,686**	**0**	**0**	**–84**	**30**	**449**	**333**	**1,957**	**2,049**
Other expenses	0	0	–	–	0	0	–506	–507	–506	–507
Total operating expenses	**0**	**0**	**–**	**–**	**0**	**0**	**–506**	**–507**	**–506**	**–507**
Loan losses	2	9	–	–	–	–	5	5	7	14
Operating profit	**1,594**	**1,695**	**0**	**0**	**–84**	**30**	**–52**	**–169**	**1,458**	**1,556**
Balance sheet, SEKm										
Loans and receivables	308,856	276,914	61	–	–	–	7,772	6,723	316,689	283,637
Other assets	1,601	2,354	0	0	7,177	–1,121	–5,809	64	2,969	1,297
Total assets	**310,457**	**279,268**	**61**	**0**	**7,177**	**–1,121**	**1,963**	**6,787**	**319,658**	**284,934**
Deposits by credit institutions	–	–	–	–	73,122	84,030	–	–	73,122	84,030
Other liabilities	308,863	277,573	61	0	–65,861	–85,181	–7,943	–2,904	235,120	189,488
Total liabilities	**308,863**	**277,573**	**61**	**0**	**7,261**	**–1,151**	**–7,943**	**–2,904**	**308,242**	**273,518**
Equity	1,594	1,695	0	0	–84	30	9,906	9,691	11,416	11,416
Total liabilities and equity	**310,457**	**279,268**	**61**	**0**	**7,177**	**–1,121**	**1,963**	**6,787**	**319,658**	**284,934**

Note 3

Net interest income

SEK (000s)	2007	2006
Interest income		
Loans to credit institutions	2,153	9,787
Lending to the public	12,570,435	9,930,450
Other interest income	–1	–
Interest income	**12,572,587**	**9,940,237**
Interest expense		
Deposits by credit institutions	–2,365,522	–2,220,616
Debt securities in issue	–7,985,854	–5,595,991
Subordinated liabilities	–100,653	–40,597
Other interest expenses	–209,612	–114,003
Interest expense	**–10,661,641**	**–7,971,207**
Net interest income	**1,910,946**	**1,969,030**

Average interest rate, lending		
Lending to the public		
Average volyme, SEK 000s	298,876	271,846
Average interest, %	4.21	3.65

Interest income from financial instruments not measured at fair value through profit and loss amounts to SEK 12,573m (9,940).

Interest expenses from financial instruments not measured at fair value through profit and loss amounts to SEK 10,452m (7,857).

The net interest income from derivatives, measured at fair value and related to Nordea's funding, decreases the total interest expense. For further information see also Note 1.

Note 4

Net fee and commission income

SEK (000s)	2007	2006
Loan commissions	39,300	39,769
Other commission income	27,707	26,423
Fee and commission income	**67,007**	**66,192**
Security commissions	–14,718	–15,009
Other commission expenses	–272	–346
Fee and commission expenses	**–14,990**	**–15,355**
Net fee and commission income	**52,017**	**50,837**

Note 5

Net gains/losses on items at fair value

SEK (000s)	2007	2006
Interest-bearing securities and other interest-related instruments	87,730	13,469
Foreign exchange gains/losses	–93,285	8,135
Total	**–5,555**	**21,604**

Net gains/losses for categories of financial instruments

SEK (000s)	2007	2006
Financial instruments under hedge accounting	–5,555	21,604
of which net losses on hedging instruments	–191,250	–191,119
of which net gains on heged items	185,695	212,723

Note 6

Other operating income

SEK (000s)	2007	2006
Other	1	7,218
Total	**1**	**7,218**

Note 7

Staff costs

SEK (000s)	2007	2006
Salaries and remuneration (specification below)	–1,444	–1,372
Pension costs (specification below)	–731	–723
Social insurance contributions	–506	–481
Allocation to profit-sharing foundation	–46	–30
Other staff costs	–65	–65
Total	**–2,792**	**–2,671**

Salaries and remuneration:		
President		
– Fixed salary	–696	–675
– Variable salary	–140	–105
– Benefits	–80	–86
Vice President		
– Fixed salary	–608	–592
Total	**–1,444**	**–1,372**

	2007	2006
Pension costs:		
Actuarial pension costs	–693	–686
Pension premiums	–38	–37
Total	**–731**	**–723**

No directors' fee was paid to board members.

The President's performance-based salary is dependent on the attainment of goals set by the chairman of the Board of Directors, and can be a maximum of 25 per cent of the fixed salary. Provisions for performance-based salary each year is preliminary. Any performance-based salary for 2007 is determined in March 2008, and is paid subsequently. Deviations against allocations made are charged to the result for 2008. Nordea Hypotek has no share-based incentive system.

The President had a car and fuel benefit during the whole year.

The President's contract of employment may be terminated by either the President or the company with six (6) months' notice.

In accordance with their employment contracts the President and the Vice President are entitled to six months' salary during the period of notice. For the President the notice pay and severance pay may not exceed 24 months' salary. The total amount will be reduced by any salary the President receives as a result of other employment during the payment period.

Lending and receivables to the Board of Directors, President and executives

SEK	2007	2006
Lending at year-end	12,134,282	8,656,546

Pension commitments to the President and executives

SEK	2007	2006
Pension costs for previous President	359,636	354,060
Pension commitments for previous President	3,885,925	3,997,025
Pension costs for President	501,650	496,400
Pension commitments for President	6,633,946	5,927,552
Pension costs for Vice President	229,618	226,693
Pension commitments for Vice President	3,557,219	3,262,810

The pension age for the President and Vice President is 65 years. At the pensionable age, pension is paid according to collective agreement. Fixed salary is pensionable income. One third of performance-based salary is pensionable income. Pensions are paid from pension foundation. All pensions are benefit defined. The President and the Vice President have a partial pension of 20 per cent according to paragraph 7 in the pension agreement signed between BAO and Finansförbundet/SACO.

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

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

Average number of employees

Full-time equivalents	2007	2006
Men	2	2
Total	**2**	**2**

At year-end the total number of employees was 2 (2).

Note 8

Other expenses

SEK (000s)	2007	2006
Information technology[1]	–98	–106
Postage, telephone and office expenses	–955	–2,148
Rents, premises and real estate	–633	–665
Compensation to Nordea	–491,400	–491,400
Other[2]	–10,373	–9,887
Total	**–503,459**	**–504,206**

1) Refers to IT operations, service expenses and consultant fees.
2) Including fees and remuneration to auditors distributed as follows.

Auditors' fees

SEK (000s)	2007	2006
KPMG Bohlins		
Auditing assignments	–331	–262
Other assignments incl audit-related services	–633	–248
Deloitte		
Auditing assignments	–69	–
Ernst & Young		
Auditing assignments	–	–11
Total	**–1,033**	**–521**

Note 9

Depreciation, amortisation and impairment charges of tangible assets

Depreciation/amortisation

SEK (000s)	2007	2006
Equipment	–82	–63
Total	**–82**	**–63**

Note 10

Loan losses

SEK (000s)	2007	2006
Loan losses divided by class, net		
Loans to credit institutions	7,071	14,004
– of which write-offs and provisions	–6,868	–6,263
– of which reversals and recoveries	13,939	20,267
Total	**7,071**	**14,004**
Specification of Loan losses		
Changes of allowance accounts in the balance sheet	–1,507	5,890
– of which Loans[1]	–1,507	5,890
Changes directly recognised in the income statement	8,578	8,114
– of which realised loan losses	–3,655	–3,203
– of which realised recoveries	12,233	11,317
Total	**7,071**	**14,004**

1) Included in Note 13 Loans and receivables and their impairment.

Not 11

Appropriations

SEK (000s)	2007	2006
Pension adjustments		
Reversed actuarial pension costs	693	686
Pension benefits paid	–1,941	–2,095
Special wage tax/return tax	–471	–508
Total	**–1,719**	**–1,917**

Note 12

Income tax expense

SEK (000s)	2007	2006
Current tax	–407,806	–435,073
Deferred tax	–	–197
Total	**–407,806**	**–435,270**

SEK (000s)	2007	2006
Profit before tax	1,456,438	1,553,836
Group contribution	–1,456,448	–1,553,818
Tax-exempt income	0	–18
Non-deductible expenses	10	0
Taxable income	**0**	**0**
Average effective tax rate	0.00	0.00

Note 13

Loans and receivables and their impairment

SEKm	Credit institutions 31 Dec 2007	Credit institutions 31 Dec 2006	The public 31 Dec 2007	The public 31 Dec 2006	Total 31 Dec 2007	Total 31 Dec 2006
Loans and receivables, not impaired	429	100	316,683	283,625	317,112	283,725
Impaired loans and receivables:	–	–	26	32	26	32
– Performing	–	–	18	30	18	30
– Non-performing	–	–	8	2	8	2
Loans and receivables before allowances	**429**	**100**	**316,709**	**283,657**	**317,138**	**283,757**
Allowances for individually assessed impaired loans	–	–	–9	–11	–9	–11
– Performing	–	–	–6	–9	–6	–9
– Non-performing	–	–	–3	–2	–3	–2
Allowances for collectively assessed impaired loans	–	–	–11	–9	–11	–9
Allowances	–	–	**–20**	**–20**	**–20**	**–20**
Loans and receivables, book value	**429**	**100**	**316,689**	**283,637**	**317,118**	**283,737**
Maturity information, SEK (000s)						
Remaining maturity (book value)						
Payable on demand	428,825	99,768	–	–		
Maximum 3 months	–	–	172,221,249	150,209,303		
3–12 months	–	–	30,941,290	29,490,466		
1–5 years	–	–	103,852,970	97,216,484		
More than 5 years	–	–	9,673,422	6,720,931		
Total	**428,825**	**99,768**	**316,688,931**	**283,637,184**		

Reconciliation of allowance accounts for impaired loans

Loans and receivables, SEK (000s)	The public: Individually assessed	The public: Collectively assessed	Total
Opening balance at 1 Jan 2007	**–10,453**	**–9,200**	**–19,653**
Provisions	–1,622	–1,591	–3,213
Reversals	1,706	–	1,706
Changes through the income statement	**84**	**–1,591**	**–1,507**
Allowances used to cover write-offs	864	–	864
Closing balance at 31 Dec 2007	**–9,505**	**–10,791**	**–20,296**
Opening balance at 1 Jan 2006	**–17,103**	**–8,440**	**–25,543**
Provisions	–2,300	–760	–3,060
Reversals	8,950	–	8,950
Changes through the income statement	**6,650**	**–760**	**5,890**
Allowances used to cover write-offs	–	–	–
Closing balance at 31 Dec 2006	**–10,453**	**–9,200**	**–19,653**

Key ratios

	31 Dec 2007	31 Dec 2006
Impairment rate, gross[1], %	0.01	0.01
Impairment rate, net[2], %	0.01	0.01
Total allowance rate[3], %	0.01	0.01
Allowance rate, impaired loans[4], %	37	34

1) Individually assessed impaired loans and receivables before allowances divided by total loans and receivables before allowances, %.
2) Individually assessed impaired loans and receivables after allowances divided by total loans and receivables before allowances, %.
3) Total allowances divided by total loans and receivables before allowances, %.
4) Allowances for individually assessed impaired loans and receivables divided by individually assessed impaired loans and receivables before allowances, %.

Lending, gross, divided by collateral type

SEK (000s)	2007	2006
Single and two-family properties	158,192,583	145,569,425
Tenant-owner apartments	49,018,247	41,329,639
Multi-housing property	54,664,539	48,131,895
Public sector incl. surety/guarantee	39,261,953	33,970,385
Other collateral	15,571,905	14,655,493

Note 14

Derivatives

31 Dec 2007, SEKm	Fair value Positive	Fair value Negative	Total nom amount
Derivatives used for hedge accounting			
Interest rate derivatives			
Interest rate swaps	664	1,013	113,457
Other	–	–	482
Total	**664**	**1,013**	**113,939**
Foreign exchange derivatives			
Currency and interest rate swaps	1,276	96	43,294
Total	**1,276**	**96**	**43,294**
Total derivatives used for hedge accounting	**1,940**	**1,109**	**157,233**

31 Dec 2006, SEKm	Fair value Positive	Fair value Negative	Total nom amount
Derivatives used for hedge accounting			
Interest rate derivatives			
Interest rate swaps	389	984	116,256
Other	–	–	270
Total	**389**	**984**	**116,526**
Foreign exchange derivatives			
Currency and interest rate swaps	7	303	11,996
Total	**7**	**303**	**11,996**
Total derivatives used for hedge accounting	**396**	**1,287**	**128,522**

31 Dec 2007, SEKm	Positive	Negative
Maturity information		
Remaining maturity (book value)		
Maximum 3 months	658	–
3–12 months	24	171
1–5 years	1,009	852
More than 5 years	249	86
Total	**1,940**	**1,109**

31 Dec 2006, SEKm	Positive	Negative
Maturity information		
Remaining maturity (book value)		
Maximum 3 months	–	9
3–12 months	81	81
1–5 years	206	1,144
More than 5 years	109	53
Total	**396**	**1,287**

Note 15

Fair value changes of the hedged items in portfolio hedge of interest rate risk

Assets

SEK (000s)	31 Dec 2007	31 Dec 2006
Book value at beginning of year	–322,654	568,597
Changes during the year		
Revaluation of hedged items	–238,397	891,251
Book value at end of year	**–561,051**	**–322,654**

The book value at end of year represents accumulated changes in the fair value for those repricing time periods in which the hedged item is an asset.

Liabilities

SEK (000s)	31 Dec 2007	31 Dec 2006
Book value at beginning of year	–1,104,084	–
Changes during the year		
Revaluation of hedged items	–424,067	1,104,084
Book value at end of year	**–1,528,151**	**–1,104,084**

The book value at end of year represents accumulated changes in the fair value for those repricing time periods in which the hedged item is a liability.

Note 16

Tangible assets

SEK (000s)	2007	2006
Equipment		
Acquisition value at beginning of year	316	316
Acquisitions during the year	316	–
Sales/disposals during the year	–316	–
Acquisition value at end of year	**316**	**316**
Accumulated depreciation at beginning of year	–137	–74
Accumulated depreciation on sales/disposals during the year	195	–
Depreciations according to plan for the year	–82	–63
Accumulated depreciation at end of year	**–24**	**–137**
Total	**292**	**179**

The total amount is expected to be settled after more than twelve month

Note 17

Other assets

SEK (000s)	2007	2006
Claims on securities settlement proceeds	148,177	351,660
Other	16,383	13,890
Total	**164,560**	**365,550**

Note 18

Prepaid expenses and accrued income

SEK (000s)	2007	2006
Accrued interest income	987,888	748,480
Prepaid expenses	8,007	5,049
Total	**995,895**	**753,529**

Note 19

Deposits by credit institutions

SEK (000s)	2007	2006
Swedish banks	72,932,605	84,030,000
Foreign banks	189,143	–
Total	**73,121,748**	**84,030,000**

Maturity information

Remaining maturity (book value)

Payable on demand	329,605	–
Maximum 3 months	72,138,000	83,313,000
3–12 months	465,000	32,000
1–5 years	–	685,000
More than 5 years	189,143	–
Total	**73,121,748**	**84,030,000**

Note 20

Debt securities in issue[1]

SEK (000s)	2007	2006
Swedish bonds	183,498,487	170,686,119
EMTN	42,926,044	11,587,416
Total	**226,424,531**	**182,273,535**

[1] See Specification to Notes.

Maturity information, Debt securities in issue

Remaining maturity (book value)

Maximum 1 year	62,547,952	66,212,451
1– 5 years	146,081,391	114,179,609
5–10 years	17,795,188	1,881,475
Total	**226,424,531**	**182,273,535**

Average remaining maturity, years	2.3	2.9

Note 21

Other liabilities

SEK (000s)	2007	2006
Accounts payable	154	187
Other	1,457,170	1,554,535
Total	**1,457,324**	**1,554,722**

Note 22

Accrued expenses and prepaid income

SEK (000s)	2007	2006
Accrued interest	3,704,307	2,846,815
Other accrued expenses	5,434	5,782
Prepaid income	147,603	220,890
Total	**3,857,344**	**3,073,487**

Note 23

Subordinated liabilities[1]

SEK (000s)	2007	2006
Dated subordinated debenture loans	3,800,000	2,400,000
Total	**3,800,000**	**2,400,000**

[1] See Specification to Notes.

These debenture loans are subordinated to other liabilities.

Note 24

Commitments

SEK (000s)	2007	2006
Future payment obligations	18,596,000	7,526,000
Derivatives	157,233,169	128,522,713
Credit commitments	2,306,277	1,295,918
Total	**178,135,446**	**137,344,631**

Note 25

Capital adequacy

SEKm	31 Dec 2007[1]	31 Dec 2006
Tier capital	11,352	11,416
Capital base	15,088	13,816
Risk-weighted amount	161,373	153,378
Tier capital ratio, per cent	7.0	7.4
Total capital ratio, per cent	9.3	9.0

[1] Key ratios as per 31 Dec 2007 are calculated on the basis of the floor rules that are to be applicable according to the new capital cover regulations (Basel II)

More information can be found in the section Management and control of risk and capital.

Note 26

Fixed-interest terms for assets and liabilities[1)]

SEKm, 31 Dec 2007	–3 months	3–12 months	1–5 years	5 years–	Total
Assets					
Loans to credit institutions	429	–	–	–	429
Lending to the public	172,221	30,941	103,853	9,674	316,689
Total assets	**172,650**	**30,941**	**103,853**	**9,674**	**317,118**
Liabilities					
Deposits by credit institutions	72,468	465	–	189	73,122
Debt securities in issue	18,884	43,664	146,081	17,795	226,424
Subordinated liabilities	3,800	–	–	–	3,800
Total liabilities	**95,152**	**44,129**	**146,081**	**17,984**	**303,346**
Off-balance-sheet items	–64,144	8,672	46,241	10,234	1,003
Difference assets and liabilities inclusive off-balance-sheets items	13,184	–6,368	5,698	2,261	14,775
Cumulative difference	13,184	6,816	12,514	14,775	14,775

SEKm, 31 Dec 2006	–3 months	3–12 months	1–5 years	5 years–	Total
Assets					
Loans to credit institutions	100	–	–	–	100
Lending to the public	150,209	29,490	97,216	6,721	283,637
Total assets	**150,309**	**29,490**	**97,216**	**6,721**	**283,737**
Liabilities					
Deposits by credit institutions	83,313	32	685	–	84,030
Debt securities in issue	7,704	58,508	114,180	1,881	182,274
Subordinated liabilities	2,400	–	–	–	2,400
Total liabilities	**93,417**	**58,540**	**114,865**	**1,881**	**268,704**
Off-balance-sheet items	–44,791	25,338	23,325	–3,872	–
Difference assets and liabilities inclusive off-balance-sheets items	12,101	–3,712	5,676	968	15,033
Cumulative difference	12,101	8,389	14,065	15,033	15,033

1) Fixed-interest terms corresponds to the remaining time of contracts to maturity.

Note 27

Classification of financial instruments

SEKm, 31 Dec 2007 **Assets**	Loans and receivables	Derivatives used for hedging	Non-financial assets	Total
Loans and receivables to credit institutions	429	–	–	429
Loans and receivables to the public	316,689	–	–	316,689
Derivatives	–	1,940	–	1,940
Fair value changes of the hedged items in portfolio hedge of interest rate risk	–561	–	–	–561
Other assets	164	–	1	165
Prepaid expenses and accrued income	996	–	–	996
Total	**317,717**	**1,940**	**1**	**319,658**

SEKm, 31 Dec 2007 **Liabilities**	Derivatives used for hedging	Other financial liabilities	Non-financial liabilities	Total
Deposits by credit institutions	–	73,122	–	73,122
Debt securities in issue	–	226,425	–	226,425
Derivatives	1,109	–	–	1,109
Fair value changes of the hedged items in portfolio hedge of interest rate risk	–	–1,528	–	–1,528
Other liabilities	–	1,457	–	1,457
Accrued expenses and prepaid income	–	3,852	5	3,857
Subordinated liabilities	–	3,800	–	3,800
Total	**1,109**	**307,128**	**5**	**308,242**

SEKm, 31 Dec 2006 **Assets**	Loans and receivables	Derivatives used for hedging	Non-financial assets	Total
Loans and receivables to credit institutions	100	–	–	100
Loans and receivables to the public	283,637	–	–	283,637
Derivatives	–	396	–	396
Fair value changes of the hedged items in portfolio hedge of interest rate risk	–323	–	–	–323
Other assets	365	–	5	370
Prepaid expenses and accrued income	754	–	–	754
Total	**284,533**	**396**	**5**	**284,934**

SEKm, 31 Dec 2006 **Liabilities**	Derivatives used for hedging	Other financial liabilities	Non-financial liabilities	Total
Deposits by credit institutions	–	84,030	–	84,030
Debt securities in issue	–	182,274	–	182,274
Derivatives	1,287	–	–	1,287
Fair value changes of the hedged items in portfolio hedge of interest rate risk	–	–1,104	–	–1,104
Other liabilities	–	1,554	4	1,558
Accrued expenses and prepaid income	–	3,068	5	3,073
Subordinated liabilities	–	2,400	–	2,400
Total	**1,287**	**272,222**	**9**	**273,518**

Note 28

Assets and liabilities at fair value

	31 Dec 2007		31 Dec 2006	
SEKm	Book value	Fair value	Book value	Fair value
Assets				
Loans to credit institutions	429	429	100	100
Lending to the public	316,689	315,249	283,637	282,764
Derivatives	1,940	1,940	396	396
Fair value changes of the hedged items in portfolio hedge of interest rate risk	–561	–561	–323	–323
Tangible assets	0	0	0	–
Tax assets	0	0	5	5
Other assets	165	165	366	366
Prepaid expenses and accrued income	996	996	754	754
Total assets	**319,658**	**318,218**	**284,934**	**284,062**
Liabilities				
Deposits by credit institutions	73,122	73,116	84,030	84,037
Debt securities in issue	226,425	224,818	182,274	181,603
Derivatives	1,109	1,109	1,287	1,287
Fair value changes of the hedged items in portfolio hedge of interest rate risk	–1,528	–1,528	–1,104	–1,104
Tax liabilities	–	–	4	4
Other liabilities	1,457	1,457	1,555	1,555
Accrued expenses and prepaid income	3,857	3,857	3,073	3,073
Subordinated liabilities	3,800	3,801	2,400	2,400
Total liabilities	**308,242**	**306,630**	**273,518**	**272,855**

Estimation of fair value for assets and liabilities
Financial assets and financial liabilities in the balance sheet are generally measured at fair value, with the exception of loans and receivables, deposits and borrowings and issued securities.

The book values on loans and receivables, deposits and borrowings and issued securities are adjusted for the value of the fixed interest term in order to estimate the fair values that are presented in the tables above. The value of the fixed interest term is a result of changes in the relevant market interest rates. The discount rates used are based on current market rates for each term.

Fair value is estimated to be equal to the book value for short-term financial assets and financial liabilities.

Fair value is set to book value, in the tables above, for assets and liabilities for which no reliable fair value has been possible to estimate. This is valid for the line items investments in tangible assets and equipment and provisions.

For further information about valuation of items normally measured at fair value, see Note 1.

Fair value of financial assets and financial liabilities
The total effect on the income statement from financial assets and financial liabilities that are measured using valuation techniques based on assumptions not fully supported by observable market data amounted to SEKm 172 (SEKm –209) in Nordea Hypotek.

Note 29

Assets and liabilities in foreign currencies

SEKm, 31 Dec 2007	Euro	USD	NOK	Other	Total
Assets					
Loans to credit institutions	0	–	–	0	0
Other assets	445	15	27	5	492
Total assets	**445**	**15**	**27**	**5**	**492**
Liabilities					
Deposits by credit institutions	189	-	-	-	189
Debt securities in issue	40,885	642	1,186	113	42,826
Other liabilities	523	14	27	5	569
Total liabilities	**41,597**	**656**	**1,213**	**118**	**43,584**
Position not reported in the balance sheet	41,186	642	1,186	113	43,127
Net position, currencies	34	1	0	0	35

SEKm, 31 Dec 2006	Euro	USD	Other	Total
Assets				
Other assets	1	–1	6	6
Total assets	**1**	**–1**	**6**	**6**
Liabilities				
Debt securities in issue	11,366	–	121	11,487
Other liabilities	53	–1	6	58
Total liabilities	**11,419**	**–1**	**127**	**11,545**
Position not reported in the balance sheet	11,435	–	121	11,556
Net position, currencies	17	–	–	17

Note 30

Related-party transactions

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

Balance sheet	Key management personnel		Parent company	
SEK (000s)	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006
Assets				
Loans to credit institutions	–	–	428,825	99,768
Lending to the public	12,134[1)]	8,657	–	–
Derivatives	–	–	1,939,916	395,553
Other assets	–	–	16,382	13,883
Total assets	**12,134**	**8,657**	**2,385,123**	**509,204**
Liabilities				
Deposits by credit institutions	–	–	72,932,605	84,030,000
Debt securities in issue	–	–	9,497,230	4,148,188
Derivatives	–	–	1,109,390	1,286,726
Other liabilities	–	–	1,457,094	1,554,383
Accrued expenses and prepaid income	–	–	58,889	124,303
Subordinated liabilities	–	–	3,800,800	2,400,000
Total liabilities	–	–	**88,855,208**	**93,543,600**

Income statement	Parent company	
SEK (000s)	2007	2006
Interest income	220,455	202,194
Interest expense	–2,596,949	–2,323,942
Net fee and commission income	–2,254	–2,365
Net gains/losses on items at fair value	–316,173	–760,465
General administrative expenses:		
Staff costs	–27	–23
Other expenses	–498,600	–499,437
Total	**–3,193,548**	**–3,384,038**

Compensations to Key management personnel

Compensations to Key management personnel are specified in Note 7.

1) Lending divided by collateral type:
Single family properties SEK 8,678,500
Tenant-owner apartments SEK 3,354,324

Specifications to the Notes

Specification to Note 20:

Swedish bonds, SEK (000s) **2007**

Number	Currency	First sales day	Interest rate in %	Due dates for interest	Final payment day	Outstanding nominal amount
5513*	SEK	98-09-01	5.00	20 Apr	09-04-20	577,000
5518*	SEK	03-03-19	4.50	17 Sep	08-09-17	43,936,000
5519*	SEK	05-05-26	3.25	16 June	10-06-16	60,400,000
5520*	SEK	05-10-19	3.25	17 June	15-06-17	4,162,000
5521*	SEK	05-10-19	3.25	17 June	20-06-17	996,000
5522*	SEK	05-11-22	3.00	17 June	09-06-17	42,323,000
5523*	SEK	06-05-29	3.75	15 June	11-06-15	20,150,000
5524*	SEK	07-03-07	4.00	20 June	12-06-20	12,566,000

Loan 5513-5523: No interest rate adjustment

* Tap issues

Repurchase agreements
5519 – nom. 12,580,000 with due date 080109
5523 – nom. 500,000 with due date 080109
5524 – nom. 292,000 with due date 080102, nom. 5,224,000 with due date 080103

EMTN (bonds issued in foreign currency) **2007**

Currency	Issue day	Final payment day	Interest rate, %[1]	Outstanding nominal amount in currency, thousands[1]
HKD	02-07-11	09-08-28	5.34	137,000
SEK	02-12-16	08-12-01	Index-linked bond	100,000
EUR	06-10-25	11-10-25	3.75	1,250,000
EUR	07-01-19	09-01-19	4.00	500,000
EUR	07-02-06	14-02-06	4.25	1,250,000
EUR	07-03-13	10-12-13	4.00	20,000
USD	07-05-18	10-05-18	4.91	100,000
EUR	07-09-14	09-09-14	6 months' Euribor -7bps	50,000
NOK	07-10-03	17-10-03	5.69	1,000,000
EUR	07-11-23	10-11-23	4.25	1,250,000

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

Loans in foreign currency **2007**

Currency	Issue day	Final payment day	Interest rate, % [1]	Outstanding nominal amount in currency, (000s)[1]
EUR	99-05-04	09-05-04	3 months' Euribor + 0.125 Schuldschein[2]	15,000

1) Refers to original issue. The currency exposure and interest rate on certain loans have been changed by using currency and interest rate swaps.
2) Not secured.

Specification to Note 23:

Subordinated liabilities, SEK (000s) **2007**

Number	Currency	Interest rate, %	Due date	Outstanding nominal amount
Loan 2	SEK	3 months' stibor +0.50	13-06-30	900,000
Loan 3	SEK	3 months' stibor +0.33	14-12-30	500,000
Loan 4	SEK	3 months' stibor +0.19	16-12-29	1,000,000
Loan 5	SEK	3 months' stibor +0.50	17-12-18	1,400,000

Management and control of risk and capital

Principles for management and control of risk and capital

The information in this section refers to Nordea Hypotek AB (publ) with corp. reg. no 556091-5448. Financial reports for Nordea Hypotek are published half-yearly. Nordea Hypotek is wholly integrated in the Nordea Group's risk and capital management in its applicable parts, hence this description of how the area is dealt with in Nordea.

Nordea aims for overall balanced risk taking to increase shareholder value. Nordea's board of directors has ultimate responsibility for decisions regarding limits and for follow-up of the group's risk exposure. The board of directors is also ultimately responsible for setting goals for capital deployment. Risk in Nordea is reported in accordance with common principles and policies that are approved by the board of directors. The board of directors decides policies for the management of credit, market and liquidity risk as well as operative risk including the internal processes for assessment of capital adequacy. All policies are revised at least once a year. In Nordea Hypotek the board of directors is ultimately responsible for limiting and monitoring the company's risk exposure, and regularly reviews reports on risk exposure.

Roles and allocation of responsibility within the Nordea group

The Group's Chief Risk Officer (CRO) is responsible for development, validation and follow-up in respect of the rating systems, credit policy and credit strategy, credit instructions and guidelines for these as well as for granting credit and credit control. The CRO is also responsible for follow-up of market risk and operative risk.

Nordea's Chief Financial Officer (CFO) is responsible for planning of capital deployment, which includes reporting of capital adequacy, Economic Capital and the parameters (i.e. the probability of suspension of payments, PD, and loss in connection with suspension of payments, LGD) which are used for assessment of risk-weighted assets and for management of liquidity and the balance sheet.

The Chief Executive Officer (CEO), and Group Executive Management (GEM) regularly review reports relevant reports and have formed the following committees for management and control of risk and capital:

- The Asset and Liability Committee (ALCO), with the CFO as chairman, prepares matters of great importance to the Group's financial operations and risk including capital management for decisions by the CEO in GEM.
- The Capital Planning Forum, under the chairmanship of the CFO, monitors developments of necessary (according to internal and legal requirements) capital, capital base and also decides on measures for capital planning.
- The Risk Committee, in which the CRO is chairman, measures and monitors the development of risk on an aggregate level. The CRO is also head of Group Credit and Risk Control.
- The Executive Credit Committee (ECC) and the Group Credit Committee (GCC), with the CRO as chairman, decides on larger credit risk limits and branch policies for the Group. Credit risk limits are granted as individual limits for customers or consolidated customer groups as well as limits for selected sectors.

Credit risk limits, which are not decided by ECC or GCC, are decided by other decision-making bodies at different levels in the organisation. Nordea Hypotek has delegated the main part of its credit decisions to the parent company. The primary responsibility for credit risks affecting Nordea Hypotek lies with the customer-responsible units in the parent bank, which continuously assess the customer's ability to fulfil obligations and identify deviations from the agreed terms and shortcomings in the customer's financial position. The company's management regularly monitors customers' weakened financial positions or payment delays through detailed reporting and also following up by implementing necessary measures.

Within the Group there are two units, Group Credit and Risk Control and respectively Group Corporate Centre, that are responsible for the management of risk and capital. Group Credit and Risk Control is responsible for the Group's framework for risk management, consisting of policies, instructions and guidelines, while Group Corporate Centre bears responsibility for all capital management issues including capital requirements and capital base.

Different types of risk

There are different types of risk, which are described in more detail below according to how they are dealt with in the regulations for capital adequacy.

Risks in pillar 1
In the pillar 1, which forms the base for the capital requirement, there are three risk types included; credit risk, market risk and operational risk.

- Credit risk is the risk of loss if counterparts of the company fail to fulfil their agreed obligations and that the pledged collateral does not cover the company's claims. The credit risk in Nordea Hypotek arises chiefly through different forms of lending. Furthermore, credit risk includes counterparty risk which is the risk that the company's counterpart in an FX, interest, commodity, equity or credit derivative contract defaults prior to maturity of the contract and that the company at that time has a claim on the counterpart. Quantification of credit risk was originally developed within Nordea as a part of the framework for Economic Capital. The measurement of credit risk is based on the parameters; probability of default, loss given default and credit conversion factors.

- Market risk is the risk of a loss in the market value of portfolios and financial instruments (also known as market price risk) as a result of movements in financial market variables. Nordea Hypotek's market risk is primarily connected to the company's funding. From the end of 2006, Nordea's Value at Risk, VaR, model is the basis for calculating for general market risk.

- Operational risk is defined as the risk of direct or indirect loss, or damaged reputation resulting from inadequate or failed internal processes, from people and systems, or from external events. Legal risks and compliance risks like crime risk and process risk, including IT risk, constitute sub-categories to operative risk.

Risks in pillar 2
In the pillar 2 other risk types are measured and assessed. Nordea manages and measures these risks although they are not included in the calculation of the capital requirements. Nordea's Economic Capital includes most of the risks in pillar 2. In Nordea Hypotek risk types consist mainly of liquidity risk and interest rate risk.

- Liquidity risk refers to the risk of only being able to fulfil liquidity commitments at increased cost or, ultimately, being unable to meet obligations as they fall due. Nordea Hypotek's liquidity risk management is integrated in the Group's liquidity risk management. Risk management focuses both on short-term and long-term structural liquidity risk. The management of Nordea's liquidity risk includes a preparedness plan and stress test for liquidity management. A number of measures of liquidity risk have been developed to measure the exposure. In order to avoid short-term financing disturbances Nordea measures financing need, expressed as a maximum expected need for liquid funds over the next 14 days. The structural liquidity risk of Nordea is measured and limited by the net balance of stable funding, which is defined as the difference between stable liabilities and stable assets. Group Treasury is responsible for managing liquidity in Nordea and for compliance with the groupwide limits from Nordea's board of directors and the CEO in GEM.

- Exposure to interest-rate risk arises when there is a lack of balance in the interest rate structure between assets and liabilities and off-balance-sheet items. Nordea Hypotek 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 per centage point. On closing day, the interest risk amounted to 173.4 million kronor (30.6) for interest rate increase.

Capital adequacy
In table 1 overall capital requirements and risk-weighted assets (RWA) are shown as per 31 December 2007, specified as different risk types. Credit risks comprise more than 97 % of the risk in Nordea Hypotek. Operative risks account for 3 % and market risks for 0 % of capital requirements. The low capital requirement for market risk is positively affected by Nordea's use of internal models for market risk, which is approved by the Financial Supervisory Authority.

Table 1 also contains information concerning the methods used for calculating capital requirements. Of the total capital requirements for credit risk 27.5 % is calculated in accordance with the internal rating method, IRB, and 72.5 % according to the standardised approach.

In table 1 the capital requirement for credit risk, operative risk and market risk is adjusted by 4,219.1 million kronor in accordance with the transitional provisions (designated as the floor for capital requirements). During 2007 the capital requirement may not fall below 95 % of the capital requirements calculated according to rules and regulations for Basel I. For 2008 and 2009 capital requirement may not fall below 90 % and respectively 80 % of the capital requirement calculated according to rules and regulations for Basel I.

Tabel 1
Capital requirements and RWA, December 31 2007

SEKm	2007 Capital requirement	2007 Basel II RWA
Credit risk	**8,433.1**	**105,413.9**
IRB foundation	2,320.8	29,010.6
– of which corporate	2,318.2	28,978.0
– of which institutions	2.0	24.5
– of which other	0.6	8.0
Standardised	6,112.3	76,403.3
– of which retail	5,995.1	74,939.2
– of which other	117.1	1,464.2
Market risk	**0.0**	**0.0**
Operational risk	**257.6**	**3,219.8**
Standardised	257.6	3,219.8
Sub total	**8,690.7**	**108,633.7**
Adjustment for floor rules		
Additional capital requirement according to floor rules	4,219.1	52,739.0
Total	**12,909.8**	**161,372.7**

Capital requirement for credit risk

In June 2007 Nordea received approval from the Financial Supervisory Authority to use the basic internal rating method (IRK) for assets relating to companies and institutions. Nordea's intention is also to progressively apply the IRK method for other types of assets before the end of 2009. The standardised approach will, however, continue to be used for lesser assets and for new asset portfolios for which approved internal models are not yet in place.

Capital requirements per exposure class

In IRB and the standardised approach the legal capital requirement for credit risk is calculated according to the following formula:

Minimum capital requirement = RWA * 8 %, where
RWA = risk weight * EAD (exposure in connection with suspension of payments)

In table 2 the exposure, EAD, is shown as an average per centage risk weight (RW%), RWA and capital requirements distributed into exposure classes, which constitutes the foundations for the reporting of capital requirements. There are seven exposure classes for the IRB approach and fifteen classes for the standardised approach. Nordea Hypotek has chosen to combine certain classes in this summary with consideration to low exposure in these classes and to facilitate the reading of this information. The main part of the company's exposure according to the standardised approach is secured by residential property.

Table 2
Capital requirement for credit risk, December 31 2007

SEKm	Exposure	EAD	Average RW, %	RW	Capital requirement
IRB exposure classes					
Institutions	148	150	16%	25	2
Corporate	91,861	67,547	43%	28,978	2,318
Other non credit obligation assets	8	8	100%	8	1
Total IRB	**92,017**	**67,705**	**43%**	**29,011**	**2,321**
SA exposure classes					
Central government and central banks	3,422	3,610	0%	–	–
Regional governments and local authorities	13,101	35,913	0%	–	–
Retail	3,790	3,638	75%	2,729	218
Exposures secured by real estates	206,316	206,316	35%	72,211	5,777
Other[1]	3,163	3,307	44%	1,464	117
Total SA	**229,792**	**252,784**	**30%**	**76,404**	**6,112**

[1] Institutions standardised, corporates standardised, past due items, short term claims, covered bonds, and other items.

The definitions of exposure classes in the standardised approach differ from the classification in accordance with the IRB approach. Some exposure classes are derived from the type of counterparty while others are based on the asset type, product type, collateral type or exposure size. The exposure value of an on-balance-sheet exposure in the IRB approach is measured gross of value adjustments such as provisioning. The exposure at default (EAD) for the on-balance-sheet items, derivative contracts and securities financing transactions and long settlement transactions is 100% of the original exposure. Off-balance-sheet exposures are converted into EAD using credit conversion factors.

The RW% is calculated as RWA divided by EAD for IRB exposures. For exposures in the standardised approach, the RW% is given by the Financial Supervisory Authority.

Strategies and methods for the maintenance of capital adequacy

Nordea's ability to maintain the lowest capital requirement is regularly assessed by the Capital Planning Forum (CPF). CPF, under the chairmanship of the CFO, was established in August 2004 as the forum with responsibility for coordinating activities relating to capital planning within the group, including legal and internal requirements of capital and available capital. In addition to this CPF and its members judge future capital requirements with consideration to annual dividend, repurchase of shares, external and internal liabilities as well as decisions on supply of capital. The CPF considers information on key regulatory developments, market trends for subordinated debt and hybrid instruments and reviews the capital situation in the Nordea Group and in key legal entities. In the CPF the CFO decides, within the mandate given by the board of directors, on issuance of subordinated debt and hybrid capital instruments. Such decisions which affect Nordea Hypotek shall also be approved by its board of directors. Meetings are held at least quarterly and on request by the CFO.

Internal monitoring processes

Pillar II in the Capital Requirements Directive CRD, or the Supervisory Review Process (SRP), covers two main processes: the Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP). The purpose of the ICAAP is for each institution to review the management, mitigation and measurement of material risks to assess the adequacy of internal capital and to determine an internal capital requirement reflecting the risk appetite of the institution. The purpose of the SREP is to ensure that institutions have adequate capital to support all the risks in their businesses and to encourage institutions to develop and use better risk management techniques in monitoring and measuring risks.

In 2007, the Nordea Group's and Nordea Hypotek's tier 1 capital and capital base exceeded the regulatory minimum requirements outlined in the CRD. Considering the results of capital adequacy stress testing and capital forecasting, Nordea assesses that the buffers held for regulatory capital purposes are sufficient and that Nordea's internal capital targets – which are also applicable to Nordea Hypotek – of 6.5% for tier 1 capital and 9.0% for total capital are adequate given the current risk profile and capital position relative to Nordea's implementation timetable.

Nordea uses its internal capital models, Economic Capital, when considering internal capital requirements with and without market stress. As a number of Pillar II risks exist within Nordea's current Economic Capital framework – interest rate risk in the balance sheet, market risk in investment portfolios, counterparty risk and business risk – Nordea uses its existing internal capital measurements as the basis for any additional capital buffers, subject to the judgment of the aforementioned third parties. Nordea considers the results of its capital adequacy stress testing, along with EC and RWA forecasts, to determine its internal capital requirement and to ensure that the bank is adequately capitalised in different stress scenarios reflecting Nordea's risk appetite. The impact of stress testing on Nordea's capital policy increases as additional parts of the assets portfolio begin to use IRB models and, thus, become more sensitive to changes in customer credit ratings, collateral valuations and other capital parameters during changes in the economic cycle or periods of economic unrest.

Nordea's policy is to ensure that the capital base exceeds the internal capital requirement. Remaining buffers are expected to be reduced via dividends and/or share buy-backs as the regulatory requirement is reduced with the implementation IRB models for retail exposures, corporate and banks.

Capital base and conditions for items to be included in the capital base

A summary of items included in the capital base is available in table 3. Capital base is the sum of tier 1 capital and tier 2 capital after deductions. Tier 1 capital is defined as capital of the same or close to the character of paid-up capital eligible reserves and also a limited part (15% of tier 1) hybrid capital loans" (perpetual loans). Profit may only be included after external audit and after deduction of proposed dividend. Goodwill and deferred tax assets are deducted from tier 1. Tier 2 is divided in two different types, perpetual loans and dated loans. The total tier 2 amount may not exceed tier 1. Dated tier 2 loans may not exceed half the amount of tier 1. These limits are set after deductions. Such deductions are for instance investment in insurance and other financial companies. Half the amount should be deducted from tier 1 capital and the remaining half from the sum of tier 1 and tier 2. A transitional rule allows the invested capital in Nordea Life and Pensions to be deducted from the sum of tier 1 and tier 2 capital.

Nordea's calculation of the capital base is in line with the EU directive (2006/48 and 49) and the Swedish legislation. The difference between expected loss and provisions made for the related exposures are adjusted for in the capital base. The negative difference (expected losses exceed provisions) is referred to as the "shortfall". According to the rules in Capital Requirement Directive the amount shall be deducted from the capital base. According to the CRD transitional rules in the directive, the shortfall must be deducted from the RWA to be neutralised in a Basel I perspective. A positive difference (provisions exceed expected losses) can be included in tier 2 capital with some limitations.

Generally, Nordea Group is able to transfer capital within its legal entities without material restrictions. International transfers of capital between Nordea's legal entities are possible with the acceptance of the local regulatory authorities.

As per yearend year 2007, Nordea Hypotek held 3.8 million in outstanding dated subordinated debenture loans. The company had at this time no hybrid capital or perpetual debenture loans.

Table 3

SEKm	31 Dec 2007	31 Dec 2006
Calculation of total capital base		
Equity	**12,872**	**12,970**
Proposed/actual dividend	–1,456	–1,554
IRB provisions excess (+)/shortfall (–)	–64	0
Tier 1 capital (net after deductions)	**11,352**	**11,416**
Tier 2 capital	**3,800**	**2,400**
IRB provisions excess(+)/shortfall (–)	–64	0
Total capital base	**15,088**	**13,816**

Proposed distribution of earnings

After the company paid group contributions amounting to SEK 1,456,448,000 the following amount is available for distribution by the Annual General Meeting of Shareholders:

	SEK
Retained profit	10,257,071,000
Net profit for the year	1,048,632,000
Total	**11,305,703,000**

The Board of Directors and the President propose that

	SEK
To be carried forward	11,305,703,000

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 10 March 2008

Torsten Allqvie
Chairman

Ulla Hermann

Björn Hökby

Kurt Gustafsson

Leif Ronander
President

Our audit report was submitted on 11 March 2008

KPMG Bohlins AB

Hans Åkervall
Authorised Public Accountant

Audit report

To the Annual 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 2007. These accounts and the administration of the company and the application of the Annual Accounts Act of Credit Institutions and Securities Companies when preparing the annual accounts 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 and significant estimates made by the board of directors and the managing director when preparing the annual accounts, 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, Banking Business 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 of 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. The statutory administration report is consistent with the other parts of the annual accounts.

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 11 March 2008

KPMG Bohlins AB

Hans Åkervall
Authorised Public Accountant

Board of Directors, Auditor and Management

Board of Directors

Chairman

Torsten Allqvie, born 1959
Nordea Bank AB (publ)
Nordic Banking,
Regional Banks & CMB
Head of Western Sweden

Members

Kurt Gustafsson, born 1954
Nordea Bank AB (publ)
Banking and Capital Markets Products
Head of Account Products

Ulla Hermann, born 1952
Nordea Bank AB (publ)
Group Credit and Risk Control
Head of Group Credit, Nordic Banking
Sweden

Björn Hökby, born 1962
Nordea Bank AB (publ)
Nordic Banking, Segment Corporate
Country Manager Sweden

Leif Ronander, born 1945
President of
Nordea Hypotek AB (publ)

Auditor

KPMG Bohlins AB
Hans Åkervall
Authorised Public Accountant

Management

Leif Ronander, born 1945
President

Sten Roghe, born 1943
Head of Credits and Deputy President

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