Nordea

Annual Report 2013
Nordea Hypotek AB (publ)

Nordea´s vision is to be a Great European bank, acknowledged for its people, creating superior value for customers and shareholders. We are making it possible for our customers to reach their goals by providing a wide range of products, services and solutions within banking, asset management and insurance. Nordea has around 11 million customers, approximately 800 branch offices locations and is among the ten largest universal banks in Europe in terms of total market capitalisation. The Nordea share is listed on the NASDAQ OMX Nordic Exchange in Stockholm, Helsinki and Copenhagen.

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5 year overview

Income statement

SEKm	2013	2012	2011	2010	2009
Net interest income	4,647	4,229	3,210	2,688	3,043
Net fee and commission income	–83	–77	–84	–18	–3
Net result from items at fair value	–167	–71	56	171	282
Other income	—	0	0	—	—
Total operating income	**4,397**	**4,081**	**3,182**	**2,841**	**3,322**
General administrative expenses:					
– Staff costs	–7	–7	–7	–5	–6
– Other expenses	–492	–480	–479	–550	–549
Depreciation, amortisation and impairment charges of tangible assets	—	—	—	0	0
Total operating expenses	**–499**	**–487**	**–486**	**–555**	**–555**
Profit before loan losses	**3,898**	**3,594**	**2,696**	**2,286**	**2,767**
Net loan losses	–14	–22	–5	11	–61
Operating profit	**3,884**	**3,572**	**2,691**	**2,297**	**2,706**
Appropriations	446	–447	—	—	—
Income tax expense	–953	–822	–708	–604	–712
Net profit for the year	**3,377**	**2,303**	**1,983**	**1,693**	**1,994**

Balance sheet

SEKm	31 Dec 2013	31 Dec 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009
Assets					
Loans to credit institutions	1,259	2,724	6,385	11,762	208
Loans to the public	451,742	430,902	421,485	410,160	374,243
Derivatives	8,824	13,366	12,056	5,993	13,952
Fair value changes of the hedged items in portfolio hedge of interest rate risk	581	1,302	1,221	1,533	2,404
Tangible assets	—	—	—	0	0
Tax assets	2	1	1	1	0
Other assets	—	425	0	—	1,911
Prepaid expenses and accrued income	588	731	896	761	562
Total assets	**462,996**	**449,451**	**442,044**	**430,210**	**393,280**
Liabilities					
Deposits by credit institutions	118,985	102,475	86,348	86,360	86,592
Debt securities in issue	305,233	303,485	315,832	308,662	272,870
Derivatives	4,418	5,591	3,192	6,642	2,320
Fair value changes of the hedged items in portfolio hedge of interest rate risk	4,867	9,491	7,382	2,183	5,804
Tax liabilities	477	352	—	—	—
Other liabilities	2,184	1,786	2,692	2,473	2,573
Accrued expenses and prepaid income	6,141	6,824	7,050	6,722	5,786
Deferred tax liabilities	67	88	452	—	46
Provisions	—	—	119	57	50
Subordinated liabilities	4,400	4,300	4,400	3,800	3,800
Untaxed reserves	—	447	—	—	—
Equity	16,224	14,612	14,577	13,311	13,439
Total liabilities and equity	**462,996**	**449,451**	**442,044**	**430,210**	**393,280**

Ratios and key figures

	2013	2012	2011	2010	2009
Return on average shareholders' equity, %	21.3	15.5	14.1	12.2	16.0
Return on total capital, %	0.9	0.8	0.6	0.5	0.7
Investment margin, %	1.03	0.95	0.74	0.64	0.81
C/I ratio, %	11.7	12.5	15.4	19.1	18.5
Risk-weighted amount, before transition rules, SEKm	49,751	47,038	48,927	53,214	49,707
Risk-weighted amount, SEKm	218,588	204,624	194,707	186,515	166,050
Capital base, SEKm	20,199	18,771	17,517	16,884	16,900
Total capital ratio, before transition rules, %	40.6	39.9	35.8	31.7	34.0
Tier 1 capital ratio, before transition rules, %	31.9	31.0	27.0	24.8	26.6
Total capital ratio, %	9.2	9.2	9.0	9.1	10.2
Tier 1 capital ratio, %	7.3	7.1	6.8	7.1	8.0
Average number of employees	3	3	3	2	2

Definitions

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

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

Investment margin
Net interest income as a percentage of average total assets, monthly average.

Return on average shareholders' equity
Net profit for the year as a percentage of equity, monthly average.

Return on total capital
Operating profit as a percentage of average total assets, monthly average.

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.

Risk-weighted amount, before transition rules
Risk-weighted assets before adjusting for floor rules.

Tier 1 capital ratio, before transition rules
Tier 1 capital in relation to risk-weighted assets before adjusting for floor rules.

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

Total capital ratio
Capital base as a percentage of risk-weighted amounts.

Total capital ratio, before transition rules
The capital base in relation to risk-weighted assets before adjusting for floor rules.

Board of Directors' Report

The Board of Directors and the President of Nordea Hypotek AB (publ) (Corp. reg. no. 556091-5448) hereby present the Annual Report for 2013. The company is a wholly owned subsidiary of Nordea Bank AB (publ) (Corp. reg. no. 516406-0120).

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

Result
Operating profit amounted to SEK 3,884m (3,572), which is an increase of 8.7 per cent from the previous year. When comparing earnings with the previous year, account should mainly be taken of the following major items affecting comparability:

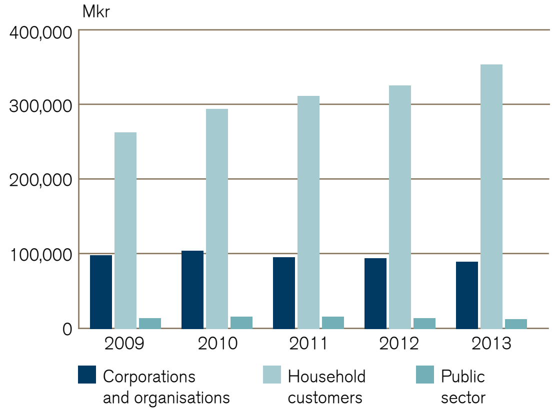
- Net interest income amounted to SEK 4,647m (4,229), an increase of 9.9 per cent.
- Net result from items at fair value declined by SEK 97m. This is chiefly attributable to financial instrument under hedge accounting, which negatively affected the item by SEK 72m, and to repurchase of issued bonds entered at amortised cost, which had a negative effect of SEK 20m on the item.
- Net commission income was charged in the amount of SEK 114m (115) with respect to an estimated fee to the state stabilisation fund.
- The volume of loans past due that are not classified as impaired declined to 0.10 per cent (0.12) for household lending, and to 0.12 per cent (0.21) for lending to corporate customers.
- Credit losses amounted to SEK –14m (-22) net, and are entirely attributable to household lending.
- Return on equity, after standard taxes, was 21.3 per cent (15.5).
- Compensation to Nordea Bank AB (publ) were largely unchanged compared to 2012.

Lending
Lending to the public increased during the year by 4.8 per cent (2.2) to SEK 451,742m (430,902) at year-end.

Lending to corporations, organisations and municipalities
Lending to legal entities declined by SEK 7,554m (7.1 per cent) to SEK 98,811m (106,365) at the end of the financial year.

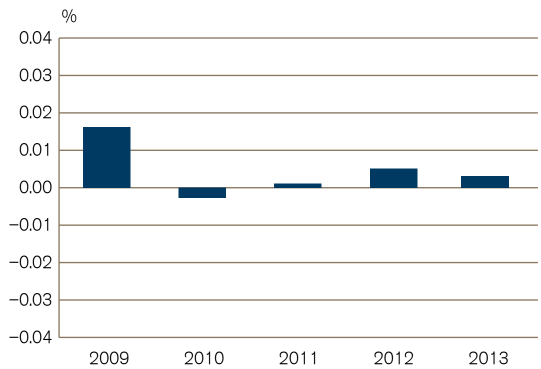
Lending to household customers
Household lending increased by SEK 28,394m (8.7 per cent) to SEK 352,931m (324,537) at year-end.

Distribution of the loan portfolio

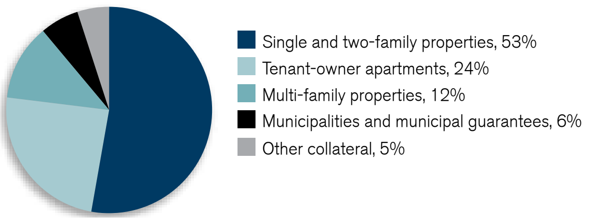


Net loan losses
New incurred and expected losses exceeded recoveries of impaired claims and reversals of provisions in previous years to a net amount of SEK –14 m (-22).

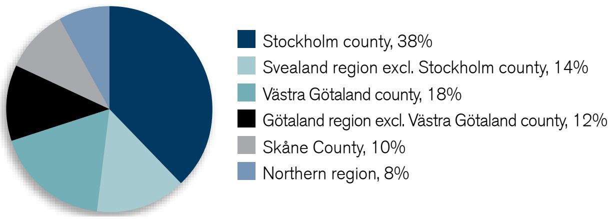
Loan losses net in relation to lending



Lending distribution in collateral



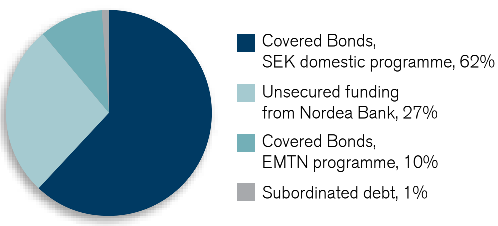
Geographic distribution of loans in covered pool



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

Funding
In 2013 all long-term funding, with the exception of subordinated debenture loans, was in the form of covered bonds. A covered bond is a funding instrument, regulated under the Covered Bonds (Issuance) Act (SFS 2003:1223), which gives investors special priority in the event of the borrower's bankruptcy. Covered bonds may only be issued after special permission from the Financial Supervisory Authority and on the basis of high quality assets. Covered bonds and received credit ratings provide the company with access to a broader base of funding sources.

Nordea Hypotek funding structure



In the Swedish market the company issued in 2013 fixed-rate bonds with maturities exceeding one year to the amount of SEK 67.3bn (37.6). The issues take place regulary in existing and new series, with the majority being so-called benchmark bonds. The company has agreements with six banks regarding the distribution of the bonds in the benchmark series. During the year, the company also issued a subordinated debenture loan of SEK 1.0bn (1.3), which was endorsed in its entirety by the Parent Company.

Total outstanding covered bonds at year-end amounted to SEK 303.2bn (320.8). In addition to that, the company had outstanding subordinated debenture loans of SEK 4.4bn (4.3).

Besides long-term funding as above, the company has regularly arranged short-term funding with the parent company during the year. At the end of the year the outstanding amount from such funding was SEK 119.0bn (102.4).

Rating
The covered bonds, which account for the company's main long-term funding, are rated Aaa by Moody's Investor Service and AAA by Standard & Poor´s.

Commitments
The business operations comprise commitments relating to commercial products such as credit commitments, etc.

In total the risk-weighted assets for counterparty credit risk amounted to SEK 18m (8). The risk-weighted assets for other off-balance sheet exposures were SEK 552m (491) and chiefly relate to credit commitments.

Derivatives
Derivative instruments primarily pertain agreements to exchange currencies (currency swaps) and agreements about exchanges of interest payments (interest rate swaps). The item ”Derivative instruments” in the balance sheet recognise derivative contracts at fair value. The nominal value of derivative contracts is provided in Note 12.

Capital adequacy
The application of the body of regulations in effect as of 1 February 2007 (Basel II) is described in detail in the section Risk, Liquidity and Capital Management. The section also provides numerical data for assessing the company's capital adequacy.

Environmental issues and social responsibility
In accordance with Nordea Group's Corporate Social Responsibility (CSR), Nordea Hypotek is committed to sustainable development by combining financial activity with responsibility for the environment and society. Further information about how Nordea Group works with CSR is available at nordea.com/csr.

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

Outlook for 2014
In line with market practice, Nordea has decided not to publish any forecasts for 2014.

Changes in the Board of Directors
Kurt Gustafsson has left the board in 2013. Thomas Nyman, Bank Director in Retail Banking Sweden, was elected new ordinary Chairman at the annual meeting of shareholders on 12 March 2013.

For further information concerning staff-related questions, see Note 6 ”Staff costs” and Note 30 ”Related-party transactions”.

Substantial changes after the end of the financial year
No major events have occurred after 31 December 2013.

Distribution of earnings
After the company paid group contribution of SEK 2,166,659,000 the net profit of the year amounted to SEK 3,376,859,000 and retained profit of SEK 12,498,182,000 as well as a cash flow hedge reserve of 238,527,000 are available for distribution by the annual meeting of shareholders. The proposed distribution of earnings is provided on page 39.

Risk, Liquidity and Capital Management

Management principles and Control

The information in this section refers to Nordea Hypotek AB (publ) with corporate registration number 556091-5448. Financial reports for Nordea Hypotek are published half-yearly. Nordea Hypotek is fully integrated in the Nordea group's risk and capital management in its applicable parts, which is why the below description refers to how the area is dealt with in Nordea.

Roles and allocation of responsibility within the Nordea group

Board of Directors and Board Risk Committee

The Board of Directors has the ultimate responsibility for limiting and monitoring the Group's risk exposure as well as for setting the targets for the capital ratios. Risk is measured and reported according to common principles and policies approved by the Board of Directors, which also decides on policies for credit risk, market risk, liquidity risk, business risk, life insurance risk and operational risk management as well as the ICAAP. All policies are reviewed at least annually.

In the credit instructions, the Board of Directors decides on powers-to-act for credit committees at different levels within the customer areas. These authorisations vary for different decision-making levels, mainly in terms of size of limits, and are also dependent on the internal rating of customers. The Board of Directors also decides on the limits for market and liquidity risk in the Group.

The Board Risk Committee assists the Board of Directors in fulfilling its oversight responsibilities concerning management and control of the risks, risk frameworks, controls and processes associated with the Group's operations.

Responsibilities for CEO and GEM

The Chief Executive Officer (CEO) has overall responsibility for developing and maintaining effective risk, liquidity and capital management principles and control.

The CEO in Group Executive Management (GEM) decides on the Group's earnings volaility measurement framework and targets for these such as the Structural Interest Income Risk (SIIR).

The CEO and GEM regularly review reports on risk exposure and have established a number of committees for risk, liquidity and capital management:

- The Asset and Liability Committee (ALCO), chaired by the Chief Financial Officer (CFO), prepares issues of major importance concerning the Group's financial operations and balance sheet risks as well as capital management for decision by the CEO in GEM or for recommendation by the CEO in GEM and for decision by the Group Board.
- The Risk Committee, chaired by the Chief Risk Officer (CRO), oversees the management and control of the Nordea Group's risks on an aggregate level and evaluates the sufficiency of the risk frameworks, controls and processes associated with these risks. Furthermore, the Risk Committee decides within the scope of resolutions adopted by the Board of Directors, on the allocation of the market risk limits and liquidity risk limits to the risk-taking units. The limits are set in accordance with the business strategies and are reviewed at least annually. The heads of the units allocate the respective limits within the unit and may introduce more detailed limits and other risk-mitigating techniques such as stop-loss rules. The Risk Committee has established two sub-committees for its work and decision-making within specific risk areas.
- The Group Executive Management Credit Committee (GEM CC) and Executive Credit Committee (ECC) are chaired by the CRO and the Group Credit Committee Retail Banking (GCCR) and the Group Credit Committee Wholesale Banking (GCCW) by the Chief Credit Officer (CCO). These credit committees decide on major credit risk customer limits and industry policies for the Group. Credit risk limits are granted as individual limits for customers or consolidated customer groups and as industry limits for certain defined industries.

Responsibilities for the units GRM and GCC

Within the Group, two units, Group Risk Management and Group Corporate Centre, are responsible for risk, capital, liquidity and balance sheet management. Group Risk Management, headed by the CRO, is responsible for the risk management. Group Corporate Centre, headed by the CFO, is responsible for the capital policy, the composition of the capital base, the capital adequacy framework and for liquidity risk management. Each business area and group function is primarily responsible for managing the risks in its operations within the decided limits and framework, including identification, control and reporting.

Risk management

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 fully integrated in the Nordea group's risk management system.

Risk appetite

Risk appetite within Nordea is defined as the level and nature of risk that the bank is willing to take in order to pursue the articulated strategy on behalf of shareholders, debt holders, regulators and other stakeholders. The Board of Directors is ultimately responsible for the Group's overall risk appetite and for setting principles regarding how risk appetite is managed. The Board Risk Committee assists the Board of Directors in fulfilling these responsibilities by reviewing the development of the risk profile in relation to risk appetite and making recommendations regarding changes to the Group's risk appetite.

Credit Risk management
Group Risk Management is responsible for the credit process framework and the credit risk management framework, consisting of policies, instructions and guidelines for the Group. Group Risk Management is also responsible for controlling and monitoring the quality of the credit portfolio and the credit process. Each division/unit is primarily responsible for managing the applicable framework and limits, including identification, control and reporting. Within the powers to act granted by the Board of Directors, credit risk limits are approved by credit decision-making authorities on different levels in the organisation. The rating and the exposure of the customer decide at what level the decision will be made. Responsibility for a credit risk lies with a customer responsible unit. Customers are assigned a rating or score in accordance with the Nordea's rating and scoring guidelines.

Credit risk definition and identification
Credit risk is defined as the risk of loss if customers fail to fulfil their agreed obligations and that the pledged collateral does not cover the existing claims. Credit risk stems mainly from various forms of lending, but also from guarantees and documentary credits, counterparty credit risk in derivative contracts, transfer risk attributable to the transfer of money from another country and settlement risk. For monitoring of the distribution of a portfolio, improving the risk management and defining a common strategy towards specific industries there are specific industry credit principles in place establishing requirements and caps.

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

A provision is recognized if there is objective evidence based on loss events or observable data that the customer's future cash flow is weakened to the extent that full repayment is unlikely, collateral included. Exposures with provision are considered as impaired. The size of the provision is equal to the estimated loss being the difference between the book value and the discounted value of the future cash flow, including the value of pledged collateral. Impaired exposures can be either performing or non-performing. Exposures that have been past due more than 90 days are automatically regarded as non-performing, and reported as impaired or not impaired depending on the deemed loss potential. In addition to individual impairment testing of all individually significant customers, collective impairment testing is performed for groups of customers that have not been found to be impaired on individual level. The collective impairment is based on the migration of rated and scored customers in the credit portfolio as well as management judgement. The assessment of collective impairment reacts to up- and down-ratings of customers as well as new customers and customers leaving the portfolio. Moreover, customers going to and from default affect the calculation. Collective impairment is assessed quarterly for each legal unit. The rationale for this two-step procedure with both individual and collective assessment is to ensure that all incurred losses are accounted for up to and including each balance sheet day.

The Pillar 3 disclosure – Capital and risk management report
More detailed information on risk and capital in accordance with the Pillar 3 requirements in the Basel II framework is available at www.nordea.com.

Credit portfolio
Loans to the public
In 2013, Nordea Hypotek's lending to the public increased by 4.8 per cent (2.2) to SEK 451,742m (430,902). Lending to the corporate sector accounted for 22 per cent (25) of the exposure, of which the public sector (state and municipal) accounted for 11 per cent (12). The household sector's share of exposure was 78 per cent (75). The distribution of the lending on types of collateral and maturities is shown in Note 11 and Note 29.

The company only grants mortgages for properties in Sweden.

Credit commitments and unutilised credit facilities amounted to SEK 145m (145).

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 4,418m (5,591).

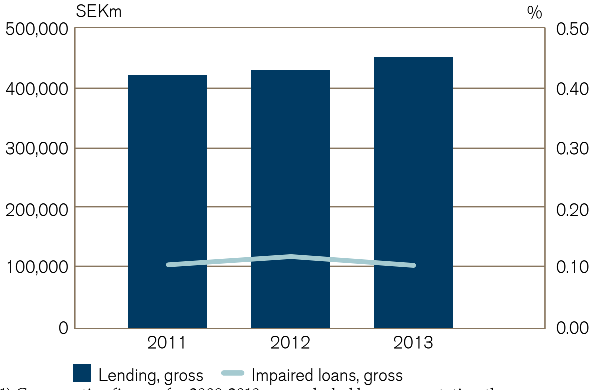
Loans to credit institutions
At the end of the year, lending to credit institutions amounted to SEK 1,259m (2,724), all of which was placed in group companies with maturities of less than one year.

Rating and scoring distribution
Rating and scoring are the main components in the risk management system for credit risk. The common denominator for the rating/scoring models is the ability to rank the customers and to foresee insolvency. While the rating models are used for corporate customers and counterpart banks, scoring models are used for household customers and smaller companies.

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

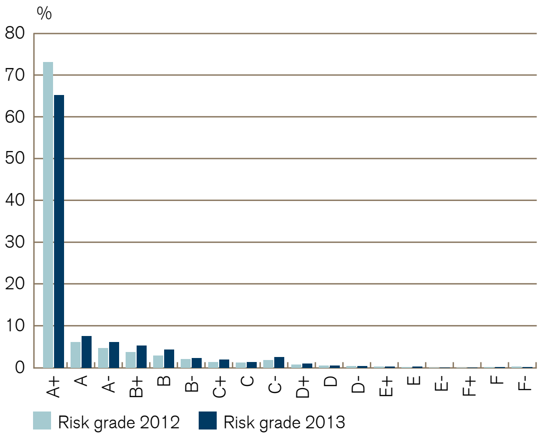
Scoring models are purely a statistical method used to predict the probability of insolvency among customers. Nordea uses three types of scoring models in the

Lending to the public and impaired loans[1]

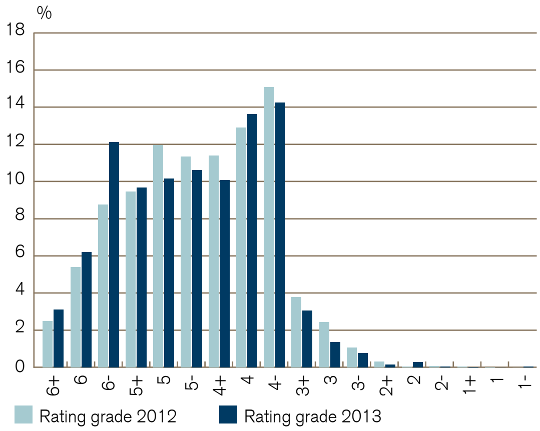


1) Comparative figures for 2009-2010 are excluded because restating them according to the new definition of impaired loans from 2012 have not been possible.

Risk grade distribution for the Retail portfolio



Rating distribution for the Corporate portfolio



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 household segment, and also for small-sized companies.

Impaired loans
Gross impaired loans amounted to SEK 451m (498), of which SEK 443m (496) were loans to households. The net amount, after a SEK 41m (41) deduction for provisions for individually assessed impaired loans, was SEK 410m (456), corresponding to 0.090 per cent (0.105) of the total volume of loans outstanding.

For additional information, see Note 11 "Loans and impairment".

Market risk
Market risk is the risk of loss in market value of financial instruments as a result of movements in financial market variables. The liquidity buffer and funding activities in Group Treasury are key contributors to market risk in Nordea Hypotek.

Structural Interest Income Risk (SIIR)
Structural Interest Income Risk (SIIR) is the amount Nordea's accumulated net interest income would change during the next 12 months if all interest rates changed by one percentage point. SIIR reflects the mismatch in the balance sheet items and the off balance sheet items when the interest rate reprising periods, volumes or the reference rates of assets, liabilities and derivatives do not correspond exactly. Nordea's SIIR management is based on policy statements resulting in different SIIR measures and organisational procedures. Policy statements focus on optimising financial structure, balanced risk taking and reliable earnings growth, identification of all significant sources of SIIR, measurements under stressful market conditions and adequate public information. Group Treasury has the responsibility for the operational management of SIIR.

Operational 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 and compliance risks as well as crime and process risks, including IT risks, constitute sub-categories to operational risk.

Liquidity management
Liquidity risk is the risk of being able to meet liquidity commitments only at increased cost or, ultimately, being unable to meet obligations as they fall due. Nordea Hypotek's liquidity risk management is an integral part of the group's liquidity risk management. The policy statement stipulates that Nordea`s liquidity management reflects a conservative attitude to liquidity risk. Risks in Nordea are measured and reported according to common principles and policies approved by the Board. The Board of Directors also decides on policies for liquidity risk management.

Nordea's liquidity risk management includes stress tests and a business continuity plan for liquidity Management. Stress testing is defined as the evaluation of potential effects on a bank's liquidity situation under a set of exceptional but plausible events.

The liquidity risk management focuses both on short-term and long-term structural liquidity risk. A number of measures of liquidity risk have been developed to measure the exposure. To ensure funding in situations where normal funding sources do not suffice, Nordea holds a liquidity buffer. In order to manage short-term funding positions, Nordea measures the funding gap risk, which expresses the expected maximum accumulated need for raising liquidity in the course of the next 30 days. Survival Horizon Metrics, sets a limit for a minimum survival of 30 days and defines risk appetite for short-term liquidity risk. Additionally, in the beginning of 2013 Liquidity Coverage Ratio was introduced as a regulatory requirement. A target is set for the net balance of stable funding that it should be positive, which means that stable assets must be funded by stable liabilities. Stable liabilities in Nordea Hypotek primarily comprise bank deposits, bonds and shareholders equity, while stable assets primarily compromise loans and committed facilities. Net balance of stable funding defines the risk appetite for long-term liquidity risk.

Capital management

Nordea Hypotek strives to attain efficient capital through active management of the balance sheet. The goal is to enhance returns while maintaining a prudent risk and return relationship.

Internal capital assessment

In December 2008, Nordea Hypotek was granted to use internal rating based (IRB) approach for the majority of the household portfolio, and at the end of 2013, 92 per cent of exposures were covered by IRB approach. Efforts to introduce the IRB approach continue for certain remaining portfolios.

Nordea bases the internal capital requirements under the Internal Capital Adequacy Assessment Process (ICAAP) on the minimum capital requirements and on internally identified risks. In effect, the internal capital requirement is a combination of risks defined by the Capital Requirements Directive (CRD) and identified risks which are incremental to those defined by the CRD. The following major risk types are included in assessing the internal capital requirement for Nordea Hypotek: credit risk, market risk, operational risk and business risk.

In addition to calculating risk capital for its various risk types, Nordea performs comprehensive capital adequacy stress tests to analyse the effects of a series of global and local shock scenarios. The results of stress tests are considered, along with potential management interventions, in Nordea's internal capital requirements as reserves for economic stress. The internal capital requirement is a key component of establishing Nordea's capital ratio target.

The ICAAP also comprises Nordea's management, mitigation and measurements of material risks and assesses adequacy of internal capital. The latter is achieved by establishing an internal capital requirement which reflects Nordea's risks. Regulatory buffers are introduced with the implementation of CRD IV (the new capital requirements directive). This might lead to higher capitalisation requirements than what is determined in the internal capital requirement. Should the regulatory capital requirement exceed the internal capital requirement, additional capital will be held to meet those regulatory requirements with a margin.

Capital requirements and RWA

SEKm	31 Dec 2013 Capital requirement	31 Dec 2013 RWA	31 Dec 2012 Capital requirement	31 Dec 2012 RWA
Credit risk	**3,570**	**44,621**	**3,386**	**42,328**
IRB foundation	3,569	44,605	3,385	42,314
– of which corporate	2,066	25,820	2,065	25,809
– of which institutions	0	2	5	64
– of which retail	1,501	18,753	1,311	16,390
– of which other	2	30	4	51
Standardised	1	16	1	14
– of which retail	0	0	0	0
– of which sovereign	0	0	0	0
– of which other	1	16	1	14
Market risk	—	—	—	—
Operational risk	**410**	**5,130**	**377**	**4,710**
Standardised	410	5,130	377	4,710
Subtotal	**3,980**	**49,751**	**3,763**	**47,038**
Adjustment for transition rules				
Additional capital requirement according to transition rules	13,507	168,837	12,607	157,586
Total	**17,487**	**218,588**	**16,370**	**204,624**

Economic Profit (EP)
Nordea uses EP as one of its financial performance indicators. EP is calculated as risk-adjusted profit less the cost of equity.

Risk-adjusted profit and EP are measures to support performance management and for shareholder value creation.

In investment decisions and customer relationships, EP drives and supports the operational decision making-process at Nordea. The EP model also captures both growth and return. EC and expected losses (EL) are input in the economic profit framework.

Expected losses (EL)
EL reflects the normalised loss level of the individual credit exposure over a business cycle as well as various portfolios. The EL ratio used in the EP framework, calculated as EL divided by exposure at default (EAD), was 13 basis points for Nordea Group as of year-end 2013 (restated to 14 basis points as of 2012) excluding the sovereign and institution exposure classes. EL is a more stable measure than actual losses, but it will vary with the business cycle as a consequence of shifts in the repayment capacity (PD dimension) and collateral coverage (LGD dimensions) distributions.

Capital base
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 a limited portion subordinated capital loans (undated loans) instruments, (maximum 50% of tier 1). Profit may only be included after deduction of proposed dividend. Goodwill and deferred tax assets are deducted from tier 1.

Tier 2 comprises undated 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. The limits are set after deductions, i.e. investment in insurance and other financial companies.

Capital base

SEKm	31 Dec 2013	31 Dec 2012
Equity	**17,914**	**16,276**
Group contribution paid	–1,690	–1,316
IRB provisions excess (+)/shortfall (–)	–93	–88
Other deductions	–239	–313
Tier 1 capital (net after deduction)	**15,892**	**14,559**
Tier 2 capital	**4,400**	**4,300**
IRB provisions excess (+)/shortfall (–)	–93	–88
Total capital base	**20,199**	**18,771**

Further information – Note 24 Capital adequacy and Pillar 3 report
Further information on capital management and capital adequacy is presented in Note 24 Capital adequacy and in the disclosure in accordance with Pillar 3 requirements according to the CRD in the Basel II framework is presented on www.nordea.com.

The 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 of end year 2013 Nordea Hypotek held SEK 4.4bn in outstanding dated subordinated debenture loans. The company had at this time no subordinated capital loans or perpetual debenture loans.

New regulations
The final version of the Capital Requirement Directive IV (CRD IV) and Capital Requirement Regulation (CRR) for the European financial market was published in June 2013. The Directive will be implemented through national law in all EU countries during 2014 while the Regulation will become applicable in all EU countries from 1 January 2014 directly through the European process. In addition to CRD IV/CRR, there are several closely related proposals emerging.

CRD IV and CRR
The CRD IV/CRR is intended to set a single rule book for all banks in all EU Member States in order to avoid divergent national rules. The European Banking Authority (EBA) are supporting the process by issuing binding technical standards and are expected to deliver more than 100 standards due to CRD IV/CRR, of which a large number were issued for consultation during 2013.

The CRD IV/CRR include several key initiatives, which change the current requirements that have been in effect since 2007. The regulation requires higher and better quality capital, better risk coverage, the introduction of a leverage ratio as a backstop to the risk-based requirement, measures to promote the build-up of capital that can be drawn down in periods of stress, and the introduction of liquidity standards.

The CRR requires banks to comply with the following minimum capital ratios.
- Common equity tier 1 (CET1) capital ratio of 4.5%
- Tier 1 capital ratio of 6%
- Total capital ratio of 8%

The CRD IV introduces a number of capital buffers. All buffers are to be expressed in relation to RWA and to be covered by CET1 and represent additional capital to be held on top of the minimum regulatory requirements. The buffers are a capital conservation buffer of 2.5%, a countercyclical capital buffer as an extension of the capital conservation buffer, which will be developed in national jurisdictions when excess credit growth is judged to be associated with a build-up of system-wide risk and are to be set in the range 0-2.5%. Supervisory authorities shall also require that globally systemically important institutions (G-SIIs) hold buffer of additionally 1-3.5%. In addition, the CRD IV allows for a Systemic Risk Buffer (SRB) to be added as well as a buffer for other systemically important institutions (O-SIIs). The O-SII buffer can be set up to 2% and the SRB can be set up to 3% for a banks all exposures and up to 5% for a banks domestic exposures. Breaching of these buffer requirements will restrict banks' capital distribution, such as dividend.

RWA will mainly be affected by additional requirements for counterparty credit risk, by introducing capital requirements for Credit Valuation Adjustment Risk and Central Counterparties, an introduction of an asset correlation factor for exposures towards large financial institutions and a multiplication factor of 0,7619 for exposures to small and medium sized entities (SMEs). Several countries are also discussing the introduction of higher risk weights or other restrictions on mortgage lending. The CRR also introduces a non-risk based measure, the leverage ratio, in order to limit an excessive build-up of leverage on credit institutions' balance sheets, thus helping to contain the cyclicality of lending.

CRD IV/CRR also introduces two new quantitative liquidity standards; liquidity cover-age ratio (LCR) and net stable funding ratio (NSFR). LCR requires that a bank hold liquidity buffers which are adequate to face any possible imbalance between liquidity inflows and outflows under gravely stressed conditions over a period of 30 days. NSFR requires that a bank shall ensure that long term obligations are adequately met with a diversity of stable funding instruments under both normal and stressed conditions. CRD IV/CRR does not contain detailed rules for NSFR. BCBS published detailed proposals for NSFR in 2010 and changed proposals on 12 January 2014. According to the Basel proposals, a bank' Available Stable Funding (ASF) shall be at least equal to its Required Stable Funding (RSF). ASF and RSF are determined by prespecified factors. LCR is expected to be phased in from January 2015 while NSFR might be introduced as a minimum standard by January 2018, but local requirements might give earlier implementation.

Other new regulation

FSB has published "Key Attributes of Effective Resolution Regimes for Financial Institutions". The Bank Recovery and Resolution Directive (BRRD) is the EU implementation of the FSB guidelines, and was finally agreed upon in December 2013. The BRRD addresses hot to maintain financial stability through reducing the systemic impact of failing financial institutions.

The BCBS has published a second consultative document on a fundamental review of the trading book. The aim is to strengthen the resilience to market risks due to observed weaknesses during the crisis. The review sets out a potential definition of the scope of the trading book and also proposes to strengthen the relationship between the standardised and internal models based approaches.

In 2012, the Commission presented a proposal to move to a full banking union in the Eurozone. In December 2013 the Parliament and the Council ensured that the European Central Bank (ECB) will be responsible for the supervision of banks in the framework of the Single Supervisory Mechanism (SSM). This is the first effective step in creating the banking union. A banking union can be defined as a fully integrated bank regulatory and supervisory system within a federal structure. National supervisors will however continue to play an important role in preparing and implementing the ECB's decisions. In order to increase consistency and efficiency of supervisory practises the EBA will continue to develop the single rule book applicable to all 27 member states. It will also ensure that regular stress-tests are carried out to assess the resilience of European banks. For banks active in several countries, both inside and outside the Eurozone, existing home/host supervisor coordination procedures will continue to exist as they do today.

In February 2012, the EU Commission established a High-level Expert Group (HLEG) with the task to assess whether additional reforms on the structure of individual banks should be considered. The HLEG presented a report in October 2012 with the suggestion to have a mandatory separation of proprietary trading and other so called high risk trading activities from the normal banking activities. During 2013 the Commission has been working on a legislative proposal and an impact study with the aim of presenting the proposal early 2014.

For forthcoming regulatory changes in accounting standards, see Note 1 "Accounting policies".

Income statement

SEK (000s)	Note	2013	2012
Operating income			
Interest income		13,144,496	15,877,500
Interest expense		–8,497,221	–11,648,312
Net interest income	3	**4,647,275**	**4,229,188**
Fee and commission income		53,532	54,950
Fee and commission expense		–136,620	–132,549
Net fee and commission income	4	**–83,088**	**–77,599**
Net result from items at fair value	5	–167,634	–70,897
Other operating income		—	20
Total operating income		**4,396,553**	**4,080,712**
Operating expenses			
General administrative expenses:			
– Staff costs	6	–6,893	–6,907
– Other expenses	7	–491,809	–479,837
Total operating expenses		**–498,702**	**–486,744**
Profit before loan losses		**3,897,851**	**3,593,968**
Net loan losses	8	–14,157	–22,023
Operating profit		**3,883,694**	**3,571,945**
Appropriations	9	446,495	–446,495
Income tax expense	10	–953,330	–821,997
Net profit for the year		**3,376,859**	**2,303,453**

Statement of comprehensive income

SEK (000s)	2013	2012
Net profit for the year	**3,376,859**	**2,303,453**
Items that may be reclassified subsequently to the income statement		
Cash flow hedges:		
– Valuation gains/losses during the year	–837,579	96,420
– Tax on valuation gains/losses during the year	184,267	–8,074
– Transferred to profit or loss for the year	741,424	–1,412,416
– Tax on transfers to profit or loss for the year	–163,113	371,465
Other comprehensive income, net of tax	**–75,001**	**–952,605**
Total comprehensive income	**3,301,858**	**1,350,848**

Balance sheet

SEK (000s)	Note	31 Dec 2013	31 Dec 2012
Assets			
Loans to credit institutions	11	1,259,343	2,724,021
Loans to the public	11	451,742,142	430,902,017
Derivatives	12	8,823,676	13,365,975
Fair value changes of the hedged items in portfolio hedge of interest rate risk	13	580,869	1,302,357
Current tax assets	10	2,187	816
Other assets	14	—	424,891
Prepaid expenses and accrued income	15	588,211	730,476
Total assets		**462,996,428**	**449,450,553**
Liabilities			
Deposits by credit institutions	16	118,985,000	102,475,323
Debt securities in issue	17	305,232,969	303,485,057
Derivatives	12	4,418,333	5,590,831
Fair value changes of the hedged items in portfolio hedge of interest rate risk	13	4,867,664	9,490,630
Tax liabilities	10	476,665	352,284
Other liabilities	18	2,183,843	1,786,383
Accrued expenses and prepaid income	19	6,141,108	6,823,415
Deferred tax liabilities	10	67,277	88,431
Subordinated liabilities	20	4,400,000	4,300,000
Total liabilities		**446,772,859**	**434,392,354**
Untaxed reserves	21	—	**446,495**
Equity			
Share capital		110,000	110,000
Cash flow hedge reserve		238,527	313,528
Retained earnings		12,498,182	11,884,723
Net profit for the year		3,376,859	2,303,453
Total equity		**16,223,568**	**14,611,704**
Total liabilities and equity		**462,996,428**	**449,450,553**
Assets pledged as security for own liabilities	22	428,313,341	408,954,435
Contingent liabilities		None	None
Commitments	23	145,000	145,000

Other Notes

Note 1 Accounting policies
Note 2 Segment reporting
Note 24 Capital adequacy
Note 25 Classification of financial instruments
Note 26 Assets and liabilities at fair value
Note 27 Financial instruments set off on balance or subject to netting agreements
Note 28 Assets and liabilities in foreign currencies
Note 29 Maturity analyses for assets and liabilities
Note 30 Related-party transactions
Note 31 Credit risk disclosures

Statement of changes in equity

SEK (000s)	Restricted equity Share capital[1]	Unrestricted equity Cash flow hedges	 Retained earnings	Total
Balance at 1 January 2013	**110,000**	**313,528**	**14,188,176**	**14,611,704**
Net profit for the year	—	—	3,376,859	3,376,859
Cash flow hedges:				
– Valuation gains/losses during the year	—	–837,579	—	–837,579
– Tax on valuation gains/losses during the year	—	184,267	—	184,267
– Transferred to profit or loss for the year	—	741,424	—	741,424
– Tax on transfers to profit or loss for the year	—	–163,113	—	–163,113
Other comprehensive income, net of tax	—	–75,001	—	–75,001
Total comprehensive income	—	–75,001	3,376,859	3,301,858
Group contribution paid	—	—	–2,166,659	–2,166,659
Tax effect of group contribution	—	—	476,665	476,665
Balance at 31 December 2013	**110,000**	**238,527**	**15,875,041**	**16,223,568**

SEK (000s)	Share capital[1]	Cash flow hedges	Retained earnings	Total
Balance at 1 January 2012	**110,000**	**1,266,133**	**13,200,990**	**14,577,123**
Net profit for the year	—	—	2,303,453	2,303,453
Cash flow hedges:				
– Valuation gains/losses during the year	—	96,420	—	96,420
– Tax on valuation gains/losses during the year	—	–8,074	—	–8,074
– Transferred to profit or loss for the year	—	–1,412,416	—	–1,412,416
– Tax on transfers to profit or loss for the year	—	371,465	—	371,465
Other comprehensive income, net of tax	—	–952,605	—	–952,605
Total comprehensive income	—	–952,605	2,303,453	1,350,848
Group contribution paid	—	—	–1,785,980	–1,785,980
Tax effect of group contribution	—	—	469,713	469,713
Balance at 31 December 2012	**110,000**	**313,528**	**14,188,176**	**14,611,704**

1) 100,000 shares.

Cash flow statement

SEK (000s)	2013	2012
Operating activities		
Operating profit	3,883,694	3,571,945
Adjustment for items not included in cash flow	–474,905	–178,664
Income taxes paid	–353,656	–133
Cash flow from operating activities before changes in operating assets and liabilities	**3,055,133**	**3,393,148**
Changes in operating assets		
Change in loans to credit institutions	—	5,904,375
Change in loans to the public	–20,867,255	–9,449,221
Change in derivatives, net	–665,838	1,831,061
Change in other assets	424,891	–424,701
Changes in operating liabilities		
Change in deposits by credit institutions	16,509,677	16,126,948
Change in debt securities in issue	1,747,913	–12,346,797
Change in other liabilities	–1,769,199	–2,691,750
Cash flow from operating activities	**–1,564,678**	**2,343,063**
Financing activities		
Issued subordinated liabilities	1,000,000	1,300,000
Amortised subordinated liabilities	–900,000	–1,400,000
Cash flow from financing activities	**100,000**	**–100,000**
Cash flow for the year	**–1,464,678**	**2,243,063**
Cash and cash equivalents at the beginning of year	2,724,021	480,958
Cash and cash equivalents at the end of year	1,259,343	2,724,021
Change	**–1,464,678**	**2,243,063**

Comments on the cash flow statement

The cash flow statement has been prepared in accordance with IAS 7. 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 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)	2013	2012
Loan losses	27,130	32,136
Unrealised gains/losses	3,939,484	–2,058,355
Change in accruals and provisions	–561,194	–543,005
Change in fair value of the hedged items assets/liabilities ,net	–3,901,478	2,027,169
Other	21,153	363,391
Total	**-474,905**	**–178,664**

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

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

SEK (000s)	2013	2012
Interest payments received	13,272,164	16,009,708
Interest expenses paid	–9,159,825	–11,980,363

Financing activities

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

Cash and cash equivalents

The following items are included in Cash and cash equivalents assets:

SEK (000s)	2013	2012
Loans to credit institutions, payable on demand	1,259,343	2,724,021

Loans 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

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1. Basis for presentation

The financial statements for Nordea Hypotek AB (publ), are prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (1995:1559) and IFRS with the amendments and exceptions following the recommendation RFR 2 "Accounting for Legal Entities" and UFR statements issued by the Swedish Financial Reporting Board and the accounting regulations of the Swedish Financial Supervisory Authority, FFFS 2008:25, with amendments in FFFS 2009:11, 2011:54 and 2013:2. FFFS 2013:24 is effective as from 1 January 2014, however the new requirement for disclosing maturity information has been early applied from 1 January 2013. Under RFR 2, Nordea Hypotek AB (publ) shall apply all standards and interpretations issued by the IASB and IFRS IC to the extent possible within the framework of Swedish accounting legislation and considering the close tie between financial reporting and taxation. The recommendation sets out the exceptions and amendments compared to IFRS.

The disclosures, required in the standards and legislation above, have been included in the Notes, the Risk, Liquidity and Capital Management section or in other parts of the "Financial statements".

On 25 February 2014 the Board of Directors approved the annual report, subject to final approval of the Annual General Meeting on 12 March 2014.

2. Changed accounting policies and presentation

The accounting policies, basis for calculations and presentations are, in all material aspects, unchanged compared with the 2012 Annual Report.

Changes in IFRSs implemented 2013

The new standard IFRS 13 "Fair Value Measurement" was implemented 1 January 2013 but has not had any significant impact on the measurement of assets and liabilities in Nordea Hypotek. IFRS 13 clarifies how to measure fair value but does not change the requirements which items should be measured at fair value. In addition IFRS 13 requires additional disclosures about fair value measurements. The additional disclosures required by by IFRS 13 are presented in Note 26 "Assets and liabilities at fair value".

IAS 32 "Financial Instruments: Presentation" and IFRS 7 "Financial Instruments": Disclosures" have been amended as regards offsetting of financial assets and financial liabilities. Nordea implemented these changes in 2013 (IAS 32 early adopted). The amendments intend to clarify the criteria for offsetting and to add disclosures. Nordea Hypotek's principles for offsetting are already in accordance with the clarified requirements and therefore there was no impact from amendments in IAS 32. The additional disclosures required by IFRS 7 are presented in Note 27 "Financial instruments set off on balance or subject to netting agreements".

In 2013 the IASB published a narrow scope amendment to IAS 39 "Financial Instruments: Recognition and Measurement". Nordea Hypotek implemented these changes in 2013 (early adopted). The amendment allows hedge accounting to be continued if a derivative designated as a hedging instrument is replaced with a new hedging instrument, where a clearing party replaces the original counterparty, as a consequence of laws or regulations. The amendment has not had any significant impact on the financial statements in Nordea Hypotek.

3. Changes in IFRS not yet applied by Nordea Hypotek

IFRS 9 "Financial instrument" (Phase 1)

In 2009 the IASB published a new standard on financial instruments containing requirements for financial assets. Requirements for financial liabilities were added to this standard in 2010. The standard is the first step in the replacement of IAS 39 "Financial instruments: Recognition and Measurements" and this first phase covers the classification and measurements of financial assets and liabilities. The effective date has been postponed from the earlier communicated date 1 January 2015, without any new effective date communicated. Earlier application is permitted. The EU commission has not yet endorsed this standard and is not expected to do so until all phases of IFRS 9 have been finalised. IFRS 9 "Financial instruments (phase 1) is not expected to have a significant impact on Nordea Hypotek's income statement and balance sheet as the mixed measurement model will be maintained. Significant reclassifications between fair value and amortised cost or impact on the capital adequacy and large exposures are not expected, but this is naturally dependent on the fiancial instruments on Nordea Hypotek's balance sheet at transition and the outcome of the final standard. It is expected that changes will be made to the standard before the standard becomes effective.

Nordea Hypotek has, due to the fact that the standard is not yet endorsed by the EU commission and as changes before the effective date are likely, not finalised the investigation of the impact on the financial statements in the period of initial application or in subsequent periods.

IFRS 9 "Financial instrument" (Phase 3)
The IASB have during 2013 amended IFRS 9 "Financial Instruments" and added new requirements for general hedge accounting, so called one-to-one hedges (Phase 3).

The main change is that the standard aligns hedge accounting more closely with the risk management activities. As Nordea Hypotek only uses macro (portfolio) hedge accounting Nordea Hypotek's assessment is that the new requirements will not have any significant impact on Nordea Hypotek's financial statement, capital adequacy or large exposures.

Annual improvements to IFRSs
The IASB has published minor amendments to IFRSs by issuing "Annual improvements IFRSs, 2010-2012 Cycle" and "Annual improvements to IFRSs, 2011-2013 Cycle". Most of the admendments are effective for annual periods beginning on or after 1 July 2014, but earlier application is permitted. The EU-commission is expected to endorse these amendments during the third quarter 2014. Nordea Hypotek's assessment is that the new requirements will not have any significant impact on Nordea Hypotek's financial statements, capital adequacy or large exposures.

IFRIC 21 "Levies"
The IASB has published IFRIC 21 "Levies". The effective date is as from 1 January 2014. The EU commission expects to endorse IFRIC 21 in the beginning of 2014. Nordea Hypotek will apply IFRIC 21 as from 1 January 2014, if endorsed by the EU commission.

IFRIC 21 is an interpretation of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". IFRIC 21 clarifies that if a levy is triggered by operating as a bank at the end of the reporting period, the liability for the levy is not recognised prior to that date. The assessment is that the new interpretation will not have any significant impact on Nordea Hypotek's financial statements, capital adequacy or large exposures.

4. Critical judgements and estimation uncertainty

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

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

Critical judgements and estimates are in particular associated with:

- the fair value measurement of certain financial instruments.
- impairment testing of loans to the public/credit institutions.
- the effectiveness testing of cash flow hedges

Fair value measurement of certain financial instruments
Critical judgements that have a significant impact on the recognised amounts for financial instruments is exercised when determining fair value of OTC-derivatives and other financial instruments that lack quoted prices or recently observed market prices. Those judgements relate to the following areas:

- The choice of valuation techniques.
- The determination of when quoted prices fail to represent fair value (including the judgement of whether markets are active).
- The construction of fair value adjustments in order to incorporate relevant risk factors such as credit risk, model risk and liquidity risk.
- The judgement of which market parameters are observable.

When determining fair value of financial instruments that lack quoted prices or recently observed market prices there is also a high degree of estimation uncertainty.
That estimation uncertainty is mainly a result of the judgement management exercises when:

- selecting an appropriate discount rate for the instrument and
- determining expected timing of future cash flows from the instruments.

In all of these instances the decisions are based on professional judgement in accordance with Nordea Hypotek's accounting and valuation policies. In order to ensure proper governance, Group Valuation Committee in Nordea Bank AB (publ) on an ongoing basis reviews critical judgment that are deemed to have a significant impact on fair value measurements.

See also the separate section 9 "Determination of fair value of financial instruments" and Note 26 "Assets and liabilities at fair value".

Impairment testing of loans to the public/credit institutions
Management is required to exercise critical judgement and estimates when calculating loan impairment allowances on both individually assessed and collectively assessed loans.

The most judgemental area is the calculation of collective impairment allowances. When testing a group of loans collectively for impairment, judgement has to be exercised when identifying the events and/or the observable data that indicate that losses have been incurred in the group of loans. Nordea Hypotek monitors its portfolio through rating migrations and a loss event is an event resulting in a negative rating migration. Assessing the net present value of the cash flows generated by the customers in the group of loans also includes estimation uncertainty. This includes the use of historical data on probability of default and loss given default supplemented by acquired experience when adjusting the assumptions based on historical data to reflect the current situation.

See also the separate section 11 "Loans to the public/credit institutions" and Note 11 "Loans and impairment".

Effectiveness testing of cash flow hedges

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

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

5. Recognition of operating income and impairment

Net interest income

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

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

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

Net fee and commission income

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

Fees paid to state guarantee programmes are distributed over the duration and classified as "Fee and commission expense".

Net result from items at fair value

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

Realised and unrealised gains and losses derive from:

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

The ineffective portion of cash flow hedges are recognised in "Net result from items at fair value".
Also realised gains and losses from financial instruments measured at amortised cost, such as interest compensation received and realised gains/losses on buy-backs of issued own debt, are classified as "Net result from items at fair value".

Net loan losses

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

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

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

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

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

In some cases, Nordea Hypotek enters into transactions where it transfers assets that are recognised on the balance sheet, but retains either all or portion of risks and rewards from the transferred assets. If all or substantially all risks and rewards are retained, the transferred assets are not derecognised from the balance sheet. If Nordea Hypotek's counterpart can sell or repledge the transferred assets, the assets are reclassified to the item "Financial instruments pledged as collateral" on the balance sheet. Transfers of assets with retention of all or substantially all risks and rewards include reversed repurchase agreements.

Financial liabilities are derecognised from the balance sheet when the liability is extinguished. Normally this occurs when Nordea Hypotek performs, i.e. on settlement date. Financial liabilities under trade date accounting are generally reclassified to "Other liabilities" on the balance sheet on trade date.

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

7. Translation of assets and liabilities denominated in foreign currencies

The functional and reporting currency in Nordea Hypotek is Swedish kronor (SEK).

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

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

8. Hedge accounting

Nordea Hypotek applies the EU carve out version of IAS 39 for portfolio hedges of both assets and liabilities. The EU carve out macro hedging enables a group of derivatives (or proportions thereof) to be viewed in combination and designated as the hedging instrument and removes some of the limitations in fair value hedge accounting relating to hedging core deposits and under-hedging strategies.

Nordea Hypotek uses hedge accounting in the financial statement in order to have a symmetrical accounting treatment of the changes in fair value of the hedged item and changes in fair value of the hedging instruments as well as to hedge the exposure to variability in future cash flows.

There are in general mainly three types of hedge accounting:

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

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

Fair value hedge accounting

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

Fair value hedge accounting in Nordea Hypotek is performed mainly on a portfolio basis. Any ineffectiveness is recognised in the income statement under the item "Net result from items at fair value".

Hedged items

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

Hedging instruments

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

Cash flow hedge accounting

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

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

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

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

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

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

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

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

9. Determination of fair value of financial instruments
Financial assets and liabilities classified into the category Financial assets/liabilities at fair value through profit or loss (including derivative instruments) are recorded at fair value on the balance sheet with changes in fair value recognised in the income statement in the item "Net result from items at fair value".

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

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

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

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

For financial instruments, where fair value is estimated by a valuation technique, it is investigated whether the variables used in the valuation model are predominantly based on data from observable markets. By data from observable markets, Nordea Hypotek considers data that can be collected from generally available external sources and where this data is judged to represent realistic market prices. If non-observable data has a significant impact on the valuation, the instrument cannot be recognised initially at the fair value estimated by the valuation technique and any upfront gains are thereby deferred and amortised through the income statement over the contractual life of the instrument. The deferred upfront gains are subsequently released to income if the non-observable data becomes observable.

A breakdown of fair values of financial instruments measured on the basis of quoted prices in active market for the same instrument (level 1), valuation techniques

using observable data (level 2), and valuation techniques using non-observable data (level 3) is provided in Note 26 "Assets and liabilities at fair value".
The valuation models applied by Nordea Hypotek are consistent with accepted economic methodologies for pricing financial instruments and incorporate the factors that market participants consider when setting a price.

New valuation models are subject to approval by the Model Risk Management Committee of Nordea Bank AB (publ) and all models are reviewed on a regular basis.

For further information, see Note 26 "Assets and liabilities at fair value".

10. Financial instruments

Classification of financial instruments
Financial assets are classified into the category Loans and receivables, and financial liabilities are classified into the category Other financial liabilities. Nordea Hypotek also holds derivative instruments for hedge accounting

All financial assets and liabilities are initially measured at fair value. The classification of financial instrument into different categories forms the basis for how each instrument is subsequently measured on the balance sheet and how changes in its value are recognised. In Note 25 "Classification of financial instruments" the classification of the financial instruments in Nordea Hypotek's balance sheet is presented.

Loans and receivables
Loans and receivables are non-derivative financial assets, with fixed or determinable payments, that are not quoted in an active market. These assets and their impairment are further described in the separate section 11 "Loans to the public/credit institutions".

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

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

Cash delivered under reversed repurchase agreement is recognised on the balance sheet as "Loans to credit institutions" or as "Loans to the public".

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

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

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

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

11. Loans to the public/credit institutions

Financial instruments classified as "Loans to the public/credit institutions" on the balance sheet and into the category Loans and receivables are measured at amortised cost (see also the separate section 6 "Recognition and derecognition of financial instruments on the balance sheet" as well as Note 25 "Classification of financial instruments").

Nordea Hypotek monitors loans as described in the separate section on "Risk, Liquidity and Capital management". Loans attached to individual customers or groups of customers are identified as impaired if the impairment test indicates objective evidence of impairment.

Impairment test of individually assessed loans
Nordea Hypotek tests all loans for impairment on an individual basis. The purpose of the impairment tests is to find out if the loans have become impaired. As a first step in the identification process for impaired loans, Nordea Hypotek monitors whether there are indicators for impairment (loss event) and whether these represent objective evidence of impairment. More information on the identification of loss events can be found in the "Risk, Liquidity and Capital Management" section.

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 collectively assessed loans
Loans not impaired on an individual basis are collectively assessed for impairment. The loans are grouped on the basis of similar credit risk characteristics that are indicative of the debtors´ ability to pay all amounts due according to the contractual terms. Nordea Hypotek monitors its portfolio through rating migrations, the credit decision and annual review process supplemented by quarterly risk reviews. Through these processes Nordea Hypotek identifies loss events indicating incurred losses in a group. A loss event is an event resulting in a deterioration of the expected future cash flow. Only loss events incurred up to the reporting date are included when performing the assessment of the group.

The objective for the group assessment process is to evaluate if there is a need to make a provision due to the fact that a loss event has occurred, which has not yet been identified on an individual basis. This period between the date when the loss event occurred and the date when it is identified on an individual basis is called "Emergence period". The impairment remains related to the group of loans until the losses have been identified on an individual basis. The identification is made through a default of the commitment or by other indicators.

For corporate customers and bank counterparts, Nordea Hypotek uses the existing rating system as a basis when assessing the credit risk. Nordea Hypotek uses historical data on probability of default to estimate the risk for a default in a rating class. These loans are rated and grouped mostly based on type of industry and/or sensitivity to certain macro parameters.

Household customers and small corporate customers are monitored through scoring models. These are based mostly on historical data, as default rates and loss rates given a default, and experienced judgement performed by management. Rating and scoring models are described in more detail in the separate section on Risk, Liquidity and Capital Management.

The collective assessment is performed through a netting principle, i.e. when rated engagements are up-rated due to estimated increases in cash flows, this improvement will be netted against losses on loans that are down-rated due to estimated decreases in cash-flows. Netting is only performed within groups with similar risk characteristics where Nordea Hypotek assesses that the customers' future cash flows are insufficient to serve the loans in full.

Impairment loss
If the carrying amount 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.

For significant loans that have been individually identified as impaired the measurements of the impairment loss is made on a individual basis.

For insignificant loans that have been individually identified as impaired and for loans not identified as impaired on an individual basis the measurement of the impairment loss is measured using a portfolio based expectation of the future cash flows.

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 "Net loan losses" in the income statement. See also section 5 "Recognition of operating income and impairment".

If the impairment loss is regarded as final, it is reported as a realised loss and the value of the loan and the related allowance is derecognised. An impairment loss is regarded as final when the obligor is filed for bankruptcy and the administrator has declared the economic outcome of the bankruptcy procedure, or when Nordea Hypotek forgives its claims either through a legal based or voluntary reconstruction or when Nordea Hypotek, 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 or, if applicable, to a group of loans. If considered appropriate, the discount rate can be based on a method that results in an impairment that is a reasonable approximation of using the effective interest rate method as basis for the calculation.

Restructured loans
In this context a restructured loan is defined as a loan where Nordea Hypotek has granted concessions to the obligor due to its deteriorated financial situation and where this concession has resulted in an impairment loss for Nordea Hypotek. After a reconstruction the loan is normally regarded as not impaired if it performs according to the new conditions. Concessions made in reconstructions are regarded as loan losses unless Nordea Hypotek retains the possibility to regain the realised loan losses incurred. In the event of a recovery the payment is reported as a recovery of loan losses.

12. Taxes
Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement, except to the extent that the tax effect relates to items recognised in other comprehensive income or directly in equity, in which case the tax effect is recognised in other comprehensive income or in equity respectively.

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

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

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

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

13. Employee benefits

All forms of consideration given by Nordea Hypotek to its employees as compensation for services performed are employee benefits. Short-term benefits are to be settled within twelve months after the reporting period when the services have been performed. Post-employment benefits are benefits payable after the termination of the employment. Post-employment benefits in Nordea Hypotek consist only of pensions. Termination benefits normally arise if an employment is terminated before the normal retirement date, or if an employee accepts an offer of voluntary redundancy.

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

Post-employment benefits
During 2013 pension costs comprise premiums and fees to insurance companies and pension funds as well as actuarially calculated pension costs for other commitments. The actuarial pension costs refer to commitments guaranteed by a pension foundation. The costs are reported in item Staff cost. Contribution from the pension foundation as well as changes in the pension provisions are reported in item Staff cost. Special payroll tax and return tax applicable to the Swedish pension system are also recognised in the Staff cost.

For further information on compensation, see Note 6 ”Staff costs”.

14. Equity

In accordance with Swedish law, shareholder's equity is split into funds available for distribution (unrestricted equity), and non-distributable funds (restricted equity). The distribution of amounts of Nordea Hypotek's equity into restricted equity and unrestricted equity is described in the statement of changes in equity.

Cash flow hedge reserve
The portion of the gain or loss on hedging instruments, which is determined to be an effective hedge, is recognised in the cash flow hedge reserve. For further information see section 8 ”Hedge accounting, cash flow hedge accounting”.

Retained earnings
Retained earnings comprise undistributed profits from previous years.

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

15. Untaxed reserves

For Nordea Hypotek, untaxed reserves comprise an allocation to the tax allocation reserve.

16. Related party transactions

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

Nordea Group Companies
Nordea Group Companies means the parent company Nordea Bank AB (publ) (Corp.reg.no.516406-0120) and its subsidiaries.

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

For information concerning compensation and pensions as well as loans to key management personnel, see Note 6 “Staff costs”. Information around other transactions between Nordea Hypotek and key management personnel is found in Note 30 “Related-party transactions”.

Note 2
Segment reporting

Reportable operating segments

Compared with the 2012 annual report there have been no changes in the basis of segmentation.

Banking Sweden provides full-service banking operations for private individuals and corporate customers and comprises Nordea Hypotek's biggest customer area. Other business segments pertains to Wholesale Banking and the support function Operations within Retail banking. Nordea Hypotek operates in the Swedish market and grants loans to private individuals, individual businessmen, municipalities and other legal entities through the parent bank's network of bank branches.

Operating segments

	Banking Sweden		Group Treasury		Other operating segments		Total operating segments		Reconciliation		Total	
Income statement, SEKm	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Net interest income	12,731	15,470	–8,502	–11,683	198	201	4,427	3,988	220	241	4,647	4,229
Net fee and commission income	–29	–26	–23	–17	–11	–11	–63	–54	–20	–23	–83	–77
Net result from items at fair value	87	—	–255	–71	0	0	–168	–71	0	0	–168	–71
Total operating income	**12,789**	**15,444**	**–8,780**	**–11,771**	**187**	**190**	**4,196**	**3,863**	**200**	**218**	**4,396**	**4,081**
Other expenses	—	0	—	0	–34	–22	–34	–22	–465	–465	–499	–487
Total operating expenses	**—**	**0**	**—**	**0**	**–34**	**–22**	**–34**	**–22**	**–465**	**–465**	**–499**	**–487**
Net loan losses	–14	–22	—	—	—	—	–14	–22	—	—	–14	–22
Operating profit	**12,775**	**15,422**	**–8,780**	**–11,771**	**153**	**168**	**4,148**	**3,819**	**–265**	**–247**	**3,883**	**3,572**
Balance sheet, SEKm												
Loans to the public	444,652	423,444	—	—	7,090	7,458	451,742	430,902	—	—	451,742	430,902

Reconciliation between total operating segments and financial statements

	2013		2012	
SEKm	Operating profit	Loans to the public	Operating profit	Loans to the public
Total operating segments	4,148	451,742	3,819	430,902
Group functions and unallocated items	–265	—	–247	—
Total	**3,883**	**451,742**	**3,572**	**430,902**

Segment reporting

The comparative figures for 2012 presented in the table above have been restated. The effect is shown in the table below. The reason for the restatement of the figures is that input figures were based on an erroneous reporting basis. The corrections have not had any effect on the income statement and balance sheet or other Notes for 2013 or previous periods.

Operation segments 2012

	Banking Sweden		Group Treasury		Other operating segments		Total Operating segments		Reconciliation		Total	
Income statement SEKm	After Adjust.	Before Adjust.	After Adjust.	Before Adjust.	After Adjust.	Before Adjust.	After Adjust.	Before Adjust.	After Adjust.	Before Adjust.	After Adjust.	Before Adjust.
Interest net	15,470	5,054	–11,683	–1,374	201	303	3,988	3,983	241	246	4,229	4,229
Total operating income	15,444	5,028	–11,771	–1,462	190	292	3,863	3,858	218	223	4,081	4,081
Operating profit	**15,422**	**5,006**	**–11,771**	**–1,462**	**168**	**270**	**3,819**	**3,814**	**–247**	**–242**	**3,572**	**3,572**

Note 3

Net interest income

SEK (000s)	2013	2012
Interest income		
Loans to credit institutions	2,872	58,889
Loans to the public	13,135,661	15,815,082
Other interest income	5,963	3,529
Interest income	**13,144,496**	**15,877,500**
Interest expense		
Deposits by credit institutions	–1,245,024	–2,005,340
Debt securities in issue	–9,618,795	–10,401,403
Subordinated liabilities	–191,313	–200,733
Other interest expenses[1]	2,557,911	959,164
Interest expense	**–8,497,221**	**–11,648,312**
Net interest income	**4,647,275**	**4,229,188**

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

Average interest rate, lending		
Lending to the public		
Average volume, SEKm	436,516	427,625
Average interest, %	3.01	3.70

Interest income from financial instruments not measured at fair value through profit and loss amounts to SEK 13,144m (15,877). Interest expenses from financial instruments not measured at fair value through profit and loss amounts to SEK 11,055m (12,607).

Note 4

Net fee and commission income

SEK (000s)	2013	2012
Loan commissions	27,764	31,787
Other commission income	25,768	23,163
Fee and commission income	**53,532**	**54,950**
Security commissions	–22,674	–17,407
State guarantee fees	–113,841	–115,034
Other commission expenses	–105	–108
Fee and commission expenses	**–136,620**	**–132,549**
Net fee and commission income	**–83,088**	**–77,599**

Note 5

Net result from items at fair value

SEK (000s)	2013	2012
Interest-bearing securities and other interest-related instruments[1]	–167,634	–70,897
Total	**–167,634**	**–70,897**

1) Of which SEK 93m (98) related to financial assets held at amortised cost.

Net result from categories of financial instruments

SEK (000s)	2013	2012
Loans and receivables	93,432	98,129
Financial liabilities measured at amortised cost	–223,342	–203,670
Financial instruments under hedge accounting	–37,724	34,644
– of which net result on hedging instruments	–4,035,357	745,817
– of which net result on hedged items	3,997,633	–711,173
Total	**–167,634**	**–70,897**

Note 6

Staff costs

SEK (000s)	2013	2012
Salaries and remuneration[1] (specification below)	–2,786	–2,757
Pension costs (specification below)	–2,562	–2,583
Social insurance contributions	–1,499	–1,512
Other staff costs	–46	–55
Total	**–6,893**	**–6,907**

1) Allocation to profit-sharing foundation 2013 SEK 44,000 (65,000) consists of a new allocation of SEK 43,000 (58,000) and related to prior year SEK 1,000 (7,000).

SEK (000s)	2013	2012
Salaries and remuneration:		
President		
– Fixed compensation and benefits	–1,031	–971
– Performance-related compensation	—	—
– Allocation to profit sharing	–15	–22
To other employees	–1,640	–1,664
Board of Director	–100	–100
Total	**–2,786**	**–2,757**

SEK (000s)	2013	2012
Pension costs:		
Actuarial pensions costs	–2,315	–2,281
Pension premiums	–247	–302
Total	**–2,562**	**–2,583**

To the Group Board Directors' no directors´fee was paid. For 2013 Nordea Hypotek had no incentive system or any performance-related compensation to employees.

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

Loans to key management personnel

Loans to key management personnel amounts to SEK 22,903,280 (23,569,860). Interest income on these loans amounts to SEK 506,877 (542,863).

For key management personnel who are employed by Nordea Hypotek the same credit terms apply as for employees in Nordea. In Sweden the employee interest rate on fixed- and variable interest rate loans is 215 basis points lower than the corresponding interest rate for external customers (with a minimum limit of 150 basis points for both variable interest rate loans and fixed interest rate loans). There is currently a cap of 57 Swedish price base amounts both on fixed- and variable interest rate loans. Interest on loans above the defined caps are set on market terms. Loans to family members of key management personnel are granted on normal market terms, as well as loans to key management personnel who are not employed by Nordea.

Note 6 Cont.

Pension commitments to the President and executives

SEK	2013	2012
Pension costs for President	—	—
Pension commitments for President	3,711,482	2,533,463
Pension costs for previous Presidents	995,959	393,588
Pension commitments for previous Presidents	12,100,071	12,120,782
Pension costs for Vice President	312,900	311,760
Pension commitments for Vice President	3,915,830	3,743,018

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

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

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

Average number of employees

	2013	2012
Full-time equivalents		
Men	3	3
Women	—	—
Total average	**3**	**3**

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

Gender distribution

In the Board of Directors of Nordea Hypotek AB 71% (71%) were men and 29% (29%) were women.

Note 7

Other expenses

SEK (000s)	2013	2012
Postage, telephone and office expenses	–1,478	–1,861
Compensation to Nordea	–464,880	–464,880
Other[1]	–25,451	–13,096
Total	**–491,809**	**–479,837**

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

Auditors' fees

SEK (000s)	2013	2012
KPMG		
Auditing assignments	–408	–346
Audit-related services	–577	–434
Other assignments	—	–119
Total	**–985**	**–899**

Note 8

Net loan losses

SEK (000s)	2013	2012
Divided by class		
Loans to the public	–14,157	–22,023
– of which provisions	—	–2,625
– of which write-offs	–27,130	–37,212
– of which allowances used for covering write-offs	—	5,690
– of which reversals	—	2,010
– of which recoveries	12,973	10,114
Total	**–14,157**	**–22,023**
Specification		
Changes of allowance accounts in the balance sheet	—	–615
– of which Loans, individually assessed[1]	—	–615
Changes directly recognised in the income statement	–14,157	–21,408
– of which realised loan losses, individually assessed	–27,130	–31,522
– of which realised recoveries, individually assessed	12,973	10,114
Total	**–14,157**	**–22,023**

1) Included in Note 11 Loans and impairment.

Note 9

Appropriations

SEK (000s)	2013	2012
Change in tax allocation reserve	446,495	– 446,495
Total	**446,495**	**–446,495**

Note 10
Taxes

Income tax expenses

SEK (000s)	2013	2012
Current tax[1]	–953,330	–821,997
Total	**–953,330**	**–821,997**

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

SEK (000s)	2013	2012
Profit before tax	4,330,188	3,125,451
Tax calculated at a tax rate 22.0 per cent (26.3)	–952,626	–821,993
Income not included in reported earnings	–1,051	—
Tax-exempt income	349	0
Non-deductible expenses	–2	–4
Tax charge	**–953,330**	**–821,997**
Average effective tax rate %	22.0	26.3

Deferred tax

SEK (000s)	31 Dec 2013	31 Dec 2012
Movements in deferred tax liabilities		
Amount at beginning of year	88,431	451,822
Deferred tax relating to items in Other comprehensive income	–21,154	–363,391
Amount at end of year	**67,277**	**88,431**

SEK (000s)	31 Dec 2013	31 Dec 2012
Deferred tax liabilities		
Deferred tax relating to cash flow hedges	67,277	88,431
Total	**67,277**	**88,431**
Current tax assets	**2,187**	**816**
Current tax liabilities	**476,665**	**352,284**

Note 11
Loans and impairment

	Credit institutions		The public		Total	
SEK (000s)	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
Loans, not impaired	1,259,343	2,724,021	451,359,428	430,472,752	452,618,771	433,196,773
Impaired loans	—	—	450,955	497,506	450,955	497,506
– of which performing	—	—	35,289	50,999	35,289	50,999
– of which non-performing	—	—	415,666	446,507	415,666	446,507
Loans before allowances	**1,259,343**	**2,724,021**	**451,810,383**	**430,970,258**	**453,069,726**	**433,694,279**
Allowances for individually assessed impaired loans	—	—	–41,241	–41,241	–41,241	–41,241
– of which performing	—	—	–37,000	–37,000	–37,000	–37,000
– of which non-performing	—	—	–4,241	–4,241	–4,241	–4,241
Allowances for collectively assessed impaired loans	—	—	–27,000	–27,000	–27,000	–27,000
Allowances	**—**	**—**	**–68,241**	**–68,241**	**–68,241**	**–68,241**
Loans, carrying amount	**1,259,343**	**2,724,021**	**451,742,142**	**430,902,017**	**453,001,485**	**433,626,038**

Reconciliation of allowance accounts for impaired loans[1]

	The public		
Loans, SEK (000s)	Individually assessed	Collectively assessed	Total
Opening balance at 1 January 2013	**–41,241**	**–27,000**	**–68,241**
Provisions	—	—	—
Reversals	—	—	—
Changes through the income statement	**—**	**—**	**—**
Allowances used to cover write-offs	—	—	—
Closing balance at 31 December 2013	**–41,241**	**–27,000**	**–68,241**
Opening balance at 1 January 2012	**–46,316**	**–27,000**	**–73,316**
Provisions	–2,625	—	–2,625
Reversals	2,010	—	2,010
Changes through the income statement	**–615**	**—**	**–615**
Allowances used to cover write-offs	5,690	—	5,690
Closing balance at 31 December 2012	**–41,241**	**–27,000**	**–68,241**

1) See Note 8 Net loan losses. The opening balance for 2012 have been restated due to the new definition of impaired loans implementated in 2012.

Note 11 Cont.

Key ratios

	31 Dec 2013	31 Dec 2012
Impairment rate, gross[1], basis points	10.0	11.5
Impairment rate, net[2], basis points	9.0	10.5
Total allowance rate[3], basis points	1.5	1.6
Allowance in relation to impaired loans[4], %	9.1	8.3
Total allowances in relation to impaired loans[5], %	15.1	13.7

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

Lending, gross, divided by collateral type

SEK (000s)	31 Dec 2013	31 Dec 2012
Single and two-family properties	239,586,342	224,205,499
Tenant-owner apartments	106,203,141	93,271,114
Multi-housing property	53,768,673	59,482,527
Public sector incl. surety/guarantee	23,425,068	31,632,738
Other collateral	28,827,159	22,378,380
Total	**451,810,383**	**430,970,258**

Note 12

Derivatives and Hedge accounting

	Fair value		Total nom.
31 Dec 2013, SEKm	Positive	Negative	amount
Derivatives used for hedge accounting			
Interest rate derivatives			
Interest rate swaps	7,887	1,500	268,903
Options	42	42	27,888
Total	**7,929**	**1,542**	**296,791**
Foreign exchange derivatives			
Currency and interest rate swaps	895	2,876	46,677
Total	**895**	**2,876**	**46,677**
Total derivatives used for hedge accounting	**8,824**	**4,418**	**343,468**
– of which fair value hedges	6,914	484	343,468
– of which cash flow hedges	1,910	3,934	46,677

	Fair value		Total nom.
31 Dec 2012, SEKm	Positive	Negative	amount
Derivatives used for hedge accounting			
Interest rate derivatives			
Interest rate swaps	12,197	2,142	325,881
Options	1	1	17,881
Total	**12,198**	**2,143**	**343,762**
Foreign exchange derivatives			
Currency and interest rate swaps	1,168	3,448	46,629
Total	**1,168**	**3,448**	**46,629**
Total derivatives used for hedge accounting	**13,366**	**5,591**	**390,391**
– of which fair value hedges	12,766	5,393	390,391
– of which cash flow hedges	600	198	41,926

Some cross currency swaps are used both as fair value hedges and cash flow hedges and the nominal amounts are then reported on both lines.

Note 13
Fair value changes of the hedged items in portfolio hedge of interest rate risk

Assets

SEK (000s)	31 Dec 2013	31 Dec 2012
Carrying amount at beginning of year	1,302,357	1,220,436
Changes during the year		
– Revaluation of hedged items	–721,488	81,921
Carrying amount at end of year	**580,869**	**1,302,357**

Liabilities

SEK (000s)	31 Dec 2013	31 Dec 2012
Carrying amount at beginning of year	9,490,630	7,381,539
Changes during the year		
– Revaluation of hedged items	–4,622,966	2,109,091
Carrying amount at end of year	**4,867,664**	**9,490,630**

The carrying amount at end of year represents accumulated changes in the fair value for those repricing time periods in which the hedged item is an asset respectively a liability. When the hedged item is an asset, the change in the fair value of the hedged item is presented within assets and when the hedged item is a liability, the change is presented as a liability.

Note 14
Other assets

SEK (000s)	31 Dec 2013	31 Dec 2012
Claims on securities settlement proceeds	—	424,891
Total	**—**	**424,891**

Note 15
Prepaid expenses and accrued income

SEK (000s)	31 Dec 2013	31 Dec 2012
Accrued interest income	557,835	679,059
Prepaid expenses	30,376	51,417
Total	**588,211**	**730,476**

Note 16
Deposits by credit institutions

SEK (000s)	31 Dec 2013	31 Dec 2012
Swedish banks	118,985,000	102,475,323
Total	**118,985,000**	**102,475,323**

Note 17
Debt securities in issue[1]

SEK (000s)	31 Dec 2013	31 Dec 2012
Swedish bonds	263,581,588	257,789,113
Foreign securities	41,651,381	45,695,944
Total	**305,232,969**	**303,485,057**

1) See Specification to Notes, page 38.

Note 18
Other liabilities

SEK (000s)	31 Dec 2013	31 Dec 2012
Accounts payable	13,927	222
Liabilities, group contributions	2,166,659	1,785,980
Other	3,257	181
Total	**2,183,843**	**1,786,383**

Note 19
Accrued expenses and prepaid income

SEK (000s)	31 Dec 2013	31 Dec 2012
Accrued interest	5,964,417	6,627,022
Other accrued expenses	119,726	120,691
Prepaid income	56,965	75,702
Total	**6,141,108**	**6,823,415**

Note 20
Subordinated liabilities[1]

SEK (000s)	31 Dec 2013	31 Dec 2012
Dated subordinated debenture loans	4,400,000	4,300,000
Total	**4,400,000**	**4,300,000**

1) See Specification to Notes, page 38.

These debenture loans are subordinated to other liabilities.

Note 21
Untaxed reserves

SEK (000s)	31 Dec 2013	31 Dec 2012
Tax allocation reserve	—	446,495
Total	**—**	**446,495**

Note 22

Asset pledged as security for own liabilities

SEK (000s)	31 Dec 2013	31 Dec 2012
Assets pledge for own liabilities		
Loans to the public	428,313,341	408,954,435
Total	**428,313,341**	**408,954,435**

The above pledges pertain to the following liability and commitment items

Debt securities in issues	305,232,969	303,485,057
Total	**305,232,969**	**303,485,057**

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

Note 23

Commitments

SEK (000s) (nom. amount)	31 Dec 2013	31 Dec 2012
Credit commitments	145,000	145,000
Total	**145,000**	**145,000**

For information about derivatives see Note 12.

Note 24

Capital adequacy

SEKm	31 Dec 2013	31 Dec 2012
Tier capital	15,892	14,559
Capital base	20,199	18,771
Risk-weighted amount excluding transition rules	49,751	47,038
Tier capital ratio excluding transition rules, per cent	31.9	31.0
Total capital ratio excluding transition rules, per cent	40.6	39.9
Risk-weighted amount including transition rules	218,588	204,624
Tier capital ratio including transition rules, per cent	7.3	7.1
Total capital ratio including transition rules, per cent	9.2	9.2

Key ratios are calculated on the basis of the floor rules that are to be applicable according to the capital cover regulations (Basel II).

More information can be found in the section Risk, Liquidity and Capital Management.

Note 25

Classification of financial instruments

SEKm, 31 Dec 2013	Loans and receivables	Derivatives used for hedging	Non-financial assets	Total
Assets				
Loans to credit institutions	1,259	—	—	1,259
Loans to the public	451,742	—	—	451,742
Derivatives	—	8,824	—	8,824
Fair value changes of the hedged items in portfolio hedge of interest rate risk	581	—	—	581
Other assets	—	—	2	2
Prepaid expenses and accrued income	588	—	—	588
Total	**454,170**	**8,824**	**2**	**462,996**

SEKm, 31 Dec 2013	Derivatives used for hedging	Other financial liabilities	Non-financial liabilities	Total
Liabilities				
Deposits by credit institutions	—	118,985	—	118,985
Debt securities in issue	—	305,233	—	305,233
Derivatives	4,418	—	—	4,418
Fair value changes of the hedged items in portfolio hedge of interest rate risk	—	4,867	—	4,867
Tax liabilities	—	—	477	477
Other liabilities	—	2,181	3	2,184
Accrued expenses and prepaid income	—	6,021	120	6,141
Deferred tax liabilities	—	—	67	67
Subordinated liabilities	—	4,400	—	4,400
Total	**4,418**	**441,687**	**667**	**446,772**

Note 25 Cont.

SEKm, 31 Dec 2012	Loans and receivables	Derivatives used for hedging	Non-financial assets	Total
Assets				
Loans to credit institutions	2,724	—	—	2,724
Loans to the public	430,902	—	—	430,902
Derivatives	—	13,366	—	13,366
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1,302	—	—	1,302
Other assets	425	—	1	426
Prepaid expenses and accrued income	731	—	—	731
Total	**436,084**	**13,366**	**1**	**449,451**

SEKm, 31 Dec 2012	Derivatives used for hedging	Other financial liabilities	Non-financial liabilities	Total
Liabilities				
Deposits by credit institutions	—	102,475	—	102,475
Debt securities in issue	—	303,485	—	303,485
Derivatives	5,591	—	—	5,591
Fair value changes of the hedged items in portfolio hedge of interest rate risk	—	9,491	—	9,491
Tax liabilities	—	—	352	352
Other liabilities	—	1,786	0	1,786
Accrued expenses and prepaid income	—	6,703	121	6,824
Deferred tax liabilities	—	—	88	88
Subordinated liabilities	—	4,300	—	4,300
Total	**5,591**	**428,240**	**561**	**434,392**

Note 26
Assets and liabilities at fair value

Fair value of financial assets and liabilities	31 Dec 2013		31 Dec 2012[2]	
SEKm	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans	453,582	453,582	434,928	436,809
Derivatives[1]	8,824	8,824	13,366	13,366
Other assets	—	—	425	425
Prepaid expenses and accrued income	588	588	731	731
Total financial assets	**462,994**	**462,994**	**449,450**	**451,331**
Financial liabilities				
Deposits and debt instruments	433,485	438,405	419,751	423,970
Derivatives[1]	4,418	4,418	5,591	5,591
Other liabilities	2,181	2,181	1,786	1,786
Accrued expenses and prepaid income	6,021	6,021	6,703	6,703
Total financial liabilities	**446,105**	**451,025**	**433,831**	**438,050**

1) Valuation techniques using observable data (level 2) have been used for determination of fair value regarding derivatives.
2) For comparability between the years the non-financial liabilities have been excluded for 2012 (See Note "25 Classification of financial instruments").

For information about valuation of items measured at fair value on the balance sheet, see Note 1 and the section "Estimation of fair value for assets and liabilities" and "Determination of fair value from quoted market price or valuation methods" below. For information about valuation of items not measured at fair value on the balance sheet, see the section "Financial assets and liabilities not held at fair value on the balance sheet" below.

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, deposits and borrowings and issued securities.

The carrying amount on loans, deposits and borrowings and issued securities are adjusted for the value of the fixed interest term, unless the interest rate risk is hedged, 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. The fair value of the hedged interest rate risk is included in the balance sheet item ”Fair value changes of the hedged items in portfolio hedge of interest rate risk”.

Fair value is estimated to be equal to the carrying amount for short-term financial assets and financial liabilities. The carrying amount is a reasonable approximation of fair value due to limited credit risk and short time to maturity.

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

Determination of fair value from quoted market price or valuation techniques

Fair value measurements are classified using a fair value hierarchy.

Level 1 consists of financial assets and financial liabilities valued using unadjusted quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. For Nordea Hypotek this category includes mainly most liquid mortgage bonds where direct tradable price quotes exist.

Level 2 consists of financial assets and financial liabilities which do not have directly quoted market prices available from an active market. The fair values are estimated using a valuation technique or valuation model based on market prices or rates prevailing at the balance sheet date and any unobservable inputs are insignificant in the fair values. For Nordea Hypotek this category includes mainly derivatives (OTC-derivatives) and reversed repurchase agreement where an active markets supply the input to the valuation technique.

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

31 Dec 2013, SEKm	Carrying amount	Fair value	Level in fair value hierarchy
Assets not held at fair value on the balance sheet			
Loans	453,582	453,582	3
Prepaid expenses and accrued income	588	588	3
Total	**454,170**	**454,170**	
Liabilities not held at fair value on the balance sheet			
Deposits and debt instruments	433,485	438,405	3
Other liabilities	2,181	2,181	3
Accrued expenses and prepaid income	6,021	6,021	3
Total	**441,687**	**446,607**	

Loans

The fair value of "Loans to credit institutions" and "Loans to the public" has been calculated as the carrying amount adjusted for fair value changes in interest rate risk. The fair value changes related to interest rate risk is based on changes in relevant interest rates compared with corresponding nominal interest rates in the portfolios. No adjustment has been made for changes in fair value of credit risk. The average probability of default (PD) for loans to both retail and corporate customers have decreased which is an indication of that the fair value on loans is higher than the calculated fair value. The fair value measurement is categorised into Level 3 in the fair value hierarchy.

Prepaid expenses and accrued income

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

Deposits and debt instruments

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

Other liabilities and accrued expenses and prepaid income

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

Note 27
Financial instruments set off on balance or subject to netting agreements

31 Dec 2013, SEKm	Gross recognised financial assets[1]	Gross recognised financial liabilities set off on the balance sheet	Net carrying amount on the balance sheet[2]	Amounts not set off but subject to master netting agreements and similar agreements[3] Financial instruments	Net amount
Assets					
Derivatives	8,824	—	8,824	–4,418	**4,406**
Reverse repurchase agreements	—	—	–	—	—
Total	**8,824**	—	**8,824**	**–4,418**	**4,406**
Liabilities					
Derivatives	4,418	—	4,418	–4,418	0
Repurchase agreements	—	—	—	—	—
Total	**4,418**	**—**	**4,418**	**–4,418**	**0**

31 Dec 2012, SEKm	Gross recognised financial assets[1]	Gross recognised financial liabilities set off on the balance sheet	Net carrying amount on the balance sheet[2]	Amounts not set off but subject to master netting agreements and similar agreements[3] Financial instruments	Net amount
Assets					
Derivatives	13,366	—	13,366	–5,591	7,775
Reverse repurchase agreements	—	—	—	—	—
Total	**13,366**	—	**13,366**	**–5,591**	**7,775**
Liabilities					
Derivatives	5,591	—	5,591	–5,591	0
Repurchase agreements	—	—	—	—	—
Total	**5,591**	**—**	**5,591**	**–5,591**	**0**

1) All amounts have been measured at fair value.
2) In the balance sheet, reverse repurchase agreements have been classified as "Loans to credit institutions" or "Loans to the public".
In the balance sheet, repurchase agreements have been classified as "Deposits by credit institutions" or "Deposits and borrowings from the public".
3) There are no items related to financial collateral (including cash collateral) in the company.

Enforceable master netting agreements and similar arrangements

The fact that financial instruments are being accounted for on a gross basis on the balance sheet, would not imply that the financial instruments are not subject to master netting agreements or similar arrangements. Generally financial instruments (derivatives and repos), would be subject to master netting agreements, and as a consequence Nordea Hypotek would be allowed to benefit from netting both in the ordinary course of business and in the case of default towards its counter parties, in any calculations involving counterparty credit risk. The reason why the netted exposures are not reflected under assets and liabilities on the balance sheet, would in most instances depend on the limited application of net settlement of financial transactions.

Note 28
Assets and liabilities in foreign currencies

SEKm, 31 Dec 2013	EUR	NOK	Other	Total
Assets				
Other assets	2,615	159	277	3,051
Total assets	**2,615**	**159**	**277**	**3,051**
Liabilities				
Debt securities in issue	34,049	2,913	4,689	41,651
Other liabilities	2,596	150	282	3,028
Total liabilities	**36,645**	**3,063**	**4,971**	**44,679**

Currency exposure in other currency is driven by issuance in foreign currency, fully hedged by derivatives

Note 28 Cont.

SEKm, 31 Dec 2012	EUR	NOK	Other	Total
Assets				
Other assets	4,091	321	457	4,869
Total assets	**4,091**	**321**	**457**	**4,869**
Liabilities				
Debt securities in issue	32,971	3,212	4,618	40,801
Other liabilities	4,078	314	463	4,855
Total liabilities	**37,049**	**3,526**	**5,081**	**45,656**

Note 29

Maturity analysis for assets and liabilities

		Expected to be recovered or settled		
Expected maturity 31 Dec 2013, SEKm	Note	Within 12 months	After 12 months	Total
Loans to credit institutions	11	1,259	—	1,259
Loans to the public	11	345,072	106,670	451,742
Derivatives	12	1,702	7,122	8,824
Fair value changes of the hedged items in portfolio hedge of interest rate risk	13	39	542	581
Current tax assets	10	2	—	2
Other assets	14	—	—	—
Prepaid expenses and accrued income	15	578	10	588
Total assets		**348,652**	**114,344**	**462,996**
Deposits by credit institutions	16	118,985	—	118,985
Debt securities in issue	17	73,464	231,769	305,233
Derivatives	12	1,308	3,110	4,418
Fair value changes of the hedged items in portfolio hedge of interest rate risk	13	286	4,581	4,867
Current tax liabilities	10	477	—	477
Other liabilities	18	2,184	—	2,184
Accrued expenses and prepaid income	19	6,099	42	6,141
Defered tax liabilities	10	—	67	67
Subordinated liabilities	20	—	4,400	4,400
Total liabilities		**202,803**	**243,969**	**446,772**

		Expected to be recovered or settled		
Expected maturity 31 Dec 2012, SEKm	Note	Within 12 months	After 12 months	Total
Loans to credit institutions	11	2,724	—	2,724
Loans to the public	11	329,087	101,815	430,902
Derivatives	12	1,109	12,257	13,366
Fair value changes of the hedged items in portfolio hedge of interest rate risk	13	799	503	1,302
Current tax assets	10	1	—	1
Other assets	14	425	—	425
Prepaid expenses and accrued income	15	703	28	731
Total assets		**334,848**	**114,603**	**449,451**
Deposits by credit institutions	16	102,475	—	102,475
Debt securities in issue	17	62,269	241,216	303,485
Derivatives	12	661	4,930	5,591
Fair value changes of the hedged items in portfolio hedge of interest rate risk	13	–1,522	11,013	9,491
Current tax liabilities	10	352	—	352
Other liabilities	18	1,786	—	1,786
Accreued expenses and prepaid income	19	6,769	55	6,824
Defered tax liabilities	10	—	88	88
Subordinated liabilities	20	—	4,300	4,300
Total liabilities		**172,790**	**261,602**	**434,392**

Note 29 Cont.

Contractual undiscounted cash flows 31 Dec 2013, SEKm	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Total
Loans to credit institutions	1,259	—	—	—	—	1,259
Loans to the public	—	14,381	35,693	124,550	665,969	840,593
Other	—	—	—	—	9,993	9,993
Total financial assets	**1,259**	**14,381**	**35,693**	**124,550**	**675,962**	**851,845**
Deposits by credit institutions	—	107,463	11,732	—	—	119,195
Debt securities in issue	—	17,157	66,990	235,459	22,261	341,867
– of which Debt securities in issue	—	17,112	66,346	231,003	22,261	336,722
– of which Other	—	45	644	4,456	—	5,145
Other	—	—	—	—	33,711	33,711
Total financial liabilities	**—**	**124,620**	**78,722**	**235,459**	**55,972**	**494,773**
Derivatives, cash inflow	—	13,350	6,322	34,073	12,316	66,061
Derivatives, cash outflow	—	13,966	3,396	28,902	12,246	58,510
Net exposure	**—**	**–616**	**2,926**	**5,171**	**70**	**7,551**
Exposure	**1,259**	**–110,855**	**–40,103**	**-105,738**	**620,060**	**364,623**
Cumulative exposure	**1,259**	**–109,596**	**–149,699**	**–255,437**	**364,623**	**—**

Contractual undiscounted cash flows 31 Dec 2012, SEKm	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Total
Loans to credit institutions	2,724	—	—	—	—	2,724
Loans to the public	—	10,521	26,228	162,181	495,242	694,172
Other	—	—	—	—	15,824	15,824
Total financial assets	**2,724**	**10,521**	**26,228**	**162,181**	**511,066**	**712,720**
Deposits by credit institutions	3	92,049	10,659	—	—	102,711
Debt securities in issue	—	6,856	67,315	247,348	22,961	344,480
– of which Debt securities in issue	—	6,809	66,368	243,803	22,961	339,941
– of which Other	—	47	947	3,545	—	4,539
Other	—	—	—	—	38,629	38,629
Total financial liabilities	**3**	**98,905**	**77,974**	**247,348**	**61,590**	**485,820**
Derivatives, cash inflow	—	1,611	7,027	49,329	13,291	71,258
Derivatives, cash outflow	—	1,988	4,006	44,920	13,634	64,548
Net exposure	**—**	**–377**	**3,021**	**4,409**	**–343**	**6,710**
Exposure	**2,721**	**–88,761**	**–48,725**	**–80,758**	**449,133**	**233,610**
Cumulative exposure	**2,721**	**–86,040**	**–134,765**	**–215,523**	**233,610**	**—**

The table is based on contractual maturities for on balance sheet financial instruments. For derivatives, the expected cash inflows and outflows are disclosed for both derivative assets and derivative liabilities, as derivatives are managed on a net basis. In addition to the on balance sheet and derivative instruments, Nordea Hypotek has credit commitments amounting to SEK 145m (145), which could be drawn on at any time.

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		Nordea Group companies	
SEK (000s)	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
Assets				
Loans to credit institutions	—	—	1,259,343	2,724,021
Loans to the public	22,903[1]	23,570[1]	—	—
Derivatives	—	—	8,823,676	13,365,975
Prepaid expenses and accrued income	—	—	15,498	17,172
Total assets	**22,903**	**23,570**	**10,098,517**	**16,107,168**
Liabilities				
Deposits by credit institutions	—	—	118,985,000	102,475,323
Debt securities in issue	—	—	8,227,089	8,817,390
Derivatives	—	—	4,376,436	5,589,921
Other liabilities	—	—	2,183,571	1,785,994
Accrued expenses and prepaid income	—	—	235,445	433,993
Subordinated liabilities	—	—	4,400,000	4,300,000
Total liabilities	**—**	**—**	**138,407,541**	**123,402,621**
Off balance[2]	—	—	343,467,576	381,450,128

Income statement	Key management personnel		Nordea Group companies	
SEK (000s)	2013	2012	2013	2012
Interest income	507	543	222,988	299,609
Interest expense	—	—	1,031,378	–1,081,434
Net fee and commission income	—	—	–3,324	–2,615
Net result from items at fair value	—	—	–4,018,355	811,094
General administrative expenses:				
– Staff costs	—	—	—	—
– Other expenses	—	—	–485,767	–474,479
Total	**507**	**543**	**–3,253,080**	**–447,825**

Compensations to key management personnel

Compensations to key management personnel are specified in Note 6.

1) Lending divided by collateral type: Single family properties SEK 8,457,540; Tenant-owner apartments SEK 14,445,740.
2) Including nominal values on derivatives.

Note 31

Credit risk disclosures

Loans and receivables to corporate customers, by size of loan

SEKm	31 Dec 2013	%	31 Dec 2012	%
0–10	8,992	10	9,447	10
10–50	25,834	29	27,818	30
50–100	12,223	14	13,047	14
100–250	14,168	16	15,352	16
250–500	10,252	12	10,949	12
500–	16,540	19	16,808	18
Total	**88,009**	**100**	**93,421**	**100**

Past due loans, excl. impaired loans	31 Dec 2013		31 Dec 2012	
SEKm	Corporate customers	Household customers	Corporate customers	Household customers
6–30 days	96	31	174	24
31–60 days	23	269	49	282
61–90 days	—	57	0	77
Total	**119**	**357**	**223**	**383**
Past due not impaired/loans and receivables in %	0.12	0.10	0.21	0.12

Specifications to the Notes

Specification to Note 17:
Swedish bonds, SEK (000s) **2013**

Number	ISIN code	First sales day	Interest rate in %	Due dates for interest	Final payment day	Currency	Outstanding nominal amount
5520[1]	SE0001542333	19/10/2005	3.25	17 Jun	17/6/2015	SEK	63,743,400
5521[1]	SE0001542341	19/10/2005	3.25	17 Jun	17/6/2020	SEK	9,433,300
5526[1]	SE0002832667	21/4/2009	4.00	18 Jun	18/6/2014	SEK	55,220,000
5527[1]	SE0003949874	4/5/2011	4.50	15 Jun	15/6/2016	SEK	56,643,000
5528[1]	SE0004547032	2/4/2012	3.00	21 Jun	21/6/2017	SEK	27,950,000
5529[1]	SE0005033669	1/2/2013	2.00	20 Jun	20/6/2018	SEK	32,700,000
5702	SE0004199321	9/9/2011	3 months' stibor +0.45	9 Sep[2]	9/9/2014	SEK	1,325,000
5703	SE0004269363	19/10/2011	3.46	19 Oct	19/10/2026	SEK	3,000,000
5704	SE0004297125	9/11/2011	3.535	9 Nov	9/11/2021	SEK	1,000,000
5705	SE0004329506	2/12/2011	3.125	2 Dec	2/12/2026	SEK	1,000,000
5706	SE0005100682	13/3/2013	3 months' stibor +0.20	13 Apr[2]	13/4/2016	SEK	2,750,000
5707	SE0005189040	6/5/2013	3 months' stibor +0.14	6 May[2]	6/5/2016	SEK	500,000
5708	SE0005365335	2/9/2013	3 months' stibor +0.12	2 Mar[2]	2/3/2016	SEK	3,500,000
5709	SE0005391901	9/9/2013	3 months' stibor +0.17	9 Sep[2]	9/9/2016	SEK	1,700,000
5710	SE0005505864	11/11/2013	3 months' stibor +0.14	11 Nov[2]	11/11/2026	SEK	500,000
5711	SE0005506219	12/11/2013	3 months' stibor +0.28	12 Jan[2]	12/1/2018	SEK	500,000

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

Loan 5520-5529, 5703-5705: No interest rate adjustment

Repurchase agreements

5521 – nom. 1,281,000 with due date 2/1/2014
5521 – nom. 3,107,000 with due date 3/1/2013
5527 – nom. 468,000 with due date 7/1/2014

EMTN (bonds issued in foreign currency) **2013**

ISIN code	Issue day	Final payment day	Interest rate, %[1]	Currency	Outstanding nominal amount in currency, (000s)[1]
XS0285686738	6/2/2007	6/2/2014	4.25	EUR	1,230,000
CH0039681017	22/5/2008	22/5/2015	3.375	CHF	200,000
CH0111216427	7/4/2010	7/6/2016	1.875	CHF	250,000
XS0478492415	18/1/2010	18/1/2017	3.50	EUR	1,500,000
Total other bonds issued under the EMTN programme (converted into SEK):					4,666,521

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

Registered Covered Bond (Loans issued in foreign currency) **2013**

Currency	Issue day	Final payment day	Interest rate, %[1]	Outstanding nominal amount in currency, (000s)[1]
Total other bonds issued (converted into SEK):				9,586,432

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

Specification to Note 20:
Subordinated liabilities, SEK (000s) **2013**

Number	Startdate	Currency	Interest rate, %	Call date	Due date	Outstanding nominal amount
Loan 7[1]	30/12/2009	SEK	3 months' stibor +1.40	30/12/2014	30/12/2019	500,000
Loan 8	29/12/2011	SEK	3 months' stibor +4.50	29/12/2016	29/12/2021	1,600,000
Loan 9	18/12/2012	SEK	3 months' stibor +2.85	18/12/2017	18/12/2022	1,300,000
Loan 10	28/06/2013	SEK	3 months' stibor +2.13	28/06/2018	28/06/2023	1,000,000

1) Issued under the EMTN programme.

Proposed distribution of earnings

After the company paid group contributions amounting to SEK 2,166,659,000 the following amount is available for distribution by the Annual General Meeting of Shareholders:

Cash flow hedge reserve	238,527,000 SEK
Retained Profit	12,498,182,000 SEK
Net profit for the year	3,376,859,000 SEK
Total	**16,113,568,000 SEK**

The Board of Directors and the President propose that

To be carried forward	16,113,568,000 SEK

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

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 25 February 2014

Thomas Nyman
Chairman

Torsten Allqvie   Erik Gref   Ulla Hermann   Nils Lindberg   Elisabeth Olin

Michael Skytt
President

Our audit report was submitted on 25 February 2014

KPMG AB

Hans Åkervall
Authorised Public Accountant

Auditor’s Report

This document is a translated version of the Swedish Auditor’s Report

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

Report on the annual accounts
We have audited the annual accounts of Nordea Hypotek AB (publ) for the year 2013. The annual accounts of the company are included in the printed version of this document on pages 1–39.

Responsibilities of the Board of Directors and the Managing Director for the annual accounts
The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act of Credit Institutions and Security Companies, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor’s responsibility
Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company’s preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions
In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act of Credit Institutions and Securities Companies, and present fairly, in all material respects, the financial position of Nordea Hypotek AB (publ) as of 31 December 2013 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act of Credit Institutions and Securities Companies. The statutory administration report is consistent with the other parts of the annual accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet.

Report on other legal and regulatory requirements
In addition to our audit of the annual accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of Nordea Hypotek AB (publ) for the year 2013.

Responsibilities of the Board of Directors and the Managing Director
The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act.

Auditor’s responsibility
Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As basis for our opinion on the Board of Directors proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

As basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act of Credit Institutions and Security Companies or the Articles of Association.

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

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

Stockholm 25 February 2014

KPMG AB

Hans Åkervall
Authorized Public Accountant

Board of Directors, Auditor and Management

Board of Directors

Chairman

Thomas Nyman, born 1953
Nordea Bank AB (publ)
Bank Director in Retail Banking
Sweden

Members

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Deputy Head Banking Sweden,
Retail Banking

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Development, Retail Banking
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Michael Skytt, born 1959
President of
Nordea Hypotek AB (publ)

Auditor

KPMG AB
Hans Åkervall
Authorised Public Accountant

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Lars Andersson, born 1959
Head of Credits

Peter Paulsson, born 1954
Head of Administration

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