Nordea

Annual report 2020

Nordea Hypotek AB (publ)

Content

Board of Directors' report

The Board of Directors and the President of Nordea Hypotek AB (publ) (corp. id no. 556091–5448), hereby present the Annual Report for 2020. The company is a wholly owned subsidiary of Nordea Bank Abp (corp. id no. 2858394-9).

5 year overview

Income statement

SEKm	2020	2019	2018	2017	2016
Net interest income¹	7,092	6,815	8,150	8,786	7,828
Net fee and commission income	−56	−43	−10	4	18
Net result from items at fair value	−74	−22	−160	−283	−145
Total operating income	**6,962**	**6,750**	**7,980**	**8,507**	**7,701**
General administrative expenses:					
Staff costs	−31	−28	−27	−26	−10
Other expenses¹	−1,549	−1,462	−1,623	−1,477	−521
Total operating expenses	**−1,580**	**−1,490**	**−1,650**	**−1,503**	**−531**
Profit before loan losses	**5,382**	**5,260**	**6,330**	**7,004**	**7,170**
Net loan losses	−77	−18	−37	−11	−9
Operating profit	**5,305**	**5,242**	**6,293**	**6,993**	**7,161**
Income tax expense	−1,141	−1,122	−1,389	−1,551	−1,575
Net profit for the year	**4,164**	**4,120**	**4,904**	**5,442**	**5,586**

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

Balance sheet

SEKm	2020	2019	2018	2017	2016
Assets					
Loans to credit institutions¹	4,554	5,599	5,299	7,274	3,274
Loans to the public¹	619,166	579,773	548,759	536,933	531,061
Interest-bearing securities	21,058	21,104	21,084	—	—
Derivatives	4,567	4,566	4,762	6,176	9,642
Fair value changes of the hedged items in portfolio hedge of interest rate risk	364	−299	20	−71	−26
Current tax assets	382	98	29	342	87
Other assets	454	814	2,798	1,154	2,466
Prepaid expenses and accrued income¹	227	357	691	698	644
Total assets	**650,772**	**612,013**	**583,442**	**552,506**	**547,148**
Liabilities					
Deposits by credit institutions	208,194	235,964	222,065	194,469	168,609
Debt securities in issue	403,636	340,270	324,984	319,801	336,900
Derivatives	877	515	351	498	686
Fair value changes of the hedged items in portfolio hedge of interest rate risk	4,078	3,168	3,721	4,796	6,936
Other liabilities	6,647	4,777	7,021	7,833	6,912
Accrued expenses and prepaid income	196	179	40	39	39
Deferred tax liabilities	10	5	6	15	155
Provisions	13	7	4	—	—
Subordinated liabilities	1,650	1,650	800	1,800	3,101
Equity	25,471	25,478	24,450	23,255	23,810
Total liabilities and equity	**650,772**	**612,013**	**583,442**	**552,506**	**547,148**

1) Accrued interest on loans has previously been presented on the line "Prepaid expenses and accrued income" on the balance sheet. As from 2020, accrued income on loans is presented together with the loans on the lines "Loans to credit institutions" and "Loans to the public" on the balance sheet. For more information see Note 1 "Accounting policies". Comparative figures for 2019 on the lines "Loans to credit institutions", "Loans to the public" and "Prepaid expenses and accrued income" in the table above have been restated accordingly. Comparative figures before 2019 have not been restated.

Ratios and key figures

	2020	2019	2018	2017	2016
Return on average shareholders equity, %	15.6	15.9	19.6	21.7	24.9
Return on assets, %	0.6	0.7	0.8	1.0	1.0
Investment margin, %[1,4]	1.1	1.1	1.5	1.6	1.4
Cost/income ratio, %	22.7	22.1	15.6	17.8	7.0
Risk-weighted exposure amount, SEKm[2,3]	170,187	160,206	161,402	37,362	34,362
Capital base, SEKm[1]	27,035	27,012	25,120	24,899	26,176
Total capital ratio, %[1,2,3]	15.9	16.9	15.6	8.9	9.6
Tier 1 capital ratio, %[1,2,3]	14.9	15.8	15.1	8.3	8.5
Average number of employees (recalculated to FTEs)	25	24	20	22	5

1) Including profit for the period.
2) The risk weight floor has moved from Pillar II to Pillar I, due to the re-domiciliation of the Partent Company to Finland in 2018.
3) Basel I floor is not applicable for 2018, due to the re-domicilation of the Parent Company to Finland. The comparative figures have not been restated.
4) As from 1 January 2019 Nordea Hypotek recognises resolution fees at the beginning of the year, when the legal obligation to pay arises, and presents the expense as “Other expenses”. The earlier policy was to amortise these fees over the year and present the expense as “Interest expense”. For more information see Note 1 “Accounting policies” in the Annual Report 2018. Comparative figures before 2018 for “Net interest income” and “Other expenses” have not been restated in the above table."

Definitions

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

Our operations 2020

Operations

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

Nordea Hypotek entered the COVID-19 crisis with a strong financial position, which has also been maintained. The Company's capital position remains very strong with Tier 1 capital ratio at the end of the year of 14.9% (15.8), which comfortably exceeds the legal requirement.

Credit quality in Nordea Hypotek's loan portfolio remained very strong in 2020, and we do not see any signs currently of any negative trend in the loan portfolio or heightened default.

The housing market in Sweden

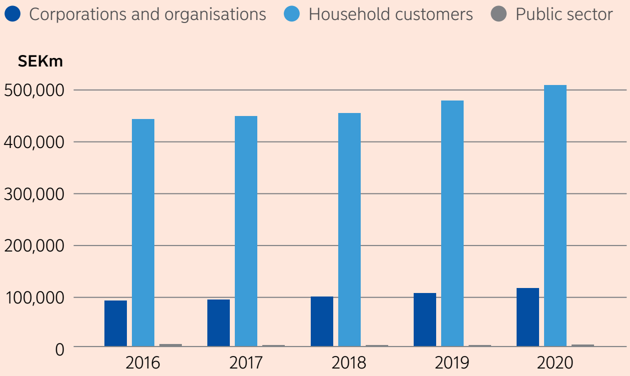
In 2020, Valueguard's price index HOXSWE gained 11.5%. The price increase was greatest for houses, which rose 15.5%, while the increase for apartments was 5.3%. Following the downturn in March and April, as a consequence of the COVID-19 pandemic, the market recovered quickly. In December, the housing market reached yet another all-time high, with prices 7% higher than at the start of the pandemic.

Results

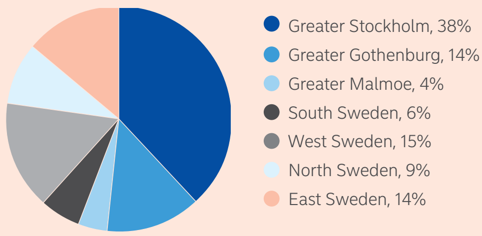
Operating profit amounted to SEK 5,305m (5,242), which is an increase of 1.2 percent from the previous year. When comparing earnings with the previous year, account should mainly be taken of the following major items affecting comparability:

- Net interest income amounted to SEK 7,092m (6,815); an increase of 4.1%. The main reason for the increase in net interest income is higher lending volumes and lower funding costs.
- Net result from items at fair value decreased by SEK 52m, amounting to SEK -74m (-22) at the end of the year. This is chiefly attributable to financial instruments under hedge accounting, which negatively affected the item by SEK 145m, higher premature loan redemption penalties, which had a positive impact on the item in the amount of SEK 7m, and to the repurchase of issued bonds entered at amortised cost, which had a positive effect of SEK 86m on the item.
- Net commission income decreased by SEK 12m, amounting to SEK -56m (-44) at the end of the year, mainly due to increased commission expense related to funding.
- Operating expenses at the end of the year were SEK 1,580m (1,490), an increase of 6.1% compared to 2019. In 2020, Nordea Hypotek performed a review of the distribution costs that the Company pays to the Parent Company, which chiefly explains the increase in operating expenses compared with the same period last year.
- Return on equity, after standard tax, was 15.6% (15.9).

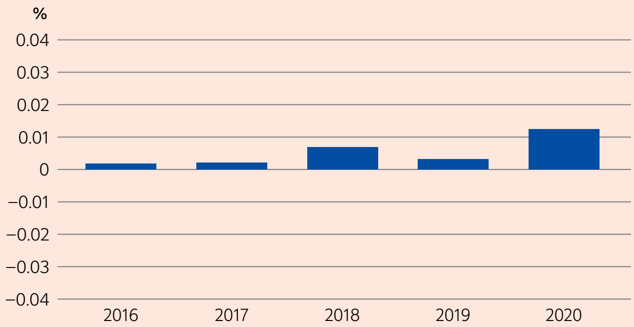
Distribution of the loan portfolio



Geographical distribution of loans in the covered pool



Net loan losses in relation to lending



Lending

Lending to the public increased during the year by 6.8% (5.6) to SEK 619,166m (579,773) at year-end.

Lending to companies, organisations and municipalities

Lending to legal entities increased by SEK 9,715m (9.2%) to SEK 115,444m (105,729) at the end of the financial year.

Household lending

Household lending increased by SEK 29,678m (6.3%) to SEK 503,722m (474,044) at year-end.

The volume of loans past due that are not classified as impaired amounted to 0.06% (0.09) for household lending, and to 0.17% (0.33) for corporate lending.

Impaired loans and loan losses

Impaired loans, gross, amounted to SEK 538m (599). Net loan losses amounted to SEK -77m (-18) during the period, and are mainly attributable to increased model-based loan provisions. Realised loan losses, less recoveries of written-off loans and reversed allowances, decreased by SEK 2m during the period, amounting at the end of the year to SEK 6m (8).

The total loan provision increased by SEK 65m compared with 2019, amounting at the end of the year to SEK 131m (66), which ensures that the Company has a substantial provision for future potential loan losses.

It is possible that certain customers will be further affected by the COVID-19 crisis once interest-only arrangements for loans come to an end on 31 August 2021, which might be appreciable for Nordea Hypotek. We will closely monitor developments in credit risk in the sectors affected by COVID-19 and the situation for customers with interest-only arrangements for their loans that will expire after the end of August 2021. These customers are carefully evaluated in line with the normal credit risk assessment.

The management of Nordea Hypotek will take appropriate measures to reduce the provision in line with equivalent loan losses being realised or captured by Nordea Hypotek's models, while at the same time maintaining an appropriate provision as judged by management.

To maintain a sufficient provision in light of the prevailing uncertainty ensuing from the current pandemic, the weight on the negative scenario in our IFRS 9 models was increased to 45% (20) during 2020. The base scenario is maintained as the most probable, with a weight of 50% (60). The macroeconomic scenarios used were largely kept unchanged and remained conservative compared with official forecasts in Sweden. Updates to the scenarios based on the latest economic information did not have any material impact on the level of the provisions. For more information on the various scenarios, see Note 30 "Credit risk disclosures".

Provisions as judged by management

The management of Nordea Hypotek has chosen to maintain the previous provisions made in June 2020 totalling SEK 32.5m, consisting of a cyclical and structural provision. The purpose of the cyclical provision, which was SEK 17.8m, was to allow for estimated loan losses due to future expected rating downgrades which had not yet been captured by the IFRS 9 models for collective provisions. Furthermore, a structural provision was made of SEK 14.7m, which is to cover the identified development need in our IFRS 9 models for collective provisions.

In December 2020, the management of Nordea Hypotek judged it appropriate to supplement the outcome from the modelled collective provisions with an additional cyclical provision of SEK 2.9m to neutralise the positive outcome of the latest macro scenarios. This is due to the prevailing uncertainty resulting from the current pandemic. In addition, a structural provision of SEK 2.2m was also made to migrate low-scoring risk customers to stage 2 in line with legal requirements.

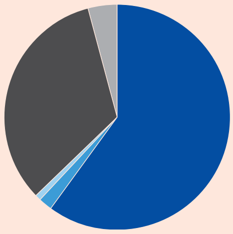
Foreign exchange risk

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

Funding

In 2020, all long-term funding, with the exception of subordinated loans, was in the form of covered bonds. A covered bond is a funding instrument, regulated under the Covered Bonds (Issuance) Act (SFS 2003:1223), which gives investors special priority in the event of the borrower's bankruptcy. Covered bonds may only be issued upon special permission from the Swedish FSA 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's funding structure



In 2020, the Company issued bonds to a nominal value of SEK 122bn (72). The issues take place regularly in existing and new series, with the majority being so-called benchmark bonds. In 2020 the Company held agreements with five banks regarding distribution of the bonds in the benchmark series.

Total outstanding covered bonds at year-end amounted to a nominal SEK 386bn (334). In addition, the Company had outstanding subordinated loans of SEK 10.6bn (1.65).

Besides long-term funding as above, the Company regularly arranged funding with the Parent Company during the year. At the end of the year the outstanding amount from such funding was SEK 208.2bn (235.9).

The chart above shows Nordea Hypotek's funding structure.

Rating

Since June 2006, Nordea Hypotek has been rated Aaa by Moody's Investor Service for the covered bonds that make up the Company's main long-term funding. As of 1 April 2020, Nordea Hypotek only has Moody's rating on the Company's bond programme for covered bonds.

Counterparty risk and exposures

In total, risk-weighted assets for counterparty risk, which is entirely in relation to the Parent Company, were SEK 1,305m (1,328). The majority of counterparty risk is attributable to derivatives.

Derivatives

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

Capital adequacy

Since 2014, CRD/CRR (Capital Requirements Directive/Capital Requirements Regulation) applies in the EU. It is described in detail in the section Risk, Liquidity and Capital Management. The section also provides numerical data for assessing Nordea Hypotek's capital adequacy.

Sustainability

In accordance with the Nordea Group's sustainability-related responsibility, Nordea Hypotek is committed to sustainable development by combining financial activity with responsibility for sustainability. Nordea Hypotek rewards customers with homes that are classed as energy-efficient, by means of attractive pricing through the green loans product. The growing interest in green loans is reflected in the growth during the year, when the volume of green loans increased by 72% from SEK 5.9bn to SEK 10.2bn.

Work is also currently in progress to identify future climate risks that could affect our portfolio and our customers, and dialogues are being held with potential cooperation partners to explore the possibility of providing the Company's customers with further incentives to reduce energy usage in their homes.

For more information on how the Nordea Group works with sustainability, please see Nordea's sustainability report for 2020, published at www.nordea.com/en/sustainability/reporting/.

Nordea Hypotek is also subject to sustainability reporting requirements (according to Chapter 7, section 31a of the Annual Accounts Act 1995:1554) and in this respect refers to the Group's statutory sustainability report which is found in the administration report of Nordea's 2020 annual report. That sustainability report covers the Parent Company Nordea Bank Abp and its subsidiaries.

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

2021 outlook
Nordea Hypotek has decided not to publish any forecasts for 2021.

Corporate governance
The corporate governance report is included as part of the administration report, see the section Corporate Governance Report 2020.

Change in the Board of Directors
Maria Sahlén, Chief Operating Officer Sweden Nordic Real Estate Partners, was appointed as a new board member as of 1 September 2020. On the same date, Nicklas Ilebrand left his position of chairman of the board, and Nils Lindberg left his position of board member. Per Långsved has replaced Nicklas Ilebrand as chairman of the board.

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

Substantial changes after the end of the financial year
Besides the prevailing situation prompted by the pandemic, there have been no other material events after 31 December 2020.

However, there are substantial risks related to the pandemic considering the uncertainty regarding the economic impact it could have in Sweden. Depending on how the pandemic develops ahead, there could be potential negative effects on earnings due to lower net interest income, higher market volatility and reduced business activity, which could have an adverse impact on transaction volumes and customer activity.

Distribution of earnings
After the Company paid group contributions of SEK 5,329,328,305, profit for the year of SEK 4,164,315,772 and retained earnings of SEK 21,157,323,956 as well as other reserves of SEK 39,821,330 are available for distribution by the annual meeting of shareholders.

The proposed group contribution reflects Nordea Hypotek's solid capital position. The latest recommendations from the ECB and the Swedish FSA, which limit dividends following the COVID-19 pandemic, apply at the consolidated level for the Nordea group. Intragroup dividends/group contributions from subsidiaries to Nordea Bank Abp are therefore generally not encompassed by the recommendation to refrain from paying or limiting the dividend/group contribution.

The proposed distribution of earnings is provided in Note 31 on page 74.

Risk, Liquidity and Capital management

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

COVID-19 has been a major risk factor over the course of 2020 leading to increased volatility in markets and reduced liquidity in wholesale funding at the outset of the global lockdown. In addition, with anticipation of the impacts on the broader economy, banks made large increases in loan loss provisions with Nordea Hypotek being no exception. To protect its balance sheet, Nordea Hypotek increased its loan loss provisions in the first half of the year. With its strong financial position Nordea Hypotek is able to continue to actively support its customers during this challenging time. In order to continuously monitor potential adverse outcomes, Nordea Group has executed a number of internal stress tests during 2020 with focus on the COVID-19 situation. In these stress tests, Nordea Hypotek's capital and liquidity situation has shown good resilience even in the most severe scenarios.

Internal Control Framework

NHYP Board has adopted Nordea's Group Board Directive on Internal Governance which describes the Internal Control Framework. The framework is designed to ensure effective and efficient operations, adequate identification, measurement and mitigation of risks, prudent conduct of business, sound administrative and accounting procedures, reliability of financial and non-financial information (both internally and externally) and compliance with laws, regulations, supervisory requirements and Nordea Hypotek's internal rules. The internal control process is carried out by Nordea Hypotek's governing bodies that consist of NHYP Board, NHYP CEO, senior management, the risk management function and other staff in Nordea Hypotek and, as regulated by intra-Group agreements, by units within the Nordea Group. The internal control process is based on five main components: control environment, risk assessment, control activities, information and communication as well as monitoring. The internal control process is created to ensure the necessary fundamentals for the entire organisation to contribute to the effectiveness and high quality of internal control through, for instance, clear definitions, assignments of roles and responsibilities and common tools and procedures.

Governing bodies for risk, liquidity and capital management

The Board of Directors of Nordea Hypotek (NHYP Board), the Subsidiary Board Risk Committee (SRIC) and the Chief Executive Officer of Nordea Hypotek (NHYP CEO) in Nordea Hypotek ExecutiveManagement (NHEM) are the key decision-making bodies forrisk and capital management in Nordea Hypotek.In addition, NHYP Board has delegated the credit decision-makingto individuals and committees within the Nordea Group through the internal risk management-framework and intra-Group agreements.

Nordea Hypotek Board of Directors and Board Risk Committee

NHYP Board has the following overarching risk managementresponsibilities:

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

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

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

Nordea Hypotek Chief Executive Officer

NHYP CEO is responsible to NHYP Board for the overall management of Nordea Hypotek's operations and risks. Responsibilities include ensuring that the risk strategy and risk management decided by NHYP Board are implemented, that necessary practical measures are taken, and that risks are monitored and limited. In discharging these responsibilities, NHYP CEO is supported by Nordea Hypotek Executive Management (NHEM).

Nordea Hypotek Executive Management

NHEM consist of NHYP CEO, NHYP Chief Operating Officer, NHYP Head of Credit, NHYP Chief Financial Officer, NHYP Chief Risk Officer, NHYP Business Risk Manager, NHYP appointed compliance officer and NHYP legal counsel.

Credit decision making bodies

The governing bodies for Credit Risk and/or the Credit Risk Management Framework are NHYP Board and SRIC.

NHYP Board has delegated credit decision-making according to the powers-to-act as described in the adopted Group Board Directive for Risk. The Nordea Group has established a number of committees that also cover Nordea Hypotek credit decisions.

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

Governance of Risk Management and Compliance

The flow of risk-related information is passed from the business areas and group functions to NHYP Board through NHEM and SRIC. The flow of information starts with the divisions that monitor and analyse information on the respective risk types according to intra-Group agreements. The information is presented and discussed in NHEM and then brought to SRIC, where all risk issues are discussed and challenged before presentation to NHYP Board.

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

The Risk Management Framework (RMF) ensures consistent processes for identifying, assessing and measuring, responding to and mitigating, controlling and monitoring, and reporting risks to enable informed decisions on risk-taking. The Risk Management Framework encompasses all risks to which Nordea Hypotek, is or could be exposed, including off-balance sheet risks and risks in a stressed situation. Detailed risk infor-mation covering all risks and Nordea Hypotek's compliance with regulatory requirements are regularly reported to the CEO in NHEM, SRIC and NHYP Board. The Risk Identification and Materiality Assessment Process starts with identifying potential risks to which Nordea Hypotek is or could be exposed. Risks are then assessed for relevance, classified, and included in the Nordea Group's Common Risk Taxonomy.

All risks within the Nordea Common Risk Taxonomy are classified as material or not material for Nordea Hypotek. Material risks are those assessed as having a material impact on Nordea Hypotek's current and future financial position, its customers and stakeholders.

Risk appetite

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

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

Credit concentration metrics cover e.g. sectors and client groups of importance. Stress test metrics are established for credit risk, market risk and liquidity risk to ensure a forward-looking approach to risk management. Operational risk metrics cover both residual risk levels and limits for incidents and losses.

Risk appetite processes

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

- Risk capacity setting based on the capital position: On an annual basis, Nordea Hypotek's overall risk capacity is aligned with the financial and capital planning process, based on Nordea Hypotek's risk strategy. The risk capacity is set in line with the capital position, including an appropriate shock absorbing capacity.
- Risk appetite allocation by risk type: Risk appetite includes Risk Appetite Limits for the main risk types that Nordea Hypotek is or could be exposed to, in line with the Common Risk Taxonomy. Risk Appetite Triggers are also set for these main risk types, to act as early indicators for key decision-makers that the risk profile for a particular risk type is approaching its Risk Appetite Limit.
- Risk limit setting: Risk Appetite Limits set by NHYP Board are the basis for risk limits which are established and approved at lower decision-making levels, including NHEM. Risk limits are set in alignment with Swedish regulatory requirements and consistent with the Nordea Group Risk Limits.
- Controlling and monitoring of risk exposures against risk limits Risk appetite limits and risk limits are regularly monitored and controlled to ensure that risk taking remains within the risk appetite.
- Risk appetite limit breach management process: Nordea Hypotek's Chief Risk Officer (NHYP CRO) ensures that any Risk Appetite Limit breaches are appropriately escalated to NHEM, SRIC and NHYP Board. NHYP CRO reports at least quarterly on any breaches of the risk appetite to NHEM, SRIC, NHYP Board and other relevant governing bodies, including a follow-up on the status of actions to be taken, until the relevant risk exposure is back within the risk appetite.

Embedding risk appetite in business processes

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

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

Disclosure requirements of the CRR – Capital and Risk Management Report 2020

Additional information on risk and capital management is presented in the Capital and Risk Management Report 2020, in accordance with the Capital Requirements Regulation (CRR). The report is available at https://www.nordea.com/sv/investor-relations/rapporter-och-presentationer/pelare-3-upplysningar/.

Credit Risk management

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

- the three Lines of Defence (LoD) as further described in the Group Board Directive on internal Governance that has been adopted by NHYP Board;
- independence, i.e. the risk control function should be independent of the business it controls; and,
- risk-based approach, i.e. the risk control functions should be aligned to the nature, size and complexity of Nordea Hypotek's business, ensuring that efforts undertaken are proportional to the risks in question.

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

Credit risk management is based on customer limits and customer group limits that are aggregated and assigned to units responsible for their continuous monitoring and development. In addition to the procedures for allocating customer and customer group limits, Nordea Hypotek's credit risk management framework also includes the credit RAF which provides a comprehensive and risk-based portfolio perspective through relevant asset quality and concentration risk measures. Within the powers-to-act granted by NHYP Board, internal credit risk limits are approved by credit decision making authorities on different levels in the Nordea Group. They constitute the maximum risk appetite on the customer in question. Individual credit decisions within the approved internal credit risk limit are taken within the customer responsible unit (CRU) or in Group Credit Management. The risk categorisation together with the exposure of the customer determine at what level the credit decision will be made.

Responsibility for credit risk lies with the customer responsible unit. Customers are risk categorized by a rating or score in accordance with the Nordea Group's common rating and scoring guidelines. The rating and scoring of customers aims to predict their probability of default and consequently rank them according to their respective default risk. Rating and scoring are used as integrated parts of the credit risk management and decision-making process. Representatives from Group Credit Management approve the rating independently.

Credit risk definition and identification

Credit risk is defined as the potential for loss due to failure of a borrower(s) to meet its obligations to clear a debt in accordance with agreed terms and conditions. The potential for loss is lowered by credit risk mitigation techniques. Credit risk stems mainly from various forms of lending and includes counterparty credit risk. Nordea Hypotek's loan portfolio is furthermore broken down by segment and industry. Industry credit policies are established for those industries that have a significant weight in the portfolio and are either highly cyclical or volatile or require special industry competencies.

Credit decisions are reached after a credit risk assessment, based on principles that are defined consistently across the Nordea Group and regulated in the intra-Group agreement covering the credit decisions. These principles emphasize the need to adjust the depth and scope of the assessment according to the risk. The same credit risk assessments are used as input for determining the internal ratings.

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

In addition to credit risk assessment in conjunction with new or changed exposure towards a customer, an annual or continuous credit review process is in place. The review process is an important part of the continuous credit analysis process. If a customer's credit profile is assessed as weak, the customer is categorized as "High Risk" and more frequently reviewed. Additionally an action plan is established outlining how to minimise the potential credit loss. If necessary, a work-out team is set up to support the customer responsible unit.

Credit risk mitigation

Credit risk mitigation is an inherent part of the credit decision process. Pledge of collateral is a fundamental credit risk mitigation technique and collaterals are always sought to minimize the potential for credit losses. In every credit decision and review, the value of collaterals must be considered.

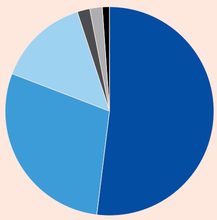
The main collateral types are real estate, tenant owner rights and various types of municipal guarantees. The repayment capacity is the starting point in credit assessment and limit assignment.

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

A haircut is then applied to the market value. The haircut is defined as a percentage by which the asset's market value is expected to be reduced when the collateral is liquidated in a forced sale situation. A maximum collateral ratio is set for each collateral type. The same principles of calculation must be used for all exposures. For High Risk customers, the foreclosure value may differ from the maximum collateral values and should be based on a realistic assessment for the particular asset at that time. Risk transfer to other creditworthy parties, through guarantees and insurance, shall be based on legally enforceable documentation.

Collateral distribution

The chart below presents the distribution of collateral in Nordea Hypotek's cover pool.



Loan-to-value

The loan-to-value (LTV) ratio, i.e. the extended credit divided by the market value of the pledged collateral, is considered a useful measure to evaluate collateral quality. The table below presents the distribution of collateral in Nordea Hypotek's cover pool across LTV buckets based on indexed LTV ratios. More information can be found in Note 30.

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

	2020-12-31	2019-12-31	
Indexed LtV	Volym, kr	Volym, kr	Change
<50 %	238,442,116,924	238,997,967,804	–0.2 %
50–60 %	93,885,058,741	94,880,509,751	–1.0 %
60–70 %	108,042,574,795	99,273,469,804	8.8 %
70–75 %	40,995,297,920	37,511,459,077	9.3 %
>75 %	119,380,534,589	93,718,774,217	27.4 %

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

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

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

Nordea Hypotek recognises only certain specific credit risk adjustments (SCRA). SCRA comprise individually and collectively assessed provisions. SCRA during the year is referred to as loan losses, while SCRA in the balance sheet is referred to as allowances and provisions. More information regarding impairment can be found in Note 10.

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

Exposures with individually assigned provisions are credit impaired and in stage 3. The size of the provision is equal to the estimated loss, which is the difference between the book value of the outstanding exposure and the discounted value of the expected future cash flow, including the value of pledged collateral.

More information on individual provisioning can be found in Note 10.

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

Collective provisioning
The collective model is executed quarterly. One important driver for provisions is the trigger for the transferring of assets from Stage 1 to Stage 2. For assets recognised from 1 January 2018, changes to the lifetime Probability of Default (PD) are used as the trigger. In addition, customers with forbearance measures and customers with payments more than thirty days past due are also transferred to Stage 2. In Stage 1, the provisions equal the 12 months expected loss. In Stages 2and 3, the provisions equal the lifetime expected loss. The output is complemented with an expert-based analysis process to ensure adequate provisioning. Defaulted customers without individual provisions have collective provisions. More information on provisioning can be found in Note 10.

Forbearance
Forbearance means eased terms or restructuring due to the borrower experiencing or about to experience financial difficulties. The intention with granting forbearance for a limited time period is to ensure full repayment of the outstanding debt. Examples of eased terms are changes in amortisation profile, repayment schedule, customer margin as well as ease of financial covenants. Forbearance is undertaken on a selective and individual basis, approved according to powers-to-act and followed by impairment testing. Forborne exposures can be performing or non-performing. Individual loan loss provisions are recognised if necessary. Total volume of lending with forbearance was SEK 234m (111). More information on forbearance can be found in Note 30.

Sensitivities
One important factor in estimating expected credit losses in accordance with IFRS 9 is to assess what constitutes a significant increase in credit risk. Nordea Hypotek uses a relative trigger and an absolute trigger.

Further information regarding sensitivity triggers can be found in Note 30.

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

The scenarios are described further in Note 30.

Credit portfolio
Including on- and off-balance sheet exposures, the total credit risk exposure at year end was SEK 692bn (632). Total on-balance credit exposure was at year-end SEK 619bn (580). See more information and breakdown of exposure according to the CRR definition in Note 23 and in the Capital and Risk Management Report.

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

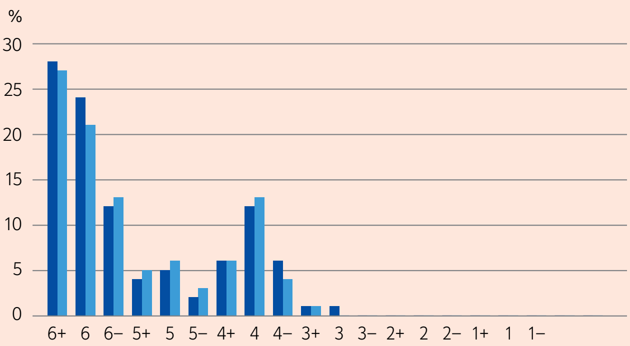
Loans to corporate customers
Loans to corporate customers at the end of 2020 amounted to SEK 115bn (106), an increase with 9.2%. Real estate management is the largest industry exposure. The REMI predominantly consists of relatively large and financially strong companies, with 98% (98) of the lending in rating grades 4– and better.

Loans to household customers
In 2020 lending to household customers increased by 6.3% to SEK 504bn (474). The increase is primarily driven by a growing domestic household mortgage market. The household segment consists of a large number of customers with 99% (99) having a scoring of C- and better.

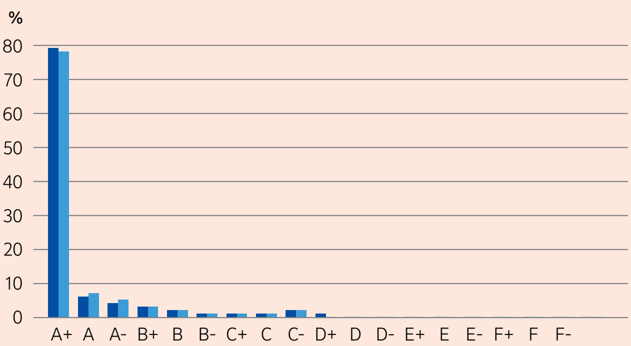
Rating and scoring distribution

One way of assessing credit quality is through analysis of the distribution across rating grades, for rated corporate customers and institutions, as well as risk grades for scored household and small business customers, i.e. retail exposures. The development in rating and scoring can be seen in the tables below.

Rating distribution for the Corporate portfolio



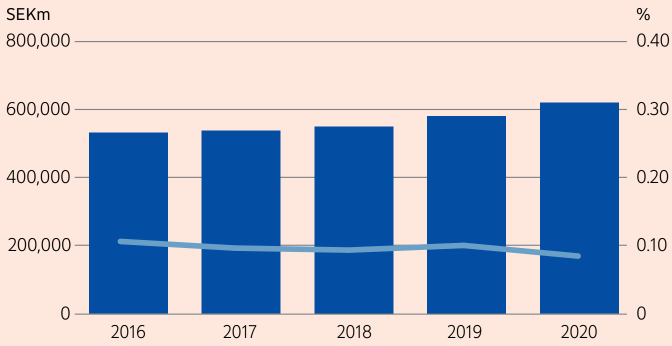
Risk grade distribution for the Retail portfolio



Impaired loans (Stage 3)

Impaired loans gross in 2020 decreased to SEK 538m (599), corresponding to 8.6 (10.2) basis points of total loans. 9% of impaired loans gross are servicing and 91% are nonservicing. Impaired loans net, after allowances for Stage 3 loans amount to SEK 501m (576), corresponding to 8.0 basis points (9.8) of total loans. Allowances for Stage 3 loans amount to SEK 36m (23). Allowances for Stages 1&2 loans amount to SEK 94m (43). The ratio of allowances in relation to impaired loans is 2.1% (3.9) and the allowance ratio for loans in Stages 1&2 is 1.5% (0.7). Further information on impaired loans can be found in Note 10 and Note 30

Lending to the public and impaired loans



Past due loans, excluding impaired loans

The table in Note 30 shows loans past due 6 days or more that are not considered impaired, split by corporate and household customers. Past due is defined as a loan payment that has not been made as of its due date. Past due loans to corporate customers, not considered impaired, were at end of 2020 SEK 190m (346), and past due loans for household customers were to SEK 317m (433).

Net loan losses

Loan losses amount to SEK -77m in 2020 (-18) and is mainly driven by collectively calculated credit provisions. Realised loan losses amount to SEK -7m in 2020 (-14).

Counterparty credit risk

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

Market risk

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

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

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

Non-traded market risk

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

For transparency and a clear division of responsibilities within TALM, the comprehensive banking book risk management is divided across several frameworks – each with a clear risk mandate and specific limits and controls. The non-traded market risks that Nordea Hypotek are exposed to are mainly interest rate risk and credit spread risk.

Interest rate risk in the banking book (IRRBB) is the current or prospective risk to Nordea Hypotek's capital and earnings arising from adverse movements in interest rates. The market risks are managed centrally by TALM from an earnings and economic value perspective and include gap, basis and credit spread risk.

Due to the lending structure in Nordea Hypotek's home market Sweden, most of the contractual interest rate exposures are floating rate but there are also some fixed rate exposures typically in 3-5 years. Wholesale funding issued by Nordea Hypotek is largely fixed rate. This is partially used to offset the risk from fixed rate lending but large parts of the funding is swapped to floating rate to match the administrative rate lending. The resulting residual interest rate risk is managed by TALM for Nordea Hypotek. The net outright interest rate risk stemming from the repricing gaps, together with the limited fixed interest rate risk, is hedged with interes rate swaps (IRS) and overnight index swaps (OIS).

Liquid assets are managed in accordance with the Liquidity Buffer framework. Most of the directional interest rate risk arising from bond holdings is hedged primarily with maturity matched IRS payer swaps and to a smaller degree with OIS payer swaps.

Measurement of market risk

Economic value (EV) stress tests look at the change in economic value of banking book assets, liabilities and interest-bearing derivative exposures resulting from interest rate movements, independently of the accounting classification and ignoring credit spreads and commercial margins. The model assumes a run-off balance sheet and includes behavioural modelling for pre-payments.

Changes in the Economic Value of the Equity of the banking book are measured under the 6 standardised scenarios defined by the Basel Committee on Banking Supervision (BCBS). The exposure limit under this metric is measured against the worst outcome out of the 6 scenarios measured. In addition, Fair value sensitivities in the banking book are monitored against six in-house scenarios that represent a severe but plausible market stress.

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

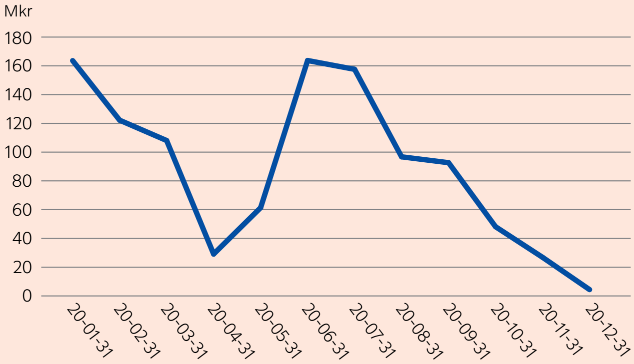
The Pillar 2 IRRBB capital allocations consists of a Fair Value Risk component and an Earnings Risk component. The Fair Value Risk component covers the impact on the bank's equity due to adverse movements of positions accounted for at Fair Value through Profit and Loss (FVTPL) or through other comprehensive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

Market risk analysis

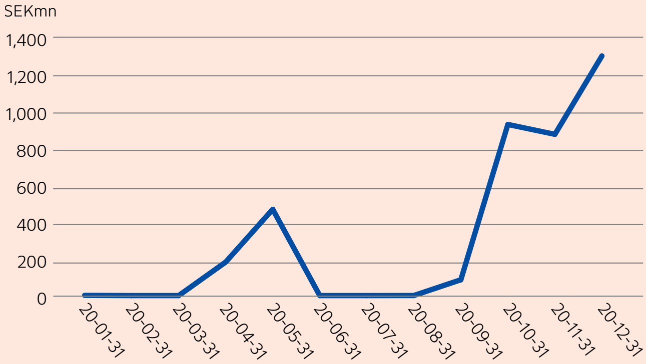
Structural Interest Income Risk (SIIR)/EV

At the end of the year, the potential loss due to SIIR was SEK 0.4m (147.0).

Development of strucural interest income risk



Development of EV risk



The most severe impact from the Basel scenarios on EV is from the Basel Up-scenario, where the loss was SEK 1,296m at end of year 2020 (19). The increase in EV-risk compared to 2019 can be explained by a combination of higher risk appetite and model improvements.

Other market risks – Pension Risk
Pension risk (including market and longevity risks) arises from Nordea Hypotek-sponsored defined benefit pension schemes for past and current employees. The ability of the pension schemes to meet the projected pension payments is maintained through investments and ongoing scheme contributions.

The Pension Risk is limited for Nordea Hypotek as a majority of employees have worked most of their years of employment in the Nordea Group as employees in the parent company. New external employees are not covered by defined benefit pension schemes.

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

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

Staff within the 2LoD control function are responsible for preparing and submitting regular risk reports on all material risk exposures including risk appetite limit utilization and operational risk incidents to NHYP CRO, who thereafter reports to NHEM, SRIC and NHYP Board.

The RAS for operational risk is expressed in terms of:
1) residual risk level;
2) total loss amount from incidents and management of Incidents.

Management of operational risk
The Nordea Group's Group Board Directives on Risk, Risk Appetite and Internal Governance, which have been adopted by NHYP Board, set the principles for the management of risks in Nordea Hypotek. Based on these principles, the Nordea Group has established supporting internal rules for operational and compliance risk that form the overall operational risk and compliance risk management frameworks.

These also apply to Nordea Hypotek. Management of operational and compliance risk includes all activities aimed at identifying, assessing and measuring, responding and mitigating, controlling and monitoring and reporting on risks. Risks are identified through various processes as detailed in the following section.

Risk and control self-assessment (RCSA)
The Risk and Control Self-Assessment (RCSA) process provides a risk based view of operational and compliance risks for Nordea Hypotek. The process improves risk awareness and enables effective assessment, control, and mitigation of identified risks.

Compliance independent risk assessment (CIRA)
For compliance related risks, appointed Compliance Officer conduct the CIRA process and challenge the 1LoD's RCSA results on compliance risks. The objective of the CIRA process is to provide an independent view on the Compliance Risk exposure and to assess, challenge and advise the 1LoD on implementation of an effective risk management framework.

The CIRA process is an independent 2LoD risk assessment conducted in parallel with the RCSA, where the CIRA is a top-down risk assessment using the same assessment methodology as in the RCSA process.

Change Risk Management and Approval (CRMA) framework (including Quality and Risk Analysis)
The objective of the CRMA framework is to ensure that there is a full understanding of both financial and non-financial risks when executing changes. Associated risks shall be adequately managed consistent with Nordea Hypotek's Risk Strategy, Risk Appetite and corresponding risk limits before a change is approved, executed or implemented.

Changes in scope of the CRMA framework include e.g. new or significant changes to products, services, or IT systems.

Incident Reporting Management
The objectives of Incident Reporting Management are to ensure appropriate handling and reporting of detected incidents to minimise the impact on Nordea Hypotek and its customers, prevent reoccurrence, and reduce the probability and impact of future incidents. In addition, the Incident Management shall secure timely notification to defined external bodies and parties, including relevant supervisory authorities.

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

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

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

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

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

Business Continuity and Crisis Management (BC & CM)
The objective of BC & CM is the overall risk management under which Nordea Hypotek is building and maintaining the appropriate levels of resilience, readiness, response and management of extraordinary events and crises. The Business Continuity Plan sets out the procedures to respond, recover, resume and restore operations following an extraordinary event. Crisis Management provides the governance to execute plans and enhance decision making during a crisis.

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

Significant/Key Operating Processes (SiOPs)
The objective of the SiOPs framework is to identify and document SiOPs to ensure risks and controls in the most important processes are assessed and managed for these processes to operate as intended, which includes ensuring Nordea Hypotek's customers are offered products and services in a compliant, safe and timely way.

Reputational Risk
The objective of Reputational Risk Management is to protect the Nordea Group's and Nordea Hypotek's reputation. Reputational risk is defined as the risk of damage to the trust in the Nordea brand from our customers, employees, authorities, investors, partners and the general public with the potential for adverse financial impact.

Reputational risk is often an impact from, or a cause of, other types of risks, e.g. credit, liquidity, market, operational, compliance and legal risks inherent in the business.

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

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

Financial Reporting Risk
Financial reporting risk is defined as the risk of misstatements in external financial reporting and regulatory capital reporting. The risk arises from erroneous interpretation and implementation of accounting standards and regulation, the use of judgement in reporting, as well as from inadequate governance and control frameworks around valuation and financial reporting. The framework for managing financial reporting risk is the Internal Control over Financial Reporting (ICFR) framework based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework, which provides the structure and guidance for designing, operating and evaluating the system of internal control over financial reporting across the Nordea Group. The ICFR framework is the mechanism through which management expresses its various assertions over its financial statements. The 2nd LoD control function is responsible for the independent monitoring, assessment and oversight of the risks and the company's implementation of the ICFR framework.

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

The key principle for the management of compliance risk is the three lines of defence. The first line of defence consists of Nordea Hypotek employees, who are risk owners and responsible for their own daily risk management and control of compliance risks. Management on all levels is responsible for operating the business within defined limits for risk exposure and in accordance with decided directives, instructions and risk management processes.

Group Risk and Compliance constitutes, according to outsourcing agreements, the second line of defence at Nordea Hypotek. The unit coordinates, promotes and monitors the efficiency and integrity of compliance risk management. Group Risk and Compliance performs an independent evaluation of Nordea Hypotek's compliance with prevailing rules and regulations, and also advises, supports and trains the first line on various ways to effectively and efficiently deal with compliance obligations. On a quarterly basis, Group Risk and Compliance reports on all significant compliance risks to management, the Board and relevant committees such as the Nordea Hypotek Board Risk Committee (BRIC) in order to inform of Nordea Hypotek's current risk exposure in relation to the predefined risk appetite.

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

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

All employees are required to complete annual training in the Code of Conduct to ensure proper awareness and knowledge of the ethical principles.

Customer Protection

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

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

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

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

Conduct Risk Management

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

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

Financial Crime

Financial crime is a serious threat to the security and integrity of the global financial system, and cooperation between banks and authorities is what is required to fight it. It is a joint responsibility to improve safety in the global financial system.

The Nordea Group is committed to comply with applicable laws and regulations concerning anti-money laundering, counter terrorist financing, sanctions, bribery and corruption in the jurisdictions in which Nordea Hypotek operates. Nordea Hypotek will not accept being exploited for money laundering or any other types of financial crime. Therefore, a number of global policies has been established by the Nordea Group in order to achieve robust and consistent standards of compliance. These have been adopted by the NHYP Board and support the broader customer strategy, values and vision, and provide a uniform set of risk management principles and mandatory standards for Nordea Hypotek and the Nordea Group as a whole. It is important for Nordea Hypotek that robust risk-based due diligence measures are conducted when onboarding new customers, and on a continuous basis. By knowing customers and counterparties well, screening and monitoring activities can be performed to detect suspicious or illegal activity and reported to the authorities for further investigation. Nordea Hypotek has outsourced to the customer responsible units in the Nordea Group to perform all due diligence measures and regulated this service in an intra group outsourcing agreement.

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

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

Liquidity management

During 2020, Nordea Hypotek continued to benefit from its prudent liquidity risk management in terms of maintaining a strong funding base and a diversified liquidity buffer. Nordea Hypotek had good access to the Swedish covered bond market and was able to issue in accordance with the funding plan. Nordea Hypotek issued approximately SEK 122bn (72) in covered bonds.

Liquidity risk definition and identification

Liquidity risk is the risk of being unable to service the cash flow obligations when they fall due; or unable to meet the cash flow obligations without incurring significant additional funding costs. Nordea Hypotek is exposed to liquidity risk in its lending, investment, funding, off-balance sheet exposures and other activities which result in a negative cash flow mismatch.

Management principles and control

Liquidity risk in the Nordea Group is managed across three LoD:

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

2LoD, which includes NHYP CRO and units within the Nordea Group's Group Risk and Compliance (GRC) acting in accordance with the intra-Group agreement are responsible for independently overseeing and challenging 1LoD.

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

NHYP Board defines the liquidity risk appetite by setting limits for applied liquidity risk metrics. The most central metrics are the Liquidity Coverage Ratio (LCR) as well as the internal Liquidity Stress Horizon, which sets a minimum survival period of three months under institution-specific and market-wide stress scenarios with limited mitigation actions.

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

Liquidity risk management strategy

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

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

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

Liquidity risk measurement

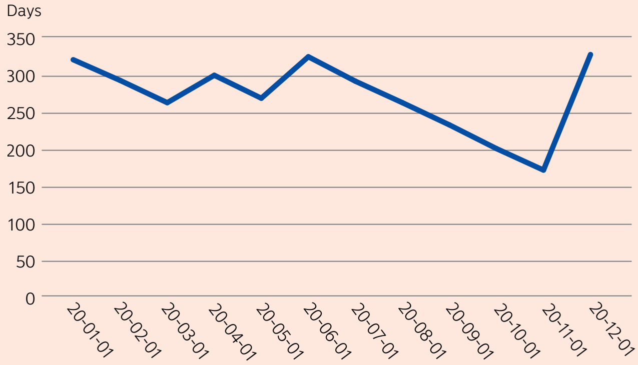
To ensure funding in situations where Nordea Hypotek is in urgent need of cash and the normal funding sources do not suffice, Nordea Hypotek holds a liquidity buffer. The liquidity buffer consists of central bank eligible, high credit quality and liquid securities that can be readily sold or used as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

Liquidity risk management focuses on both short-term liquidity risk and long-term structural liquidity risk. Short-term liquidity risk is limited via the Liquidity Coverage ratio as well as the internal parameters Liquidity Stress Coverage and Liquidity Stress Horizon. The internal parameters stipulate that the liquidity buffer needs to be sufficient to cover peak cumulative stressed outflows experienced over the first three months of a combined stress event, whereby Nordea Hypotek is subject to a market-wide stress similar to what many banks experienced in 2007-08 and an idiosyncratic stress corresponding to a three-notch credit rating downgrade. Long-term structural liquidity risk is limited via the Net Stable Funding Ratio (NSFR). Together these metrics form the basis for Nordea Hypotek's liquidity risk appetite, which is reviewed and approved by the NHYP Board at least annually.

Liquidity risk analysis

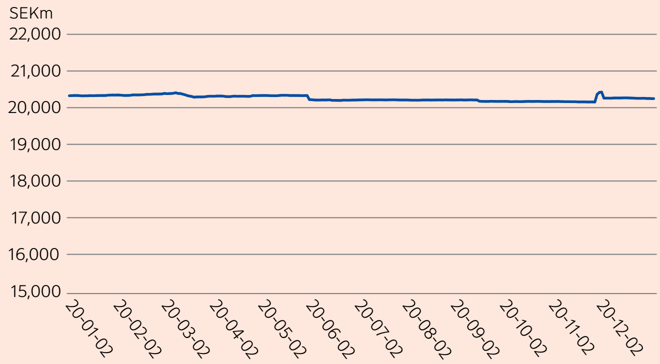
Nordea Hypotek continues to have a strong and prudent liquidity risk profile with a strong funding base. As of year-end 2020, the total volume under the covered bond programme was SEK 386bn (334). More information on Nordea Hypotek's funding sources are presented in the section "Our operations 2020".

Survival horizon



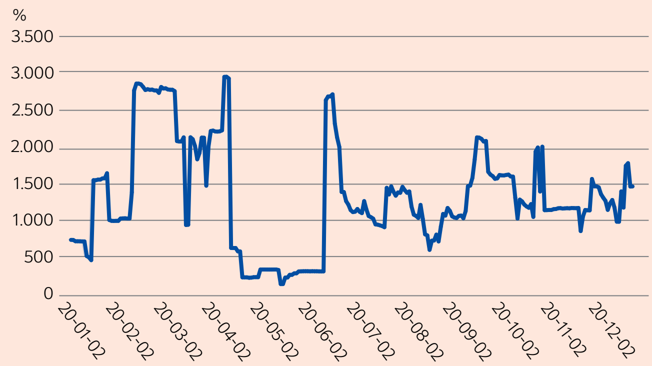
The liquidity risk position remained at a stable level throughout 2020. The Liquidity Stress Horizon was 325 days as of year-end 2020 (135 days as of year-end 2019) with a yearly average of 269 days. The risk appetite limit is not below 90 days.

Size Liquidity buffer



Nordea Hypotek's liquidity buffer ranged between SEK 20,425m and 20,156m throughout 2020, with an average liquidity buffer of SEK 20,259m.

Development of LCR



The combined LCR according to EBA Delegated Act rules was at the end of 2020 1.468% (747) with a yearly average of 1.320%.

Capital management

Nordea Hypotek strives to be efficient in its use of capital and therefore actively manages its balance sheet with respect to different assets, liabilities and risks. The goal is to enhance returns to shareholders while maintaining a prudent capital structure with regards to regulatory requirements and internal targets.

The Board of Directors ultimately decides on the targets for capital ratios, capital policy and the overall capital management framework at Nordea Hypotek. The ability to fulfil objectives and minimum capital adequacy requirements is regularly inspected by management.

Minimum capital requirement and REA

	31 December 2020		31 December 2019	
SEKm	Minimum Capital requirement	REA	Minimum Capital requirement	REA
Credit risk	**3,065**	**38,318**	**3,035**	**37,939**
- of which counterparty credit risk	104	1,305	106	1,328
IRB	2,876	35,951	2,826	35,328
- sovereign	–	–	–	–
- corporate	1,258	15,727	1,347	16,836
- advanced	1,258	15,727	1,347	16,836
- foundation	–	–	–	–
- institutions	56	698	55	695
- retail	1,562	19,526	1,395	17,440
- secured by immovable property collateral	1,495	18,686	1,340	16,748
- other retail	67	840	55	692
- other	–	–	29	357
Standardised	189	2,367	209	2,611
- central governments or central banks	1	15	–	–
- regional governments or local authorities	–	–	–	–
- public sector entities	–	–	–	–
- multilateral development banks	–	–	–	–
- international organisations	–	–	–	–
- institutions	188	2,352	209	2,611
- corporate	–	–	–	–
- retail	–	–	–	–
- secured by mortgages on immovable properties	–	–	–	–
- in default	–	–	–	–
- associated with particularly high risk	–	–	–	–
- covered bonds	–	–	–	–
- institutions and corporates with a short-term credit assessment	–	–	–	–
- collective investments undertakings (CIU)	–	–	–	–
- equity	–	–	–	–
- other items	–	–	–	–
Credit Value Adjustment Risk	–	–	–	–
Market risk	–	–	–	–
- trading book, Internal Approach	–	–	–	–
- trading book, Standardised Approach	–	–	–	–
- banking book, Standardised Approach	–	–	–	–
Operational risk	**916**	**11,450**	**956**	**11,949**
Standardised	916	11,450	956	11,949
Additional risk exposure amount related to Finnish RW floor due to Article 458 CRR	–	–	–	–
Additional risk exposure amount related to Swedish RW floor due to Article 458 CRR	9,634	120,419	8,825	110,318
Additional risk exposure amount due to Article 3 CRR	–	–	–	–
Total	**13,615**	**170,187**	**12,816**	**160,206**

Summary of items included in own funds

SEKm	31 Dec 2020[2]	31 Dec 2019[2]
Calculation of own funds		
Equity in the consolidated situation	25,471	25,478
Proposed/actual dividend	–	–
Common Equity Tier 1 capital before regulatory adjustments	**25,471**	**25,478**
Deferred tax assets	–	–
Intangible assets	–	–
IRB provisions shortfall (-)	–71	–102
Pension assets in excess of related liabilities[1]	–10	–8
Other items, net	–42	–28
Total regulatory adjustments to Common Equity Tier 1 capital	–123	–138
Common Equity Tier 1 capital (net after deduction)	**25,348**	**25,340**
Additional Tier 1 capital before regulatory adjustments	–	–
Total regulatory adjustments to Additional Tier 1 capital	–	–
Additional Tier 1 capital	–	–
Tier 1 capital (net after deduction)	**25,348**	**25,340**
Tier 2 capital before regulatory adjustments	1,650	1,650
IRB provisions excess (+)	37	22
Pension assets in excess of related liabilities	–	–
Other items, net	–	–
Total regulatory adjustments to Tier 2 capital	37	22
Tier 2 capital	1,687	1,672
Kapitalbas (netto efter avdrag)[1]	**27,035**	**27,012**

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

Own Funds, excluding profit

SEKm	31 Dec 2020	31 Dec 2019
Common Equity Tier 1 capital, excluding profit	21,181	21,208
Total Own Funds, excluding profit	22,868	22,879

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

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

Minimum capital requirements
Risk exposure amount (REA) is calculated in accordance with the requirements in the Capital Requirements Regulation. Nordea Hypotek had 95.1% of the credit risk exposure amount covered by internal rating based (IRB) approaches at the end of 2020. The Nordea Group is authorised to use internal VaR models for calculating the capital requirement for the majority of the market risk in the trading book; Nordea Hypotek has no such risk, however. For operational risk the standardised approach is applied.

Internal capital requirement
Nordea Hypotek's internal capital requirement (ICR) was SEK 7.8bn at the end of the year. The ICR should be compared to the own funds, which amounted SEK 27.1bn for the same period. The internal capital requirement is calculated based on Nordea Hypotek's internal Pillar I equivalent, plus an additional amount for other risks, and includes an economic stress buffer. On top of the internal capital requirement, the supervisory authority requires Nordea Hypotek to hold capital for the regulatory Pillar I risks and for the risks identified in connection with the annual supervisory review and evaluation process (SREP).

Economic Capital (EC)

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

Own funds

Own funds are the sum Tier 1 and Tier 2 capital. Tier 1 capital consists of both Common Equity Tier 1 and additional Tier 1 capital. CET1 capital is considered to be capital of the highest quality with ultimate loss-absorbing characteristics and consists predominately of paid-in capital and retained earnings.

Profit may only be included after permission from the financial supervisory authority and after deduction of proposed dividend. Additional Tier 1 and Tier 2 capital consist mostly of undated and dated subordinated loans, respectively. Holdings of other financial sector entities' subordinated loans are deducted from the corresponding tier.

New regulations

The Capital Requirement Directive IV (CRD IV) and Capital Requirement Regulation (CRR) entered into force on 1 January 2014 followed by the Bank Recovery and Resolution Directive (BRRD) on 15 May 2014. The CRR became applicable in all EU countries from 1 January 2014 while the CRD IV and BRRD were implemented through national law within all EU member states from 2014. In June 2019, the 'Banking package' containing revisions to the BRRD, the CRD and the CRR was adopted. The revised directives (BRRD II, CRD V) need to be implemented in Swedish legislation before entering into force, whilst the revised regulation (CRR II) became directly applicable. The majority of changes in CRR II does however enter into force two years later, i.e. in June 2021.The revisions include a review of the Minimum Requirement for own funds and Eligible Liabilities (MREL), a review of the market risk requirements (Fundamental Review of the Trading Book, FRTB), the introduction of a binding Net Stable Funding Ratio (NSFR), the introduction of a strict leverage ratio requirement of 3% to be met by Tier 1 capital and amendments to the Pillar 2 and macroprudential framework.

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

The Swedish FSA has implemented a temporary risk weight floor for residential mortgages of 25%. The floor was implemented with effect from 31 December 2018 and was in December 2020 decided to be prolonged to also be applicable during 2021.

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

Regulatory changes related to COVID-19

On 16 March, the Swedish FSA communicated that they will temporarily allow banks to fall below the liquidity coverage ratio (LCR) for individual currencies and total currencies due to COVID-19. The same day, the Swedish FSA also decided to set the countercyclical capital buffer (CCyB) to 0% with immediate effect. The buffer was previously at 2.5%. The measure was being taken pre-emptively to avoid a credit crunch due to COVID-19. The Swedish FSA is also stated the new buffer rate will not be changed for at least the next twelve months, meaning that any subsequent increase will not go into effect earlier than March 2022.

On 26 June, a so called 'quick-fix' was implemented in EU with the intention to ensure that banks can continue to lend money to support the economy and help mitigate the significant economic impact of the COVID-19. The package includes a few targeted "quick fix" amendments to the CRR with the intention to maximise the ability of banks to lend and absorb losses related to COVID-19. Among the changes, the quick-fix implements an extended SME factor and changed treatment of software at an earlier date then earlier decided.

Due to economic uncertainty and the current pandemic, on 18 December 2020 Finansinspektionen communicated that they expect Swedish banks to be restrictive with dividends and share buybacks until 30 September 2021. However, this does not affect Nordea Hypotek's possibility of paying, as usual, an internal dividend for the 2020 financial year to its parent company Nordea Bank Abp.

Finalised Basel III framework ("Basel IV")

Basel III is a global regulatory framework on bank capital adequacy, stress testing, and liquidity risk. In December 2017, the finalised Basel III framework, often called the Basel IV package, was published. The Basel IV package was supposed to be implemented in 2022, but was postponed until 2023 due to COVID-19, and includes revisions to credit risk, market risk, operational risk and credit valuation adjustment (CVA) risk. Additionally, a Tier 1 minimum requirement of 3% leverage ratio is implemented.

The output floor is to be set at 72.5% of the standardised approaches on an aggregate level, meaning that the capital requirement under the floor will be 72.5% of the total Pillar 1 REA calculated with the standardised approaches for credit, market and operational risk. The floor will be phased in, starting with 50% from 2023 to be fully implemented at 72.5% from 1 January 2028.

Before being applicable to Nordea Hypotek, the Basel IV package needs to be implemented into EU regulations and will therefore be subject to negotiations between the European Commission, Council and Parliament, which might change the implementation and potentially also the timetable. It is expected that the Commission will publish its proposal in mid-2021 after which negotiations in the Council and Parliament will begin.

Corporate governance report 2020

Strong corporate governance is about companies having clear and systematic decision-making processes, thus providing clarity about responsibilities, avoiding conflicts of interest and ensuring satisfactory internal control, risk management and transparency.

Corporate governance at Nordea Hypotek AB (publ) follows generally adopted principles of corporate governance and relevant normative frameworks.

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

1. Corporate governance at Nordea Hypotek AB (publ)

Nordea Hypotek AB (publ) (the Company) is a Swedish public limited liability company. It is a subsidiary of Nordea Bank Abp (Nordea or Nordea Bank Abp) (in Finland) and thereby part of the Nordea Group (the Nordea Group). The Company has issued bonds that are listed on the Nasdaq exchange in Stockholm. The corporate governance of the Company is proportionate and comprehensive with respect to the nature, scope and diversity of the Company's operations to ensure the efficient management in accordance with prudent conduct of business principles. Furthermore, commitment to the Company's purpose, values and vision require integration of sound corporate governance practices into regular business activities.

The Board of Directors (Board) and the Chief Executive Officer (the CEO) are responsible for the management of the Company. The main emphasis is on the Board noting its role in the corporate governance structure, and the interaction with the other governing bodies to ensure sound corporate governance, including systems for internal control and risk management regarding financial reporting. Corporate governance and the duties of the governing bodies of the Company are defined by the applicable internal and external frameworks. The external framework that regulates corporate governance work includes EU-law, such as the directive 2013/36/EU (CRD IV), regulation (EU) No 575/2013 (CRR), as well as rules and guidelines issued by relevant financial supervisory authorities, such as the EBA Guidelines on Internal Governance (GL11) and Joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders (GL 12), as well as national level laws, such as the Companies Act, the Banking and Financing Business Act, the Annual Accounts Act, the Annual Accounts Act of Credit Institutions and Investment Firms, Covered Bond Issuance Act. The Company also complies with rules and guidelines issued by other relevant supervisory authorities, as well as EU regulations for the financial industry and Nasdaq's rules for the exchange in Stockholm.

The Board has adopted instructions for the CEO specifying his responsibilities as well as other charters, policies and instructions for the operations of the Company. Furthermore, the Company's Code of Conduct provides an ethical framework for the conduct of all members of governing bodies and employees. These mechanisms, together with the Articles of Association, the Charter and the Committee Charters (both types of charters are defined below in section 6.3) constitute the internal framework that regulates corporate governance at the Company.

2. Division of powers and responsibilities

The management and control of the Company is divided among the shareholders (at General Meetings), the Board and the CEO, pursuant to the provisions of the external framework, the Articles of Association and the internal framework set forth by the Board and/or the CEO.

The Company's business is conducted in close integration with its parent company Nordea Bank Abp and the bank's branch business in Sweden. Through outsourcing agreements between the Company and the bank (Intra Group Agreements), all credit decisions are delegated to the bank within the bounds of the credit instructions decided by the Company's board and other internal and external rules and regulations. Different units within the bank conduct, in accordance with Intra Group Agreements, sale, funding, accounting and reporting, allocation of the Company's capital in accordance with prevailing regulations, IT system administration, internal credit and quality control, credit administration, vault management and HR resources on behalf of the Company.

3. General Meetings

The General Meeting is the Company's highest decision-making body, at which shareholders participate in the supervision and control of the Company through their voting rights and right to speak.

Applicable regulation and the Articles of Association of the Company determine the matters that have to be dealt with at a General Meeting. At the General Meeting, decisions are taken regarding matters such as the annual accounts, dividend, election of the members of the Board and the auditor as well as remuneration for the Board members and the auditor.

The General Meetings are held in Stockholm.

4. Voting rights

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

5. Articles of association

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

6. Board

6.1 Composition of the Board

According to the Articles of Association, the Board shall consist of at least five and no more than twelve members elected by the shareholders at the General Meeting. The term of office for Board members is one year and expires at the end of the AGM following the election. The Company has neither a specific retirement age for Board members nor a time limit for how long a Board member may serve on the Board. There are no such requirements in the external framework. However, the number of consecutive years a person has served as board member is considered when conducting the overall evaluation of independence. Further, applicable European regulatory requirements of the banking sector are taken into account in the evaluation.

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

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

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

The Board currently consists of eight members (four men and four women), who have been elected by the General Meeting. They are Per Långsved (Chair), Peter Dalmalm (Deputy Chair), Maria Härdling, Marte Kopperstad, Magnus Montan, Elisabeth Olin, Maria Sahlén and Michael Skytt. Maria Sahlén was appointed as new board member as of 1 September 2020. As of the same day, Nicklas Ilebrand resigned as Chair and member of the Board and Nils Lindberg resigned as board member.

The CEO is not a member of the Board.

6.2 Independence of the Board

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

6.3 The work of the Board

The Board has adopted written work procedures governing its work that also set forth the management and risk reporting to the Board (the Charter) and separate work procedures for its work car 0ried out in each of the Board Committees (the Committee Charters). For example, the Charter sets forth the Board's and the Chair's respective areas of responsibility, documentation and quorum as well as the frequency of meetings. It also contains rules regarding conflicts of interest, confidentiality and the board secretary.

The Board is charged with the organisation of the Company and the administration of the Company's operations in accordance with the external and internal framework. The Board shall ensure that the Company's legal and organisational structure is appropriate and transparent with a clear allocation of functions and areas of responsibility that ensure sound and efficient governance, avoids the creation of complex structures and enables supervisors to conduct efficient supervision.

The Board regularly follows up on the Company's strategy, business development as well as the financial position and development on the financial market. Furthermore, the Board regularly updates the policies and internal rules for the governance and control on which it has decided. The Board is also reviewing the risk appetite and regularly follows up on the development of risks, capital and liquidity. Significant organisational changes, appointment of certain senior management and other resolutions of significance are other matters dealt with by the Board. In 2020, the Board also dealt with, among other things, COVID-19 and various issues related to internal control and compliance.

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

In 2020, the Board held fifteen board meetings, one of which was held in person while nine were held via Teams/Skype/telephone and five were held per capsulam.

6.4 Chair

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

6.5 Evaluation of the Board

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

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

6.6 The Board Committees

In accordance with the external framework and in order to increas 0e the effectiveness of the board work, the Board has established three separate working committees to assist the Board in preparing matters belonging to the competence of the Board and to decide in matters delegated by the Board.

The duties of the Board Committees, as well as the working procedures, are defined in the Committee Charters. In general, the Board Committees do not have autonomous decision-making powers and each Committee regularly reports on its work to the Board.

6.6.1 The Audit committee

The Audit Committee assists the Board in fulfilling its oversight responsibilities by inter alia monitoring the Company's financial reporting process and providing recommendations or proposals to ensure its reliability, monitoring the effectiveness of GIA, keeping itself informed as to the statutory audit of the annual accounts and by reviewing and monitoring the impartiality and independence of the external auditors, including the offering of services other than auditing services by the auditors, prepares a recommendation of appointment of the Company's auditor, as well as by taking care of the responsibilities of the audit committee pursuant to applicable legal requirements.

The members of the Audit Committee are Maria Sahlén (Chair), Peter Dalmalm and Maria Härdling. Maria Sahlén replaced Nils Lindberg as Chair and member of the Audit Committee when Nils Lindberg resigned as of 1 September 2020. Generally, the Company's Chief Internal Auditor (CIA), CEO and Chief Financial Officer (CFO) are present at the Audit Committee meetings, with the right to participate in discussions but not in decisions. In 2020, the Audit Committee held four meetings, one of which was held in person while three were held via Teams/Skype/telephone.

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

6.6.2 The Risk Committee

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

The duties of the Risk Committee include to review and where required make recommendations on the Company's risk and compliance governance and review the development of the Internal Control Framework, including the Risk Management Framework, in reference to the development of the Company's risk profile, and changes in the regulatory framework. In addition, among other things, the Risk Committee reviews and makes recommendations regarding the Company's risk appetite and it shall take appropriate actions in response to any reports on significant deficiencies and risks from the Risk Control Function, the Compliance Function and/or the internal audit function (see chapter 8 for a description of those functions) presented to the Risk Committee.

The members of the Risk Committee are Elisabeth Olin (Chair), Maria Härdling and Magnus Montan. Generally, the Company's Chief Risk Officer, Compliance Officer, the Chief Internal Auditor (CIA) and the CEO are present at meetings, with the right to participate in discussions but not in decisions. In 2020, the Risk Committee held seven meetings, one of which was held in person while five were held via Teams/Skype/telephone and one was held per capsulam.

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

6.6.3 The Remuneration Committee

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

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

The members of the Remuneration Committee are Marte Kopperstad (Chair), Per Långsved and Peter Dalmalm. Peter Dalmalm replaced Nicklas Ilebrand as member of the Remuneration Committee when Nicklas Ilebrand resigned as of 1 September 2020. Generally, the person corresponding to the Nordea Group's Chief People Officer, currently the Company's People Business Partner in Group People and, when deemed important and to the extent possible, the CEO are present at meetings, with the right to participate in discussions but not in decisions. Neither of them shall participate in considerations concerning his or her own respective employment terms and conditions. In 2020, the Remuneration Committee held four meetings, all four via Teams/Skype/telephone.

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

7. CEO and Executive Management

The CEO is charged with the day-to-day management of the Company and the Company's affairs in accordance with the external and internal framework. The internal framework regulates the division of responsibilities and the interaction between the CEO and the Board. The CEO works closely with the Chair of the Board in relation to the planning of Board meetings. The Board appointed Arvid Krönmark as new CEO of the company as of 1 September 2020, replacing Michael Skytt.

The CEO is accountable to the Board for managing the Company's operations and organisation.

The CEO works together with certain senior managers in Nordea Hypotek Executive Management (NHEM). NHEM meets regularly and whenever necessary upon request by the CEO. These meetings are chaired by the CEO, who takes decisions after consulting with the other members of NHEM. Notes of meetings, verified by the CEO, are kept.

At the end of 2020, NHEM consisted of the following seven members: Arvid Krönmark (CEO), Lena Sjöberg Svensson (Chief Operating Officer and deputy CEO), Johan Arenander (Chief Financial Officer), Lars Andersson (Head of Credit), Johan Widholm (Senior Legal Counsel), Jan Hoppe (Chief Risk Officer) and Fredrik Andersson (Compliance Officer).

The board has appointed a deputy CEO (Lena Sjöberg Svensson) to undertake the duties of the CEO in accordance with applicable internal and external rules when the CEO is unable to carry out his/her duties.

8. Internal control framework

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

The Internal Control Framework is designed to ensure effective and efficient operations, adequate identification, measurement and mitigation of risks, prudent conduct of business, sound administrative and accounting procedures, reliability of financial and non-financial information reported or disclosed (both internally and externally) and that all risks stays within the risk appetite.

The Internal Control Process is carried out partly by the Company's Board and management, and partly by the staff of Nordea Bank Abp which acts in accordance with Intra Group Agreements and a Credit Delegation Agreement between the companies. The Internal Control Process is based on five main components: (i) control environment, (ii) risk assessment, (iii) control activities, (iv) information and communication as well as (v) monitoring. The internal control process aims to create the necessary fundamentals for the entire organisation to contribute to the effectiveness and high quality of internal control through, for instance, clear definitions, assignments of roles and responsibilities and common tools and procedures.

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

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

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

9. Internal audit

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

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

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

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

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

GIA shall operate free from interference in determining the scope of internal auditing, in performing its audit work, and in communicating its results. This means for example that GIA is authorised to inform the financial supervisory authorities on any matter without further approval. The CIA has unrestricted access to the Company's CEO, the Chair of the Audit Committee and the Chair of the Board. GIA is authorised to carry out all investigations and obtain all information required to discharge its duties. This includes the right to sufficient and timely access to the Company's records, systems, premises and staff. GIA has the right to attend and observe Board committees, executive management, and other key management decision-making fora when relevant and necessary.

10. External audit

According to the Articles of Association, one or two auditors must be elected by the General Meeting for a term of one year. At the AGM 2020, Öhrlings PricewaterhouseCoopers AB was re-elected auditor until the end of the AGM 2021. Catarina Ericsson is the auditor-in-charge.

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

The Company's and Nordea's systems for internal control and risk management of financial reporting are designed to provide reasonable assurance about the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, applicable laws and regulations, and other requirements. The internal control and risk management activities are included in the planning and resource allocation processes. The Company's internal control and risk management of financial reporting can be described as follows below.

11.1 Control Environment

The control environment is comprised of the Company's internal control and centres around the established culture and values, and the organisational structure, with clear roles and responsibilities.

The Company's organisational structure aims to support the overall strategy, ensuring business momentum and meeting increased requirements on capital and liquidity.

The primary governance principle is the adherence to the three Lines of Defence (3LoD) model, which provides the foundation for a clear division of roles and responsibilities in the organisation. The Company's 3LoD model is described in section 8 above.

Clear roles and responsibilities are crucial in the governance of Internal Control over Financial Reporting. Risk owners in the 1st LoD are responsible for the risk management activities. A central function supports the CFO in defining standards that apply to relevant controls. These controls are implemented and maintained within significant processes and monitored by quarterly self-assessments.

11.2 Risk assessment

Risk assessment in relation to reliable financial reporting involves the identification and assessment of risks of material misstatements or deficiencies. Financial reporting risk (FRR) is defined as the risk of misstatements or deficiencies in financial reporting, regulatory reporting and disclosures.

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

11.3 Control Activities

The scope of the ICFR (Internal Control over Financial Reporting) framework is designed to focus on areas where risk of material financial misstatements could exist, i.e. where the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the misstated item.

Each unit in the Company (and/or in the bank, acting on behalf of the Company in accordance with an Intra Group Agreement) is primarily responsible for managing risks associated with its operations and financial reporting processes. Entity Wide Controls are directive measures and governance bodies in place to set the standards for internal control, such as the Group Accounting Manual, Financial Control Principles and the Group Valuation Committee. The Group Accounting Manual (GAM) holds information on the accounting policies to be used in the Nordea Group, including the Company, and contains detailed reporting instructions and the tools needed for producing the financial statements.

The ICFR control structure is based on Transaction Level Controls (TLC) that are identified through analysing risks based on high level processes with an end-to-end product focus. After deciding on the TLCs an analysis is performed to determine which systems/applications are relied on in financial reporting, including the IT General Controls.

The quality assurance achieved through the management reporting process, where a detailed analysis of the financial outcome is performed, constitutes an important control mechanisms associated with the reporting process.

11.4 Information & Communication

Group Finance is responsible for ensuring that the GAM and the Financial Control Principles are up-to-date and that changes are communicated to the responsible units. These directive measures are supported by detailed guidelines and standard operating procedures in the responsible units.

Management at different levels of the organisation are provided with information related to the performance and assessment of the identified key controls and details on the outcome of the self-assessment of controls in their process .

The Company, directly or through Nordea, interacts with relevant subject-matter experts externally to keep up to date with changes in reporting expectations and ensure fulfilment of financial reporting objectives. The Company, directly or through Nordea, actively participates in relevant national and international forums, such as those established by the financial supervisory authorities, central banks and associations for financial institutions.

11.5 Monitoring

The Company has access to a process that Nordea has established for regular self-assessment of internal controls with the purpose of ensuring proper monitoring of the quality of the financial reporting. The CFO reports specifically on self-assessment outcomes, and other activities related to the management of financial reporting risks to the Audit Committee on a quarterly basis.

An independent Risk Control Function resides in the 2nd LoD and is responsible for identifying, controlling and reporting on financial reporting risks. In addition, the internal audit function provides the Board with an assessment of the overall effectiveness of the governance, risk management and control processes throughout the organisation, including financial reporting.

The Board, the Audit Committee, the Risk Committee and GIA have important roles in respect to governance and oversight of the internal control of financial reporting.

Income statement

SEK (000s)	Note	2020	2019
Operating income			
Interest income calculated using the effective interest rate method		9,651,896	8,614,887
Other interest income		25,096	21,193
Negative yield on financial assets		−29,721	−36,320
Interest expense		−2,569,874	−1,920,892
Negative yield on financial liabilities		14,630	136,612
Net interest income	3	**7,092,027**	**6,815,480**
Fee and commission income		39,650	43,644
Fee and commission expense		−95,701	−87,191
Net fee and commission income	4	**−56,051**	**−43,547**
Net result from items at fair value	5	−74,283	−22,221
Total operating income		**6,961,693**	**6,749,712**
Operating expenses			
General administrative expenses:			
Staff costs	6	−31,144	−27,702
Other expenses	7	−1,548,985	−1,461,829
Total operating expenses		**−1,580,129**	**−1,489,531**
Profit before loan losses		**5,381,564**	**5,260,181**
Net loan losses	8	−76,772	−18,346
Operating profit		**5,304,792**	**5,241,835**
Income tax expense	9	−1,140,476	−1,122,243
Net profit for the year		**4,164,316**	**4,119,592**

Statement of comprehensive income

SEK (000s)	2020	2019
Net profit for the year	**4,164,316**	**4,119,592**
Items that may be reclassified subsequently to the income statement		
Cash flow hedges:		
Valuation gains/losses	435,261	287,266
Tax on valuation gains/losses	−93,015	−63,199
Transferred to the income statement	−411,323	−292,322
Tax on transfers to the income statement	88,023	64,311
Available for sale investments[1]:		
Valuation gains/losses	−817	16,697
Tax on valuation gains/losses	166	−3,638
Other comprehensive income, net of tax	**18,295**	**9,115**
Total comprehensive income	**4,182,611**	**4,128,707**

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

Balance sheet

SEK (000s)	Note	31 Dec 2020	31 Dec 2019
Assets			
Loans to credit institutions	10	4,553,762	5,599,320
Loans to the public	10	619,166,314	579,772,930
Interest-bearing securities	11	21,057,680	21,103,915
Derivatives	12	4,566,879	4,566,105
Fair value changes of the hedged items in portfolio hedge of interest rate risk		364,484	−298,624
Current tax assets	9	382,250	98,274
Other assets	13	453,585	814,019
Prepaid expenses and accrued income	14	227,095	357,024
Total assets		**650,772,049**	**612,012,963**
Liabilities			
Deposits by credit institutions	15	208,194,432	235,964,135
Debt securities in issue	16	403,635,619	340,270,319
Derivatives	12	877,488	514,871
Fair value changes of the hedged items in portfolio hedge of interest rate risk		4,077,648	3,168,419
Other liabilities	17	6,647,079	4,777,000
Accrued expenses and prepaid income	18	195,565	178,276
Deferred tax liabilities	9	9,779	4,787
Provisions	19	12,859	7,440
Subordinated liabilities	20	1,650,119	1,650,137
Total liabilities		**625,300,588**	**586,535,384**
Equity			
Share capital		110,000	110,000
Fair value reserves		39,821	21,527
Retained earnings		21,157,324	21,226,460
Net profit for the year		4,164,316	4,119,592
Total equity		**25,471,461**	**25,477,579**
Total liabilities and equity		**650,772,049**	**612,012,963**

Other notes

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Statement of changes in equity

	Restricted equity	Unrestricted equity			
SEK (000s)	Share capital[1]	Cash flow hedges	Fair value through other comprehensive income:	Retained earnings	Total equity
Balance at 1 Jan 2020	**110,000**	**16,972**	**4,555**	**25,346,052**	**25,477,579**
Net profit for the year	–	–	–	4,164,316	4,164,316
Items that may be reclassified subsequently to the income statement					
Fair value through other comprehensive income:					
Valuation gains/losses	–	–	−817	–	−817
Tax on valuation gains/losses	–	–	166	–	166
Cash flow hedges:					
Valuation gains/losses	–	435,261	–	–	435,261
Tax on valuation gains/losses	–	−93,015	–	–	−93,015
Transferred to the income statement	–	−411,323	–	–	−411,323
Tax on transfers to the income statement	–	88,023	–	–	88,023
Other comprehensive income, net of tax	**–**	**18,946**	**−651**	**–**	**18,295**
Total comprehensive income	**–**	**18,946**	**−651**	**4,164,316**	**4,182,611**
Group contribution paid	–	–	–	−5,329,328	−5,329,328
Tax on Group contribution payed	–	–	–	1,140,476	1,140,476
Share-based payments	–	–	–	123	123
Balance at 31 Dec 2020	**110,000**	**35,918**	**3,904**	**25,321,639**	**25,471,461**

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

	Restricted equity	Unrestricted equity			
SEK (000s)	Share capital[1]	Cash flow hedges	Fair value through other comprehensive income:	Retained earnings	Total equity
Balance at 1 Jan 2019	**110,000**	**20,916**	**−8,504**	**24,327,896**	**24,450,308**
Net profit for the year	–	–	–	4,119,592	4,119,592
Items that may be reclassified subsequently to the income statement					
Fair value through other comprehensive income:					
Valuation gains/losses	–	–	16,697	–	16,697
Tax on valuation gains/losses	–	–	−3,638	–	−3,638
Cash flow hedges:					
Valuation gains/losses	–	287,266	–	–	287,266
Tax on valuation gains/losses	–	−63,199	–	–	−63,199
Transferred to the income statement	–	−292,322	–	–	−292,322
Tax on transfers to the income statement	–	64,311	–	–	64,311
Other comprehensive income, net of tax	**–**	**−3,944**	**13,059**	**–**	**9,115**
Total comprehensive income	**–**	**−3,944**	**13,059**	**4,119,592**	**4,128,707**
Group contribution paid	–	–	–	−3,945,847	−3,945,847
Tax effect of group contribution	–	–	–	844,411	844,411
Balance at 31 Dec 2019	**110,000**	**16,972**	**4,555**	**25,346,052**	**25,477,579**

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

Cash flow statement

SEK (000s)	2020	2019
Operating activities		
Operating profit	5,304,792	5,241,835
Adjustment for items not included in cash flow	–231,263	–405,662
Income taxes paid	–283,976	–347,000
Cash flow from operating activities before changes in operating assets and liabilities	**4,789,553**	**4,489,173**
Changes in operating assets		
Change in treasury bills	–209,718	248,904
Change in loans to the public	–39,471,295	–30,760,940
Change in interest-bearing securities	46,235	–20,354
Change in derivatives, net	548,914	125,423
Change in other assets	360,434	1,984,039
Changes in operating liabilities		
Change in deposits by credit institutions	–27,750,000	13,797,000
Change in debt securities in issue	64,099,567	15,776,342
Change in other liabilities	–3,459,248	–6,189,359
Cash flow from operating activities	**–1,045,558**	**–549,772**
Financing activities		
Amortised subordinated liabilities	–	–800,000
Issued subordinated liabilities	–	1,650,000
Cash flow from financing activities	**–**	**850,000**
Cash flow for the year	**–1,045,558**	**300,228**
Cash and cash equivalents at the beginning of year	5,599,320	5,299,092
Cash and cash equivalents at the end of year	4,553,762	5,599,320
Change	**–1,045,558**	**300,228**

Comments on the cash flow statement

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

Operating activities

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

SEK (000s)	2020	2019
Loan losses	77,911	19,428
Unrealised gains/losses	22,647	–14,372
Change in accruals and provisions	–596,360	–186,074
Change in fair value of the hedge items, assets/liabilities (net)	246,121	–233,759
Other	18,418	9,115
Total	**–231,263**	**–405,662**

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)	2020	2019
Interest payments received	9,647,072	8,567,508
Interest expenses paid	–3,284,548	–2,032,061

Financing activities

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

Cash and cash equivalents

The following items are included in Cash and cash equivalents:

SEK (000s)	2020	2019
Loans to credit institutions, payable on demand	4,553,762	5,599,320

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

Notes to the financial statements

Contents

Note 1. Accounting policies

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1. Basis for presentation

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

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

On 22 February 2021 the Board of Directors approved the annual report, subject to final approval of the Annual General Meeting on 12 March 2021.

In all material respects, the accounting policies, basis for calculations and presentation are unchanged from the 2019 Annual Report, with the exception of changed accounting policies and presentation described in the section below, "Changed accounting policies and presentation".

2. Changed accounting policies and presentation

The new accounting requirements implemented in 2020 and their effects on Nordea Hypotek's financial statements are described below.

Reclassification of accrued interest on loans

Accrued interest on loans has previously been presented on the line "Prepaid expenses and accrued income" on the balance sheet. As from 2020, accrued income on loans is presented together with the loans on the lines "Loans to credit institutions" and "Loans to the public" on the balance sheet. Comparative figures have been restated accordingly. The impact on the balance sheet can be found in the table below.

Reclassification of accrued interest on loans

	31 Dec 2020		
SEK (000s)	Old policy	Change	New policy
Loans to credit institutions	4,553,762	0	4,553,762
Loans to the public	618,888,246	278,068	619,166,314
Prepaid expenses and accrued income	505,163	–278,068	227,095

	31 Dec 2019		
SEK (000s)	Old policy	Change	New policy
Loans to credit institutions	5,578,131	21,189	5,599,320
Loans to the public	579,500,671	272,259	579,772,930
Prepaid expenses and accrued income	650,472	–293,448	357,024

Other amended requirements

The following new and amended standards and interpretations were implemented by Nordea Hypotek 1 January 2020 but have not had any significant impact on the financial statements of Nordea Hypotek:

- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendments to IAS 1 and IAS 8: Definition of material

No amendments were made to the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (1995:1559) during the year. Furthermore, the Swedish Financial Reporting Board has issued a notification to amend RFR 2 "Accounting for legal entities", to be applied to financial years starting on or after 1 January 2020 and covering the updates to RFR 2 caused by amendments in updates with respect to the IFRS regulations. These amendments have not had any significant impact on Nordea Hypotek's financial statements.

3. Changes in IFRSs not yet applied

Interest rate benchmark reform – Phase 2

The IASB has published amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 in "Interest Rate Benchmark Reform – Phase 2". Phase 2 of the IBOR reform includes three major areas, hedge accounting, modifications and disclosures.

The amendments clarify that hedge accounting does not have to be discontinued just because hedged items and hedging instruments are modified due to the IBOR reform. Hedging relationships (and related documentation) must be amended to reflect modifications to the hedged item, hedging instrument and hedged risk. Any valuation adjustments resulting from the amendments are recognised as part of hedge ineffectiveness.

It is clarified that modifications required as a direct consequence of the IBOR reform and made on an economically equivalent basis are not accounted for as modifications for instruments measured at amortised cost. For such modifications, the effective interest rate is amended in line with the modified cash flows.

The amendments are effective for annual reporting periods beginning on or after 1 January 2021 with earlier application permitted.

The amendments are expected to result in hedge relationships in Nordea Hypotek can continue as before and no material modification gains or losses being recognised. For this reason the amendments are not assessed to have any significant impact on Nordea Hypoteks's financial statements, capital adequacy or large exposures in the period of initial application of the amendments in comparison with the current situation.

Note1. Accounting policies, cont

Other changes in IFRS

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

- Amendments to IAS 1 Presentation of Financial Statements
- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets
- Annual improvement 2018–2020

4. Critical judgements and estimation uncertainty

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

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

Critical judgements and estimates are in particular associated with:

- classification of financial assets
- derecognition of financial assets
- impairment testing of loans to the public/credit institutions
- the effectiveness testing of cash flow hedges
- critical judgements emphasised by COVID-19

Classification of financial assets

Nordea Hypotek classifies financial assets based on the business model used for managing the assets. When determining the business model for the bonds within the liquidly buffer, Nordea Hypotek makes critical judgements. The bonds in the liquidity buffer are split into two portfolios. For the first portfolio, Nordea Hypotek has determined that the business model is to keep the bonds and collect contractual cash flows and sell financial assets. For the second portfolio, Nordea has established that the business model is to manage the bonds with the objective of realising cash flows through the sale of assets. The bonds in the first portfolio are measured at fair value through other comprehensive income, and the bonds in the second portfolio are measured at fair value through profit or loss. The value of interest-bearing securities in the liquidity buffer that are measured at fair value through other comprehensive income (the first portfolio) is SEK 11,083m (10,388) and the value of interest-bearing securities measured at fair value through profit or loss (the second portfolio) is SEK 9,975m (10,716).

Derecognition of financial assets

Loans and other financial assets for which cash flows are modified, or part of a restructuring, are derecognised, and a new loan recognised, if the terms and conditions of the new loan are substantially different from those for the old loan. Nordea Hypotek applies judgements to determine if the terms and conditions of the new loan are substantially different from those of the old loan. Terms and conditions are considered to be substantially different if the present value of the cash flows of the new loan, discounted by the original interest rate, differs by more than 10% from the present value of the remaining expected cash flows of the old loan or if the modified cash flows are solely payments of principal and interest (SPPI), but the original cash flows were not SPPI, and vice versa. The carrying amount of loans and interest-bearing securities on the asset side of the balance sheet amounts to SEK 21,058m (21,104).

Impairment testing of loans to the public/credit institutions

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

Management is required to exercise critical judgements and estimates when calculating loan impairment allowances on both individually assessed and collectively assessed loans. Nordea Hypotek's total lending before impairment allowances was SEK 623,851m (585,438) at the end of the year. For more information, see Note 10 "Loans and impairment". For individually assessed loans, judgements are made to estimate the amount and the time of the expected cash flows from customers in different scenarios, including valuation of any collateral received. Judgements are also made to derive the probability of the various scenarios transpiring.

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

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

Effectiveness testing of cash flow hedges

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

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

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

Critical judgements emphasised by COVID-19

Nordea Hypotek has applied significant critical judgements in the preparation of the Annual Report 2020 due to significant uncertainty concerning the potential long-term impact of COVID-19 on Nordea Hypotek's financial statements. Areas particularly important were the fair value measurement of

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certain financial instruments and impairment testing of loans to the public/credit institutions.

Critical judgements was applied when determining the fair value of financial instruments that lack quoted prices or recently observed market prices. In all of these instances, decisions are based on professional judgement in accordance with Nordea Hypotek's accounting and valuation policies. More information on financial instruments held at fair value on Nordea Hypotek's balance sheet can be found in Note 25.

Critical judgement was also applied in the assessment of when loans have experienced a significant change in credit risk (staging) and in the application of macro scenarios when estimating the change in expected credit losses. More information on the impairment testing of loans to the public/credit institutions can be found in section 11 "Loans to the public/ credit institutions" and in Note 10 "Loans and impairment". Information on sensitivities to rating and scoring migrations can be found in the section "Sensitivities" in Note 30.

5. Recognition of operating income and impairment

Net interest income

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

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

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

The yield on financial assets is presented on three lines in the income statement, Interest income calculated using the effective interest rate method, Other interest income and Negative yield on financial assets. On the line Interest income calculated using the effective interest method, Nordea Hypotek presents interest income from financial assets measured at amortised cost or at fair value through other comprehensive income. This line also includes the effect of hedge accounting related to these assets. All other interest income is presented on the income statement line Other interest income, except negative yield on financial assets, which is presented on a separate line. Negative yield on financial liabilities is also disclosed separately in the income statement.

Net fee and commission income

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

Net result on items at fair value

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

Realised and unrealised gains and losses originate from:

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

The ineffective component of cash flow hedges is recognised in "Net result from items at fair value". Realised gains and losses on financial instruments measured at amortised cost, such as loan redemption penalties received and realised gains/losses on buybacks of own debt issued, are also recognised in "Net result from items at fair value".

"Net result from items at fair value" also includes changes in fair value for rate-hedged assets and liabilities measured at amortised cost in hedge portfolios.

Other operating income and other expenses

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

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

Net loan losses

Impairment losses from financial assets classified as amortised cost (see section 10 "Financial instruments"), in the items "Loans to credit institutions", "Loans to the public" and "Interest-bearing securities" on the balance sheet, are reported as "Net loan losses". Losses are reported net of any collateral and other credit enhancements. The accounting policies for the calculation of impairment losses on loans can be found in section 11 "Loans to the public/credit institutions". Counterparty losses attributable to financial instruments classified into the category Financial assets at fair value through profit or loss are reported under "Net result from items at fair value".

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

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

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

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

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

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liability is extinguished. This usually occurs when Nordea Hypotek fulfils its part of the agreement, i.e. on the settlement date.

Financial liabilities under trade date accounting are generally reclassified to "Other liabilities" on the balance sheet on trade date.

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

7. Translation of assets and liabilities denominated in foreign currencies

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

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

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

8. Hedge accounting

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

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

Hedges of net investments in foreign operations do not occur at Nordea Hypotek. Nordea Hypotek has elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with the carve out version of IAS 39.

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

At inception, Nordea Hypotek formally documents how the hedging relationship meets the hedge accounting criteria, including the economic relationship between the hedged item and the hedging instrument, the nature of the risk, the risk management objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship on an ongoing basis.

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

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

Fair value hedge accounting

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

The changes in fair value of the hedged item attributable to the risks hedged with the derivative are reflected in an adjustment to the carrying amount of the hedged item, which is also recognised in the income statement. The fair value change of the hedged item held at amortised cost in a portfolio hedge of interest rate risks are reported separately from the portfolio in the item "Fair value changes of the hedged items in portfolio hedge of interest rate risk" on the balance sheet.

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

Hedged items

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

Hedging instruments

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

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

Hedge effectiveness

When assessing hedge effectiveness retroactively, Nordea Hypotek measures the fair value of the hedging instruments and compares the change in fair value of the hedging instrument to the change in fair value of the hedged item. The effectiveness measurement is made on a cumulative basis. Hedge ineffectiveness can arise from:

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

Cash flow hedge accounting

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

The ineffective portion of the gain or loss on the hedging

Note 1. Accounting policies, cont

instrument is recycled to the item "Net result from items at fair value" in the income statement.

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

Hedged items

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

Hedging instruments

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

Hedge effectiveness

The hypothetical derivative method is used when retroactively measuring the effectiveness of cash flow hedges, meaning that the change in a perfect hypothetical swap is used as a proxy for the present value of the cumulative change in expected future cash flows from the hedged transaction (the currency component).

If the hedging relationship does not fulfil the hedge accounting requirements, hedge accounting is discontinued. In cash flow hedges, changes in the unrealised value of the hedging instrument will prospectively from the last time it was proven effective be accounted for in the income statement. The cumulative gain or loss on the hedging instrument that has been recognised in the cash flow hedge reserve in equity through other comprehensive income from the period when the hedge was effective is reclassified from equity to "Net result from items at fair value" in the income statement if the expected transaction no longer is expected to occur.

If the expected transaction no longer is highly probable, but is still expected to occur, the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income from the period when the hedge was effective remains in other comprehensive income until the transaction occurs or is no longer expected to occur.

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

9. Determination of fair value of financial instruments

Fair value is defined as the price that, at the measurement date, would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants under current market conditions in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

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

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

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

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

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

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

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

New valuation models are subject to approval by a Model Risk Committee at Nordea Bank Abp and all models are reviewed on a regular basis.

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

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10. Financial instruments

Classification of financial instruments

Each financial instrument has been classified into one of the following categories:
Financial assets:
- Amortised cost
- Financial assets at fair value through profit or loss:
  - Mandatorily measured at fair value through profit or loss
- Financial assets at fair value through other comprehensive income

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

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

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

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

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

Amortised cost

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

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

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

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

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

This category has two subcategories: "Mandatorily measured at fair value through profit and loss", and "Designated at fair value through profit or loss" (fair value option); the latter subcategory does not occur at Nordea Hypotek. The subcategory "Mandatorily measured at fair value through profit and loss" mainly contains interest-bearing securities included in part of the liquidity buffer and derivatives.

Financial assets at fair value through other comprehensive income

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

Other financial liabilities

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

Reverse repurchase agreements

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

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

Derivatives

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

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recognised as liabilities in the item "Derivatives" on the liability side.

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

Offsetting of financial assets and liabilities

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

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

Issued debt and equity instruments

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

11. Loans to the public/credit institutions

Scope

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

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

Recognition and presentation

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

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

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

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

Impairment testing

Nordea Hypotek classifies all exposures into stages on an individual basis. Stage 1 includes assets where there has been no significant increase in credit risk since initial recognition, stage 2 includes assets where there has been a significant increase in credit risk and stage 3 includes defaulted assets. Nordea Hypotek monitors whether there are indicators of exposures being credit impaired (stage 3) by identifying events that have a detrimental impact on the estimated future cash flows (loss event). Nordea Hypotek applies the same definition of default as the Capital Requirements Regulation. More information on the identification of loss events can be found in the Risk, Liquidity and Capital management section. Exposures without individually calculated allowances will be covered by the model-based impairment calculation.

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

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

Model-based allowance calculation

For exposures not impaired on an individual basis, a statistical model is used for calculating impairment losses. The provisions are calculated as the exposure at default times the probability of default times the loss given default. For assets in stage 1, this calculation is only based on the coming 12 months, while for assets in stage 2 and 3 it is based on the expected lifetime of the asset.

Provisions for exposures for which there has been no significant increase in credit risk since initial recognition are based on the 12 month expected loss (stage 1). Provisions for exposures for which there has been a significant increase in credit risk since initial recognition, but that are not credit impaired, are based on the lifetime expected losses (stage 2). This is also the case for the insignificant credit impaired exposures in stage 3.

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

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the balance sheet at transition. Changes to the lifetime Probability of Default (PD) is used as the trigger for assets recognised after transition.

For assets evaluated based on lifetime PDs, Nordea Hypotek uses a mix of absolute and relative changes in PD as the transfer criterion.

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

For assets for which rating and scoring models are used, the change in rating/scoring notches is calibrated to match the significant increase in credit risk based on lifetime PD. In addition, customers with forbearance measures and customers with payments more than thirty days past due are also transferred to stage 2, unless already identified as credit impaired (stage 3). Exposures covered by forbearance remain in stage 2 during a probationary period of 24 months, as of the time when the measures were introduced. When, following the end of the probationary period, the exposures are returned to stage 1, they are treated in the same way as other stage 1 exposures in terms of the assessment of whether there is a materially heightened credit risk. Exposures more than 90 days past due will normally be classified as stage 3, but this classification will occasionally be rebutted if there is evidence the customer has not defaulted. Such exposures will be classified as stage 2. When calculating provisions, including the staging assessment, the calculation is based on probability-weighted forward-looking information. Nordea Hypotek applies three macroeconomic scenarios to address the non-linearity in expected credit losses. The different scenarios are used to adjust the relevant parameters for calculating expected losses and a probability-weighted average of the expected losses under each scenario is recognised as provisions.

Write-offs

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

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

Discount rate

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

Restructured loans and modifications

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

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

12. Taxes

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

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

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

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

Current tax assets and tax liabilities are offset when the

Note 1. Accounting policies, cont

statutory right to offset exists and Nordea Hypotek intends to either settle the tax asset and the tax liability net or to recover the asset and settle the liability simultaneously.

Deferred tax assets and tax liabilities are generally offset if there is a legally enforceable right to offset current tax assets and current tax liabilities.

13. Provisions

Provisions (which are presented as a liability) are recognised when Nordea has a present obligation (legal or constructive) as a result of a past event if it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

Contingent liabilities are not recognised as liabilities on the balance sheet but disclosed in Note 22 “Commitments” unless the possibility of an outflow is remote. A contingent liability is a possible obligation whose existence will be confirmed only by future event(s) not wholly within Nordea Hypotek’s control or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation or the amount of the obligation cannot be measured within sufficient reliability.

14. Employee benefits

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

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

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

Short-term benefits

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

Post-employment benefits

In 2020, pension costs comprise premiums and fees to insurance companies and pension funds as well as defined benefit pension costs for other commitments. The actuarial pension costs refer to commitments guaranteed by a pension foundation. The costs are reported in the item “Staff costs”. Contributions received from the pension foundation and reported changes in pension provisions are also recognised in “Staff costs”. Special payroll tax and tax on returns referring to the Swedish pension system are also recognised in “Staff costs”.

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

15. Equity

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

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

Fair value reserve

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

Retained earnings

Retained earnings comprise undistributed profits from previous years.

Reporting of group contributions

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

16. Share-based payment

Equity-settled programmes

Nordea Hypotek has annually issued programmes where employees participating in these programmes are granted share-based equity-settled rights, i.e. rights to receive shares for free or to acquire shares in Nordea at a significant discount compared to the share price at grant date.

The grant date fair value of these rights is expensed on a straight-line basis over the vesting period. The fair value per right is estimated at grant date and not subsequently update. The vesting period is the period over which the employees have to remain in service in Nordea in order for their rights to vest.

For rights with non-market performance conditions, the amount expensed is the grant date fair value per right multiplied by the best estimate of rights that will eventually vest, which is reassessed at each reporting date. For rights with market performance conditions, the total fair value is estimated based on the fair value of each right times the maximum number of rights at grant date. Market conditions are taken into account when estimating the fair value of the equity instruments granted. Therefore, if all other vesting conditions (e.g. service condition) are met, Nordea recognises the expense for grants of equity instruments with market conditions irrespective of whether that market condition is satisfied.

Social security costs are also allocated over the vesting period. The provision for social security costs is reassessed on each reporting date to ensure that the provision is based on the rights’ fair value at the reporting date.

For more information see Note 6 “Staff costs”.

17. Related party transactions

Nordea Hypotek defines related parties as:

- Group undertakings
- Key management personnel

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

Note 1. Accounting policies, cont

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

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

Other related parties
Other related parties comprise close family members of key management personnel at Nordea, as well as companies controlled or jointly controlled by key management personnel or by close family members of key management personnel at Nordea.

Information concerning transactions between Nordea and other related parties is found in Note 29 "Related-party transactions".

Note 2. Segment reporting

Reportable segments
Brief description of the business segments:
- Personal Banking helps Nordea Hypotek's private customers through various channels with financing real estate for housing purposes.
- Business Banking consists of Business Banking and Business Banking Direct which also works with a relationship-based service model with a customer-centric value offering for our corporate customers.
- Group Treasury & ALM (TALM) is responsible for Nordea's treasury operations and asset and liability management, including liquidity, capital, structural and strategic market risks on the balance sheet.
- Other operating segments mainly refer to Large Corporates & Institutions, which is responsible for lending to large corporate customers.

Group functions and earnings that are not entirely assigned to any of the operating segments are shown separately as reconciling items in the table below.

Operating segments

Income statement, SEKm	Personal Banking		Business Banking		Group Treasury & Asset & Liability management		Other operating segments		Total operating segments		Reconciliation		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Net interest income	7,696	6,994	1,451	1,305	–2,420	–1,801	126	132	6,853	6,630	239	185	7,092	6,815
Net fee and commission income	36	40	3	4	–31	–33	–64	–54	–56	–43	–	–	–56	–43
Net result from items at fair value	32	28	4	1	–110	–51	–	0	–74	–22	–	–	–74	–22
Total operating income	**7,764**	**7,062**	**1,458**	**1,310**	**–2,561**	**–1,885**	**62**	**78**	**6,723**	**6,565**	**239**	**185**	**6,962**	**6,750**
Other expenses	–	–	–	–	–	–	–1,580	–1,490	–1,580	–1,490	–	–	–1,580	–1,490
Total operating expenses	**–**	**–**	**–**	**–**	–	**–**	**–1,580**	**–1,490**	**–1,580**	**–1,490**	–	–	**–1,580**	**–1,490**
Net loan losses	–62	–16	–5	2	–	–	–10	–4	–77	–18	0	–	–77	–18
Operating profit	**7,702**	**7,046**	**1,453**	**1,312**	**–2,561**	**–1,885**	**–1,528**	**–1,416**	**5,066**	**5,057**	**239**	**185**	**5,305**	**5,242**
Balance sheet, SEKm														
Loans to the public	465,808	441,369	128,817	117,613	–	–	24,541	20,788	619,166	579,770	0	3	619,166	579,773
Other assets	–	–	–	–	31,206	32,122	380	98	31,586	32,220	20	20	31,606	32,240
Total assets	**465,808**	**441,369**	**128,817**	**117,613**	**31,206**	**32,122**	**24,921**	**20,886**	**650,752**	**611,990**	**20**	**23**	**650,772**	**612,013**
Total liabilities	**1**	**–**	**–**	**–**	**619,722**	**582,380**	**184**	**209**	**619,907**	**582,590**	**5,394**	**3,946**	**625,301**	**586,535**
Equity	465,807	441,369	128,817	117,613	–588,516	–550,258	24,737	20,677	30,845	29,400	–5,374	–3,923	25,471	25,478
Total liabilities and equity	**465,808**	**441,369**	**128,817**	**117,613**	**31,206**	**32,122**	**24,921**	**20,886**	**650,752**	**611,990**	**20**	**23**	**650,772**	**612,013**

Reconciliation between total operating segments and financial statements

	2020		2019	
SEKm	Operating profit	Total assets	Operating profit	Total assets
Total operating segments	5,066	650,752	5,057	611,990
Group functions and unallocated items	239	20	185	23
Total	**5,305**	**650,772**	**5,242**	**612,013**

Note 2. Segment reporting, cont.

Total operating income split on product groups

In the company, all operating income, in all reportable segments, is attributable to Banking products.

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

Lending volume distribution in repotable segments by borrower domicile

The borrowers mainly have their tax residency in Sweden.

Note 3. Net interest income

SEK (000s)	2020	2019
Interest income		
Interest income calculated using the effective interest rate method	9,651,896	8,614,887
Negative yield on financial assets	−29,721	−36,320
Other interest income	25,096	21,193
Negative yield on financial liabilities	14,630	136,612
Interest income	**9,661,901**	**8,736,372**
Loans to the public	9,673,320	8,738,968
Interest-bearing securities	3,367	−13,777
Yield fees and interest on hedges of assets	−29,424	−125,431
Other interest income	14,638	136,612
Interest income[1]	**9,661,901**	**8,736,372**
Interest expense		
Deposits by credit institutions	−664,274	−321,826
Debt securities in issue	−2,764,492	−3,049,286
Subordinated liabilities	−25,318	−13,407
Other interest expenses[1]	884,210	1,463,627
Interest expense	**−2,569,874**	**−1,920,892**
Net interest income	**7,092,027**	**6,815,480**

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

Interest per measurement categories

SEK (000s)	2020	2019
Financial assets at fair value through other comprensive income	7,992	1,350
Financial assets at amortised cost	9,677,602	8,743,814
Financial assets at fair value through profit and loss (related to hedging instruments)	−33,698	−130,277
Interest income calculated using the effective interest rate method	**9,651,896**	**8,614,887**
Financial assets at fair value through profit and loss	10,005	121,485
Other interest income	**10,005**	**121,485**
Interest income	**9,661,901**	**8,736,372**
Financial liabilities at amortised cost	−3,618,989	−3,511,971
Financial liabilities at fair value through profit and loss	1,049,115	1,591,079
Interest expenses	**−2,569,874**	**−1,920,892**

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

Average interest rate, lending

	2020	2019
Lending to the public		
Average volume, SEKm	599,864	562,901
Average interest, %	1.61	1.55

Interest income from financial instruments not measured at fair value through profit and loss amounts to SEK 9,678m (8,744). Interest expenses from financial instruments not measured at fair calue through profit and loss amounts to SEK 3,619m (3,512).

Note 4. Net fee and commission income

SEK (000s)	2020	2019
Issuer services[1]	−33,212	−34,266
- of which income	–	–
- of which expense	−33,212	−34,266
Lending Products	38,318	36,376
- of which income	38,318	42,478
- of which expense	–	−6,102
Guarantees	898	782
- of which income	898	782
- of which expense	–	–
Other	−62,055	−46,439
- of which income	–	–
- of which expense[2]	−62,055	−46,439
Total	**−56,051**	**−43,547**

1) Mainly market maker fees.
2) Mainly commission costs related to issuances.

Break down by business areas

SEKm 2020	Personal Banking	Business Banking	Group Treasury	Other
Issuer services	–	–	−33	–
Lending Products	36	2	–	0
Guarantees	–	1	–	–
Other	–	–	−62	–
Total	**36**	**3**	**−95**	**0**

SEKm 2019	Personal Banking	Business Banking	Group Treasury	Other
Issuer services	–	–	−34	0
Lending Products	40	3	–	−6
Guarantees	0	0	–	–
Other	–	–	−46	0
Total	**40**	**3**	**−80**	**−6**

Note 5. Total net result from items at fair value

SEK (000s)	2020	2019
Interest-bearing securities and other interest-related instruments[1]	−74,283	−22,221

1) Of which SEK 36,359k (29,484) related to financial assets held at amortised cost.

Net result from categories of financial instruments

SEK (000s)	2020	2019
Financial assets at fair value through other comprensive income	6,818	−9,175
Financial assets and liabilities mandatorily at fair value through profit or loss	287,715	−72,883
Financial assets at amortised cost	699,457	−288,105
Financial liabilities at amortised cost	−1,066,506	347,971
Foreign exchange gains/losses excluding currency hedges	−1,767	−29
Total	**−74,283**	**−22,221**

Note 6. Staff costs

SEK (000s)	2020	2019
Salaries and remuneration[1] (specification below)	−19,446	−16,750
Pension costs (specification below)	−4,084	−4,071
Social security contributions	−7,210	−6,365
Other staff costs	−404	−515
Total	**−31,144**	**−27,702**

Salaries and remuneration		
President:		
- Salary and other compensation (2019-01-01 – 2019-12-31)	–	−1,176
- Salary and other compensation (2020-01-01 – 2020-08-31)	−795	–
- Salary and other compensation (2020-09-01 – 2020-12-31)[2]	−596	–
- Allocation to profit-sharing	−16	−17
Vice President:		
-Salary and other compensation	−1,078	−1,039
-Allocation to profit-sharing	−16	−17
To other employees	−16,603	−14,159
Board of directors	−342	−342
Total	**−19,446**	**−16,750**

Pension costs:		
Defined benefit plans	−2,389	−2,418
Defined contribution plans	−1,695	−1,653
Defined contribution plans	**−4,084**	**−4,071**

1) Allocation to profit-sharing foundation 2020: SEK −190k (−237) consists of a new allocation of SEK −402k (−361) and related to prior year SEK 212k (124).
2) Of which performance-based staff costs SEK 246k (–).

To the Group Board Directors' no directors' fee was paid. For 2020 Nordea Hypotek had one person eligible for incentive system / performace-related compensation to employees. More information below in the section "Share based transactions".

The President's contract of employment may be terminated by either the President with six (6) months notive or the company with six (6) months notive. In accoradance with his employment contract the President is entitled to six months salary during the period of notive. The toal amount will be reduced by any salary for the President receives as a result of other employment durint the payment period. After the end

Note 6. Staff costs, cont.

of the 6-month period, the CEO will be subject to a 3-month non-compete clause, according to which the CEO cannot take up employment in any competing company in Sweden.

Loans to key management personnel

Loans to key management personnel amounts to SEK 44,976k (21,574). Interest income on these loans amounts to SEK 380k (181). No loan commitments to key management personnel as per 2020-12-31.

For key management personnel who are employed by Nordea Hypotek the sma credit terms apply as for employees in Nordea. In Sweden the employee interest rate on fixed and cariable interest rate loans is 2.15 basis points lower than the corresponding interest rate for external customers (with a lower limit of 0.5 basis points for both variable interest rate loans and fixed interest rate loans). There is currently a cap of 57 Swedish price base amounts both on fixed- and variable interest rate loans. Interest on loans aboce the defined caps is set on market terms. Loans to family members of key management personnel are granted on normal market terms, as well as loans to key management personnel who are not employed by Nordea Hypotek.

Pension commitments to the President and executives

SEK	2020	2019
Pension costs for President, for the period 2019-01-01 – 2019-12-31	–	23,520
Pension costs for President, for the period 2020-01-01 – 2020-08-31	16,352	–
Pension costs for President, for the period 2020-09-01 – 2020-12-31	102,764	–
Pension commitments for President	426,644	9,104,373
Pension costs for previous Presidents	721,519	953,784
Pension commitments for previous Presidents	18,464,911	9,633,997
Pension costs for Vice President	22,500	22,980
Pension commitents for Vice President	8,079,144	6,839,025
Pension costs for previous Vice President	258,336	258,336
Pension commitments for previous Vice President	3,437,715	3,437,715
Pension costs for external member of the board	169,356	183,351
Pension commitments for external member of the board	2,658,602	2,696,101

The pension age for the President is 68 years. At the pensionable age, pension is paid according to collective agreement. Fixed salary is pensionable income.

Nordea Hypotek's CEO has a defined contribution pension scheme, BTP1. The contributions will be invested in funds chosen by the CEO. Persons employed before 2013 who have not chosen to switch to a defined contribution pension scheme, BTP1, are covered by defined benefit obligations. Defined benefit obligations are guaranteed by a pension foundation. The pension cost is classified as "Staff cost" in the income statement, consists of pension benefits paid, contributions made to or received from the pension foundation and related special wage tax.

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

Share based transactions

In 2020 Nordea Hypotek had costs for variable remuneration according to the Executive Incentive Programme 2020 (EIP 2020) of SEK 246k. There were no such equivalent costs for 2019, and for this reason no comparative figures have been presented.

EIP 2020 is based on specific goals and targets and is capped at maximum of 70% of fixed base salary. 40% of the EIP 2020 outcome will be paid out in 2021. The remaining 60% will be paid-out annually pro-rata over 5-years with 12% vesting each year. 50% of the EIP 2020 outcome is delivered in Nordea Bank Abp shares (excluding dividends) at each vesting event, which are subject to retention for 12 months when the deferral period ends.

Performance goals at group level included financial goals measuring return on equity, income and cost/income-ratio and non-financial goals measuring employee engagement and customer satisfaction. BA/GF goals included BA/GF-specific financial goals. At individual level, performance was measured in relation to the individually agreed goals and targets including risk and compliance. The weight of group, BA/GF and individual goals are determined individually. Any awards were determined on the basis of achievement in relation to the agreed goals and targets following appropriate risk adjustments.

Average number of employees

	2020	2019
Full-time equivalents		
Men	10	10
Women	15	14
Total average	**25**	**24**

At year-end the total number of employees was 26 (25).

Gender distribution

In the Board of Directors of Nordea Hypotek AB 50% were men (67) and 50% (33) were women.

Note 7. Other expenses

SEK (000s)	2020	2019
Postage, telephone and office expenses	–279	–239
Distribution costs to Nordea	–1,281,774	–1,059,553
Resolution fee	–216,831	–348,515
Other[1]	–50,100	–53,522
Total	**–1,548,985**	**–1,461,829**

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

Auditors' fees

SEK (000s)	2020	2019
Öhrlings PricewaterhouseCoopers		
Auditing assignments	–2,417	–1,751
Audit-related services	–146	–175
Total	**–2,563**	**–1,926**

Note 8. Net loan losses

SEK (000s) 2020	Loans to the public	Interest-bearing securities	Off balance sheet items	Total
Net loan losses, stage 1	–24,819	–259	–5,396	–30,474
Net loan losses, stage 2	–27,008	–	–23	–27,031
Net loan losses, non-defaulted	**–51,827**	**–259**	**–5,419**	**–57,505**
Stage 3, defaulted				
Net loan losses, individually assessd, collectively calculated	–13,332	–	–	–13,332
Realised loan losses	–7,074	–	–	–7,074
Decrease of provisions to cover realised loan losses	–	–	–	–
Recoveries on previous realised loan losses	1,139	–	–	1,139
Reversals of provisions	–	–	–	–
Net loan losses, defaulted	**–19,267**	**–**	**–**	**–19,267**
Net loan losses	**–71,094**	**–259**	**–5,419**	**–76,772**

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

Key ratios

	2020 31 Dec	2019 31 Dec
Loan loss ratio, basis points[1]	1.2	0.3
-of which stage 1	0.5	0.7
-of which stage 2	0.4	–0.3
-of which stage 3	0.3	0.9

1) Based on IFRS 9.

Note 9. Taxes

Income tax expenses

SEK (000s)	2020	2019
Current tax[1]	–1,140,476	–1,122,243

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

SEK (000s)	2020	2019
Profit before tax	5,304,792	5,241,835
Tax calculated at a tax rate of 21.4% (21.4)	–1,135,225	–1,121,753
Tax charges not related to profit	175	1,240
Non-deductible expenses	–5,426	–4,129
Adjustments relating to prior years	–	2,399
Tax charge	**–1,140,476**	**–1,122,243**
Average effective tax rate %	21,4	21,4

Deferred tax assets and deferred tax liabilities

SEK (000s)	2020	2019
Deferred tax assets	–	–
Deferred tax liabilities	9,779	4,787
Net deferred tax liability	**9,779**	**4,787**

Note 9. Taxes, cont.

Movements in deferred tax liabilities

SEK (000s)	1 Jan 2020	Adjustments to opening balance	Charged to income statement	Charged to other comprehensive income	Charged directly to equity	Acquisitions and disposals	Foreign exchange	Other changes	31 Dec 2020
Deferred tax liabilities									
Derivatives	4,787	–	–	4,992	–	–	–	–	9,779
Total	**4,787**	**–**	**–**	**4,992**	**–**	**–**	**–**	**–**	**9,779**
SEK (000s)	**1 Jan 2019**								**31 Dec 2019**
Deferred tax liabilities									
Derivatives	5,899	–	–	–1,112	–	–	–	–	4,787
Total	**5,899**	**–**	**–**	**–1,112**	**–**	**–**	**–**	**–**	**4,787**

Note 10. Loans and impairment

SEK (000s)	31 Dec 2020	31 Dec 2019
Loans measured at amortised cost, not impaired (stage 1 and 2)	623,313,098	584,839,361
Impaired loans (stage 3)	537,947	598,698
- of which servicing	46,668	104,108
- of which non-servicing	491,279	494,590
Loans before allowances	**623,851,045**	**585,438,059**
-of which credit institutions	4,553,762	5,599,320
Allowances for individually assessed impaired loans (stage 3)	−36,471	−23,138
- of which servicing	−2,134	−4,173
- of which non-servicing	−34,337	−18,965
Allowances for collectively assessed impaired loans (stage 1 and 2)	−94,498	−42,671
Allowances	**−130,969**	**−65,809**
Loans, carrying amount	**623,720,076**	**585,372,250**

Carrying amount of loans measured at amortised cost, before allowances

	Credit institutions				The Public				Total			
SEK (000s)	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 Jan 2020	5,599,320	–	–	5,599,320	573,421,644	5,818,397	598,698	579,838,739	579,020,964	5,818,397	598,698	585,438,059
Changes due to origination and acquisition	–	–	–	–	147,801,419	1,076,485	40,397	148,918,301	147,801,419	1,076,485	40,397	148,918,301
Changes due to transfers between Stage 1 and Stage 2, (net)	–	–	–	–	–1,293,219	1,293,219	–	–	–1,293,219	1,293,219	–	–
Changes due to transfers between Stage 2 and Stage 3, (net)	–	–	–	–	–	36,793	–36,793	–	–	36,793	–36,793	–
Changes due to transfers between Stage 1 and Stage 3, (net)	–	–	–	–	–79,262	–	79,262	–	–79,262	–	79,262	–
Changes due to repayments and disposals	–1,045,558	–	–	–1,045,558	–108,279,952	–1,228,182	–136,979	–109,645,113	–109,325,510	–1,228,182	–136,979	–110,690,671
Changes due to write-offs	–	–	–	–	–	–	–7,074	–7,074	–	–	–7,074	–7,074
Other changes	–	–	–	–	187,808	4,187	435	192,430	187,808	4,187	435	192,430
Closing balance at 31 Dec 2020	**4,553,762**	**–**	**–**	**4,553,762**	**611,758,438**	**7,000,899**	**537,946**	**619,297,283**	**616,312,200**	**7,000,899**	**537,946**	**623,851,045**

Note 10. Loans and impairments, cont.

Movement of allowance accounts for loans measured at amortised cost

	Credit institutions				The Public				Total			
SEK (000s)	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 Jan 2020	–	–	–	–	–20,335	–22,336	–23,138	–65,809	–20,335	–22,336	–23,138	–65,809
Changes due to origination and acquisition	–	–	–	–	–17,377	–5,553	–749	–23,679	–17,377	–5,553	–749	–23,679
Changes due to transfers from Stage 1 to Stage 2	–	–	–	–	644	–28,667	–	–28,023	644	–28,667	–	–28,023
Changes due to transfers from Stage 1 to Stage 3	–	–	–	–	43	–	–12,152	–12,109	43	–	–12,152	–12,109
Changes due to transfers from Stage 2 to Stage 1	–	–	–	–	–825	11,359	–	10,534	–825	11,359	–	10,534
Changes due to transfers from Stage 2 to Stage 3	–	–	–	–	–	598	–5,157	–4,559	–	598	–5,157	–4,559
Changes due to transfers from Stage 3 to Stage 1	–	–	–	–	–169	–	3,181	3,012	–169	–	3,181	3,012
Changes due to transfers from Stage 3 to Stage 2	–	–	–	–	–	–1,359	3,559	2,200	–	–1,359	3,559	2,200
Changes due to changes in credit risk without stage transfer	–	–	–	–	–10,436	–6,515	–7,203	–24,154	–10,436	–6,515	–7,203	–24,154
Changes due to repayments and disposals	–	–	–	–	3,301	3,128	5,189	11,618	3,301	3,128	5,189	11,618
Closing balance at 31 Dec 2020	**–**	**–**	**–**	**–**	**–45,154**	**–49,345**	**–36,470**	**–130,969**	**–45,154**	**–49,345**	**–36,470**	**–130,969**

Carrying amount of loans measured at amortised cost, before allowances

	Credit institutions				The Public				Total			
SEK (000s)	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 Jan 2019	5,299,092	–	–	5,299,092	537,929,521	10,329,793	582,248	548,841,562	543,228,613	10,329,793	582,248	554,140,654
Changes due to origination and acquisition	–	–	–	–	138,840,912	425,660	36,016	139,302,588	138,840,912	425,660	36,016	139,302,588
Changes due to transfers between Stage 1 and Stage 2, (net)	–	–	–	–	2,949,884	–2,949,884	–	–	2,949,884	–2,949,884	–	–
Changes due to transfers between Stage 2 and Stage 3, (net)	–	–	–	–	–	–31,668	31,667	–1	–	–31,668	31,667	–1
Changes due to transfers between Stage 1 and Stage 3, (net)	–	–	–	–	–128,055	–	128,055	–	–128,055	–	128,055	–
Changes due to repayments and disposals	–	–	–	–	–106,443,295	–1,955,504	–148,520	–108,547,319	–106,443,295	–1,955,504	–148,520	–108,547,319
Changes due to write-offs	–	–	–	–	–	–	–32,252	–32,252	–	–	–32,252	–32,252
Other changes	300,228	–	–	300,228	272,677	–	1,484	274,161	572,905	–	1,484	574,389
Closing balance at 31 Dec 2019	**5,599,320**	**–**	**–**	**5,599,320**	**573,421,644**	**5,818,397**	**598,698**	**579,838,739**	**579,020,964**	**5,818,397**	**598,698**	**585,438,059**

Movement of allowance accounts for loans measured at amortised cost

	Credit institutions				The Public				Total			
SEK (000s)	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 Jan 2019	–	–	–	–	–14,450	–26,641	–41,312	–82,403	–14,450	–26,641	–41,312	–82,403
Changes due to origination and acquisition	–	–	–	–	–8,616	–1,349	–2,115	–12,080	–8,616	–1,349	–2,115	–12,080
Changes due to transfers from Stage 1 to Stage 2	–	–	–	–	440	–12,931	–	–12,491	440	–12,931	–	–12,491
Changes due to transfers from Stage 1 to Stage 3	–	–	–	–	31	–	–6,790	–6,759	31	–	–6,790	–6,759
Changes due to transfers from Stage 2 to Stage 1	–	–	–	–	–492	13,945	–	13,453	–492	13,945	–	13,453
Changes due to transfers from Stage 2 to Stage 3	–	–	–	–	–	987	–5,297	–4,310	–	987	–5,297	–4,310
Changes due to transfers from Stage 3 to Stage 1	–	–	–	–	–106	–	1,561	1,455	–106	–	1,561	1,455
Changes due to transfers from Stage 3 to Stage 2	–	–	–	–	–	–620	3,431	2,811	–	–620	3,431	2,811
Changes due to changes in credit risk without stage transfer	–	–	–	–	832	611	4,210	5,653	832	611	4,210	5,653
Changes due to repayments and disposals	–	–	–	–	3,097	4,280	4,778	12,155	3,097	4,280	4,778	12,155
Write-off through decrease in allowance account	–	–	–	–	–	–	18,700	18,700	–	–	18,700	18,700
Changes due to changes in credit risk without stage transfer					–1,071	–618	–304	–1,993	–1,071	–618	–304	–1,993
Closing balance at 31 Dec 2019	**–**	**–**	**–**	**–**	**–20,335**	**–22,336**	**–23,138**	**–65,809**	**–20,335**	**–22,336**	**–23,138**	**–65,809**

Note 10. Loans and impairments, cont.

Assets subject to enforcement activities

SEK (000s)	31 Dec 2020	31 Dec 2019
Amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activities	11,925	15,267

Rating/scoring information on loans measured at amortised cost

	31 Dec 2020				31 Dec 2019			
Gross carring amount, SEK (000s)	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
7+	4,141,738	39,717	–	4,181,455	11,404	4,383	–	15,787
7	3,317,187	–	–	3,317,187	15	–	–	15
7–	–	–	–	–	–	–	–	–
6+ / A+	390,101,930	90,222	2,062	390,194,214	367,245,634	95,823	4,533	367,345,990
6 / A	61,137,552	47,521	–	61,185,073	60,560,249	60,585	–	60,620,834
6– / A–	37,792,075	116,538	–	37,908,613	41,925,605	71,127	–	41,996,732
5+ / B+	26,011,604	130,739	–	26,142,343	26,450,439	126,421	–	26,576,860
5 / B	20,721,854	313,957	–	21,035,811	18,320,036	235,046	–	18,555,082
5– / B–	11,453,983	382,382	691	11,837,056	12,123,335	357,084	–	12,480,419
4+ / C+	12,499,493	598,917	–	13,098,410	11,220,161	490,362	2,660	11,713,183
4 / C	17,023,272	620,782	–	17,644,054	16,615,011	629,522	587	17,245,120
4– / C–	17,005,385	635,121	–	17,640,506	16,329,089	550,538	–	16,879,627
3+ / D+	3,783,155	788,730	–	4,571,885	2,401,581	470,438	4,407	2,876,426
3 / D	1,389,246	423,598	–	1,812,844	1,295,173	495,788	840	1,791,801
3– / D–	933,049	1,075,838	1,206	2,010,093	1,494,088	809,106	1,154	2,304,348
2+ / E+	361,453	303,150	–	664,603	427,352	250,091	–	677,443
2 / E	848,643	339,331	961	1,188,935	656,566	316,980	–	973,546
2– / E–	89,399	123,055	–	212,454	256,121	110,456	–	366,577
1+ / F+	37,202	84,574	–	121,776	41,682	42,151	–	83,833
1 / F	243,296	404,553	41,954	689,803	368,597	282,092	91,272	741,961
1– / F–	493,562	265,172	–	758,734	456,956	293,052	–	750,008
0+ / 0 / 0–	399,967	141,054	468,434	1,009,455	283,966	117,985	493,245	895,196
Standardised/unrated	6,527,154	75,948	22,639	6,625,741	533,521	13,750	–	547,271
Total	**616,312,199**	**7,000,899**	**537,947**	**623,851,045**	**579,016,581**	**5,822,780**	**598,698**	**585,438,059**

Key ratios

	31 Dec 2020	31 Dec 2019
Impairment rate (stage 3), gross[1], basis points	8.6	10.2
Impairment rate (stage 3), net[2], basis points	8.0	9.8
Total allowance rate (stage 1, 2 and 3)[3], basis points	2.1	1.1
Allowances in relation to impaired loans (stage 3)[4], %	6.8	3.9
Allowances in relation to loans in stage 1 and 2[5], basis points	1.5	0.7

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

Note 11. Interest-bearing securities

SEK (000s)	31 Dec 2020	31 Dec 2019
States, municipalities and other public bodies	8,569,613	8,912,820
Mortgage institutions	8,417,426	8,430,323
Other credit institutions	3,616,854	3,305,505
Other	453,787	455,267
Total	**21,057,680**	**21,103,915**

Provisions for credit risks amount to SEK 579k (320).

Note 12. Derivatives and Hedge accounting

Nordea Hypotek enters into derivatives for trading and risk management purposes. Nordea may take positions with the expectation of profiting from favourable movements in prices, rates or indices. The trading portfolio is treated as trading risk for risk management purposes. Derivatives held for risk management purposes include hedges that either meet the hedge accounting requirements or hedges that are economic hedges, but do not meet the hedge accounting requirements. The table below shows the fair values of derivative financial instruments together with their notional amounts. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of either the market or credit risk.

	Fair value		
31 Dec 2020, SEKm	Positive	Negative	Total nom amount
Derivatives not used for hedge accounting	9	87	48,929
Fair value hedges	4,002	654	491,696
Cash flow hedges	555	136	9,561
Net investment hedges	–	–	–
Total	**4,566**	**877**	**550,186**

	Fair value		
31 Dec 2019, SEKm	Positive	Negative	Total nom amount
Derivatives not used for hedge accounting	26	30	15,815
Fair value hedges	4,540	443	531,404
Cash flow hedges	–	42	9,561
Net investment hedges	–	–	–
Total	**4,566**	**515**	**556,780**

Derivatives not used for hedge accounting

	Fair value		
31 Dec 2020, SEKm	Positive	Negative	Total nom amount
Interest rate swaps	9	87	48,929
Total	**9**	**87**	**48,929**

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

Hedge Accounting

Interest rate risk

As part of Nordea Hypotek's risk management strategy, the Board has established limits on the interest rate sensitivities for the interest rate gaps in business, as set out in Risk, Liquidity and Capital Management on page 9. These limits are consistent with the Nordea Hypotek's risk appetite and Nordea Hypotek aligns its hedge accounting objectives to keep exposures within those limits. Nordea Hypotek's policy is to monitor positions on a daily basis. For further information on measurement of risks and sensitivities, see Risk, Liquidity and Capital Management on page 9.

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

Interest risk arises from mismatch of interest from interest-bearing liabilities and assets such as deposits, issued debt securities, interest-bearing securities and loan portfolio. In order to hedge the risk, Nordea Hypotek uses the hedging instruments, which are interest rate derivatives to swap interest rate exposures into either fixed or variable rates, in order to manage the risk, and limit the impact on Nordea Hypotek's margins, profit or loss, and equity.

Nordea Hypotek designates risk component of hedged items as follows:

- benchmark interest rate risk as a component of interest rate risk, such as the LIBOR and STIBOR. Using the benchmark interest rate risk can result in other risks, such as credit risk and liquidity risk, being excluded from the hedge accounting relationship; and
- components of cashflows of hedged items.

Fair value hedges

In order to reduce or eliminate changes in the fair value of financial assets and financial liabilities due to movements in interest rates, Nordea Hypotek uses fair value hedging on reported financial assets and liabilities by pay fixed/receive floating interest rate swaps.

There is an economic relationship between the hedged item and the hedging instrument as the terms of the interest rate swap match the terms of the fixed rate assets or liabilities (i.e. notional amount, maturity, payment and reset dates). The hedged item notional amount is the core stable volume and its maturity is based on expected repricing dates, rather than contractual terms.

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

Hedged items

	Interest rate risk	
SEKm	2020	2019
Fair value hedges		
Carrying amount of hedged assets[1]	201,642	179,635
- of which accumulated amount of fair value hedge adjustment[3]	364	–299
Carrying amount of hedged liabilties[2]	296,296	274,188
- of which accumulated amount of fair value hedge adjustment[3]	4,077	3,168

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

Note 12. Derivatives and Hedge accounting, cont.

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

Hedging instruments

31 Dec 2020, SEKm	Fair value		Total nom amount
	Positive	Negative	
Fair value hedges			
Interest rate risk	4,557	654	498,612

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

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

Maturity profile of the nominal amount of hedging instruments

31 Dec 2020, SEKm	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Total
Instrument hedging interest rate risk	–	8,650	71,017	408,635	10,310	498,612
Total	**–**	**8,650**	**71,017**	**408,635**	**10,310**	**498,612**

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

Currency risk

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

Nordea Hypotek’s issuance of credits and borrowing can be denominated in the currency of the borrower or investor. Borrowing, investing and lending are not always executed in the same currency and thus exposes Nordea Hypotek to a foreign exchange risk. Differences in exposures to individual currencies that exist between different transactions are matched by predominantly entering into cross currency interest rate swaps. The currency component is designated as a cash flow hedge of currency risk and the interest component as a fair value hedge of interest rate risk. Further information regarding hedge accounting can be found in Note 1 “Accounting policies”, section 8.

For hedge accounting relationships related to currency risk, the hedged item is a foreign currency component. The hedging ration is one-to-one and is stablished by matching the notional l of the derivatives against the principle of the hedged item.

Cash flow and net investment hedges

For Nordea Hypotek’s cash flow hedge of interest rate risk relate to exposures to the variability in future interest payments and receipts due to the movement of benchmark interest rates on forecast transactions and on recognised financial assets and financial liabilities. This variability in cash flows is hedged by interest rate swaps, fixing the hedged cashflows according to Nordea’s policies and risk management strategy described in Note 1, section 8, and in the Market risk section in the chapter “Risk, Liquidity and Capital management”.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the interest rate swaps match the terms of the future interest cash flows (i.e. notional amount and expected payment date). Changes in the valuation of swaps that are part of effective cash flow hedge relationships are recognised in cash flow hedge reserves.

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

Note 12. Derivatives and Hedge accounting, cont.

Hedging instruments

31 Dec 2020, SEKm	Fair value Positive	Fair value Negative	Total nom amount
Cash flow hedges			
Foreign exchange risk	–	136	2,645
Total derivatives used for hedge accounting	**–**	**136**	**2,645**

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

Cash flow hedge reserve

SEKm	Foreign exchange risk 2020	Foreign exchange risk 2019
Balance at 1 Jan	**17**	**21**
Cash flow hedges:		
Valuation gains/losses	435	287
Tax on valuation gains/losses	−93	−63
Transferred to the income statement	−411	−292
Tax on transfers to the income statement	88	64
Other comprehensive income, net of tax	19	−4
Total comprehensive income	19	−4
Balance at 31 Dec	**36**	**17**
- of which relates to continuing hedges for which hedge accounting is applied	36	17
- of which relates to hedging relationships for which hedge accounting is no longer applied	–	–

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

Maturity profile of the nominal amount of hedging instruments

31 dec 2020, SEKm	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Total
Instrument hedging foreign exchange risk	–	–	–	2,645	–	2,645
Total	**–**	**–**	**–**	**2,645**	**–**	**2,645**

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

Note 13. Other assets

SEK (000s)	31 Dec 2020	31 Dec 2019
Other assets[1]	453,585	814,019

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

Note 14. Prepaid expenses and accrued income

SEK (000s)	31 Dec 2020	31 Dec 2019
Accrued interest income[1]	19,961	–
Prepaid expenses	207,134	357,024
Total	**227,095**	**357,024**

1) Accrued interest on loans has previously been presented on the line “Prepaid expenses and accrued income” on the balance sheet. As from 2020, accrued income on loans is presented together with the loans on the lines “Loans to credit institutions” and “Loans to the public” on the balance sheet. For more information see Note 1 “Accounting policies”.

Note 15. Deposits by credit institutions

SEK (000s)	31 Dec 2020	31 Dec 2019
Swedish banks	208,194,432	235,964,135

Note 16. Debt securities in issue[1]

SEK (000s)	31 Dec 2020	31 Dec 2019
Swedish bonds	394,477,661	330,716,162
Foreign securities	9,157,958	9,554,157
Total	**403,635,619**	**340,270,319**

1) See Specification to Notes, page 75.

Note 17. Other liabilities

SEK (000s)	31 Dec 2020	31 Dec 2019
Accounts payable	63,662	51,130
Liabilities, group contribution	5,329,328	3,945,847
Other liabilites[1]	1,254,089	780,023
Total	**6,647,079**	**4,777,000**

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

Note 18. Accrued expenses and prepaid income

SEK (000s)	31 Dec 2020	31 Dec 2019
Accrued interest	164,902	140,215
Other accrued expenses	21,559	27,608
Prepaid income	9,104	10,453
Total	**195,565**	**178,276**

Note 19. Provisions

SEK (000s)	31 Dec 2020	31 Dec 2019
Commitments[1]	12,859	7,440

1) For more information regarding off balance commitments, see Note 22 "Commitments".

Movements in provisions for off balance sheet items

SEK (000s)	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 Jan 2020	**7,411**	**29**	**0**	**7,440**
Changes due to origination and acquisition	–	–	–	–
Changes due to transfers from Stage 1 to Stage 2	–	–	–	–
Changes due to transfers from Stage 1 to Stage 3	–	–	–	–
Changes due to transfers from Stage 2 to Stage 1	–	–	–	–
Changes due to transfers from Stage 2 to Stage 3	–	–	–	–
Changes due to transfers from Stage 3 to Stage 1	–	–	–	–
Changes due to transfers from Stage 3 to Stage 2	–	–	–	–
Changes due to changes in credit risk without stage transfer	5,396	23	0	5,419
Changes due to repayments and disposals	–	–	–	–
Write-off through decrease in allowance account	–	–	–	–
Other changes	–	–	–	–
Translation differences	–	–	–	–
Closing balance at 31 Dec 2020	**12,807**	**52**	**0**	**12,859**

Movements in provisions for off balance sheet items

SEK (000s)	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 Jan 2019	**3,706**	**17**	**–**	**3,723**
Changes due to origination and acquisition	–	–	–	–
Changes due to transfers from Stage 1 to Stage 2	–	–	–	–
Changes due to transfers from Stage 1 to Stage 3	–	–	–	–
Changes due to transfers from Stage 2 to Stage 1	–	–	–	–
Changes due to transfers from Stage 2 to Stage 3	–	–	–	–
Changes due to transfers from Stage 3 to Stage 1	–	–	–	–
Changes due to transfers from Stage 3 to Stage 2	–	–	–	–
Changes due to changes in credit risk without stage transfer	3,705	12	0	3,717
Changes due to repayments and disposals	–	–	–	–
Write-off through decrease in allowance account	–	–	–	–
Other changes	–	–	–	–
Translation differences	–	–	–	–
Closing balance at 31 Dec 2019	**7,411**	**29**	**0**	**7,440**

Note 19. Provisions, cont.

Rating/scoring information on off balance sheet items

	31 Dec 2020				31 Dec 2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
7+	–	–	–	–	–	–	–	–
7	–	–	–	–	–	–	–	–
7–	–	–	–	–	–	–	–	–
6+ / A+	57,952	–	–	57,952	3,546	–	–	3,546
6 / A	4,300	–	–	4,300	2,428	–	–	2,428
6– / A–	2,855	–	–	2,855	40,509	–	–	40,509
5+ / B+	2,275	–	–	2,275	1,163	–	–	1,163
5 / B	1,788	–	–	1,788	624	–	–	624
5– / B–	1,033	–	–	1,033	1,524	–	–	1,524
4+ / C+	678	–	–	678	346	–	–	346
4 / C	508	–	–	508	961	–	–	961
4– / C–	1,315	–	–	1,315	443	–	–	443
3+ / D+	396	–	–	396	86	–	–	86
3 / D	129	–	–	129	119	–	–	119
3– / D–	164	–	–	164	105	–	–	105
2+ / E+	–	59	–	59	–	46	–	46
2 / E	–	70	–	70	–	10	–	10
2– / E–	–	10	–	10	–	35	–	35
1+ / F+	–	9	–	9	–	56	–	56
1 / F	–	75	–	75	–	57	–	57
1– / F–	–	61	–	61	–	4	–	4
0+ / 0 / 0–	–	–	–	–	–	–	–	–
Standardised/unrated	–	–	–	–	–	–	–	–
Total	**73,394**	**284**	**–**	**73,677**	**51,854**	**208**	**–**	**52,062**

Note 20. Subordinated liabilities[1]

SEK (000s)	31 Dec 2020	31 Dec 2019
Dated subordinated debenture loans	1,650,119	1,650,137

1) See Specification to Notes, page 75.

These debenture loans are subordiated to other liabilities.

Note 21. Assets pledged as security for own liabilities

SEK (000s)	31 Dec 2020	31 Dec 2019
Assets pledged for own liabilities		
Loans to the public	594,667,658	560,311,631
The above pledges certain to the following liability		
Debt securities in issue	389,810,305	335,802,211

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

Note 22. Commitments

SEK (000s) (nom. Amount)	31 Dec 2020	31 Dec 2019
Credit commitments	73,677,181	52,062,075

Note 23. Capital adequacy

Capital adequacy is a measure of the financial strength of a bank, usually expressed as a ratio of capital to risk-weighted assets. There is a worldwide capital adequacy framework drawn up by the Basel Committee on Banking Supervision. This is implemented in EU by the Capital Requirements Directive IV (CRD IV), Bank Recovery and Resolution Directive (BRRD) and Capital Requirements Regulation (CRR) in 2014. CRD IV and BRRD was implemented through national law within all EU countries during 2014, while the CRR entered into force in all EU countries the first of January 2014.

In June 2019, the 'banking package' containing revisions to the BRRD, the CRD IV and the CRR was adopted. The revised directives (BRRD II, CRD V) need to be implemented in Swedish legislation before entering into force, whilst the revised regulation (CRR II) became directly applicable. The majority of changes in CRR II does however enter into force two years later, i.e. in June 2021.

The cap 0ital adequacy framework is built on three Pillars:

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

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

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

Common Equity Tier 1 capital and Tier 1 capital

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

Additional Tier 1 instruments

The inclusion of undated subordinated loans in AT1 capital is restricted and repurchase can normally not take place until five years after original issuance of the instrument. AT1 instruments may be repaid only upon decision by the Board of Directors in Nordea Hypotek and with the permission of the Swedish FSA. Further, there are restrictions related to step-up conditions, order of priority, and interest payments under constraint conditions.

For the AT1 instruments, conditions specify appropriation in order to avoid being obliged to enter into liquidation. To the extent that may be required to avoid liquidation, the principal amounts of AT1 instruments (together with accrued interest) would be written down and converting such amount into a conditional capital contribution.

Tier 2 capital

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

Tier 2 instruments

Tier 2 instruments consist mainly of subordinated debt. Tier 2 instruments include two different types of subordinated loan capital; undated loans and dated loans.

The basic principle for subordinated debt in own funds is the order of priority in case of a default or bankruptcy situation. Under such conditions, the holder of the subordinated loan would be repaid after other creditors, but before shareholders. The share of outstanding loan amount possible to include in the Tier 2 capital related to dated loans is reduced if the remaining maturity is less than five years. Call date is where the issuer has the legal right to redeem outstanding loan amounts according the terms of agreement. The carrying amounts may deviate from capital amounts used in own funds due to swap arrangements and adjustments for maturities.

Note 23. Capital adequacy, cont.

A2 Transitional own funds

	Common Equity Tier 1 capital: instruments and reserves, SEKm	(A) Amount at disclosure date, SEKm	(C) Amounts subject to pre-regulation treatment or prescribed residual amount of regulation, (EU) no 575/2013
1	Capital instruments and the related share premium accounts of which: Share Capital	110	–
2	Retained earnings	21,157	–
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	40	–
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	4,164	–
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	25,471	–
	Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	–2	–
11	Fair value reserves related to gains or losses on cash flow hedges	–36	–
12	Negative amounts resulting from the calculation of expected loss amounts	–71	–
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	–4	–
15	Defined-benefit pension fund assets (negative amount)	–10	–
28	Total regulatory adjustments to Common equity Tier 1 (CET1)	–124	–
29	Common Equity Tier 1 (CET1) capital	25,348	–
	Additional Tier 1 (AT1) capital: regulatory adjustments		
45	Tier 1 capital (T1 = CET1 + AT1)	25,348	–
	Tier 2 (T2) capital: instruments and provisions		
46	Capital instruments and the related share premium accounts	1,650	–
50	Credit risk adjustments	37	–
51	Tier 2 (T2) capital before regulatory adjustments	1,687	–
	Tier 2 (T2) capital: regulatory adjustments		
58	Tier 2 (T2) capital	1,687	–
59	Total capital (TC = T1 + T2)	27,035	–
60	Total risk weighted assets	170,187	–
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	14.9%	–
62	Tier 1 (as a percentage of risk exposure amount)	14.9%	–
63	Total capital (as a percentage of risk exposure amount)	15.9%	–
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	2.5%	–
65	of which: capital conservation buffer requirement	2.5%	–
66	of which: countercyclical buffer requirement	0.0%	–
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	7.9%	–
	Amounts below the thresholds for deduction (before risk weighting)		
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	6	
	Applicable caps on the inclusion of provisions in Tier 2		
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	37	–
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	216	–
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)		
84	Current cap on T2 instruments subject to phase out arrangements	0	–

Note 23. Capital adequacy, cont.

Leverage Ratio

	31 Dec 2020[1]	31 Dec 2019[1]
Tier 1 capital, transitional definition, SEKm	25,348	25,340
Leverage ratio exposure, SEKm	667,053	624,208
Leverage ratio, percentage	3.8	4.1

1) Including profit of the period

Minimum Capital Requirement & Capital Buffers

			Capital Buffers			
Percentage	Minimum Capital requirement	Pillar II requirement[1]	CCoB	CCyB	Capital Buffers total[1]	Total
Common Equity Tier 1 capital	4.5	0	2.5	0.0	2.5	7.0
Tier 1 capital	6.0	0	2.5	0.0	2.5	8.5
Own funds	8.0	0	2.5	0.0	2.5	10.5
SEKm						
Common Equity Tier 1 capital	7,658	0	4,255	1	4,256	11,915
Tier 1 capital	10,211	0	4,255	1	4,256	14,467
Own funds	13,615	0	4,255	1	4,256	17,871

1) In the 2019 SREP, the supervisor has informed Nordea Hypotek AB of its supervisory capital assessment where Pillar 2 is 1.75% in own funds requirement to be met with CET1 capital.

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

Common Equity Tier 1 available to meet Capital Buffers

Percentage points of REA	31 Dec 2020[1]	31 Dec 2019[1]
Common Equity Tier 1 capital	7.9	8.9

1) Including profit of the period.

Capital ratios

Percentage	31 Dec 2020	31 Dec 2019
Common Equity Tier 1 capital ratio, including profit	14.9	15.8
Tier 1 capital ratio, including profit	14.9	15.8
Total capital ratio, including profit	15.9	16.9
Common Equity Tier 1 capital ratio, excluding profit	12.4	13.2
Tier 1 capital ratio, excluding profit	12.4	13.2
Total capital ratio, excluding profit	13.4	14.3

Note 23. Capital adequacy, cont.

Table A3 – Capital instruments' main features template[1] – CET1

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

1) "N/A" inserted if the question is not applicable.

Note 23. Capital adequacy, cont.

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

1	Issuer	Nordea Hypotek AB
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	Swedish
Regulatory treatment		
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo
7	Instrument type (types to be specified by each jurisdiction)	Tier 2 as published in Regulation (EU) No 575/2013 article 63
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	SEK 1,650m
9	Nominal amount of instrument	SEK 1,650m
9a	Issue price	100 per cent
9b	Redemption price	100 per cent of Nominal amount
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	30-Dec-2019
12	Perpetual or dated	Dated
13	Original maturity date	30-Dec-2029
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	30-Dec-2024 In addition tax/regulatory call 100 per cent of Nominal amount
16	Subsequent call dates, if applicable	30-Mar, 30-Jun, 30-Sep and 30-Dec each year after first call date
Coupons / dividends		
17	Fixed or floating dividend / coupon	Floating
18	Coupon rate and any related index	Floating 3-month STIBOR +1.40 per cent per annum
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Convertible
24	If convertible, conversion trigger(s)	Point of non-viability, subject to decision by the Resolution authority. Contractual and statutory
25	If convertible, fully or partially	Fully or partially
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	Common Equity Tier 1
29	If convertible, specify issuer of instrument it converts into	Nordea Hypotek AB
30	Write-down features	Yes
31	If write-down, write-down trigger(s)	Point of non-viability, subject to decision by the Resolution authority. Contractual and statutory
32	If write-down, full or partial	Fully or partially
33	If write-down, permanent or temporary	Permanent
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior non-preferred
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

1) "N/A" inserted if the question is not applicable.

Note 23. Capital adequacy, cont.

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

SEKm	On-balance exposure, SEKm	Off-balance exposure, SEKm	Exposure value (EAD), SEKm[1]	of which EAD for off-balance, SEKm	Exposure-weighted average risk weight, %
Corporate, of which foundation IRB:	**–**	**–**	**–**	**–**	**–**
- rating grades 6	–	–	–	–	–
- rating grades 5	–	–	–	–	–
- rating grades 4	–	–	–	–	–
- rating grades 3	–	–	–	–	–
- rating grades 2	–	–	–	–	–
- rating grades 1	–	–	–	–	–
- unrated	–	–	–	–	–
- defaulted	–	–	–	–	–
Corporate, of which advanced IRB:	**107,327**	**–**	**102,820**	**–**	**15.3**
- rating grades 6	65,599	–	64,707	–	5.5
- rating grades 5	13,149	–	11,189	–	19.5
- rating grades 4	26,226	–	24,633	–	36.5
- rating grades 3	2,136	–	2,094	–	39.8
- rating grades 2	56	–	56	–	50.9
- rating grades 1	43	–	41	–	62.4
- unrated	92	–	74	–	77.8
- defaulted	26	–	26	–	224.8
Institutions, of which foundation IRB:	**9,892**	**–**	**9,892**	**–**	**7.1**
- rating grades 6	9,036	–	9,036	–	6.8
- rating grades 5	856	–	856	–	10.2
- rating grades 4	–	–	–	–	–
- rating grades 3	–	–	–	–	–
- rating grades 2	–	–	–	–	–
- rating grades 1	–	–	–	–	–
- unrated	–	–	–	–	–
- defaulted	–	–	–	–	–
Retail, of which secured by real estate:	**492,024**	**73,677**	**565,701**	**73,677**	**3.3**
- scoring grades A	434,828	65,107	499,935	65,107	2.2
- scoring grades B	33,732	5,096	38,829	5,096	5.6
- scoring grades C	16,191	2,501	18,692	2,501	12.4
- scoring grades D	4,524	689	5,213	689	21.5
- scoring grades E	879	139	1,017	139	36.7
- scoring grades F	955	145	1,100	145	58.6
- not scored	229	–	229	–	63.0
- defaulted	686	–	686	–	124.2
Retail, of which other retail:	**12,457**	**–**	**12,450**	**–**	**6.7**
- scoring grades A	10,137	–	10,137	–	4.3
- scoring grades B	1,097	–	1,096	–	9.9
- scoring grades C	903	–	899	–	18.8
- scoring grades D	182	–	181	–	24.2
- scoring grades E	71	–	70	–	26.1
- scoring grades F	35	–	34	–	41.4
- not scored	11	–	11	–	46.3
- defaulted	21	–	22	–	226.6
Other non credit-obligation assets:					

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

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

Note 24. Classification of financial instruments

Assets

31 Dec 2020, SEKm	Amortised cost (AC)	Financial assets at fair value through profit or loss (FVPL) Mandatorily	Fair value through other comprehensive income (FVOCI)	Non-financial assets	Total
Loans to credit institutions	4,554	–	–	–	4,554
Loans to the public	619,166	–	–	–	619,166
Interest-bearing securities	–	9,975	11,083	–	21,058
Derivatives	–	4,567	–	–	4,567
Fair value changes of the hedged items in portfolio hedge of interest rate risk	364	–	–	–	364
Current tax assets	–	–	–	382	382
Other assets	454	–	–	–	454
Prepaid expenses and accrued income	207	–	–	20	227
Total	**624,745**	**14,542**	**11,083**	**402**	**650,772**

Liabilities

31 Dec 2020, SEKm	Amortised cost (AC)	Financial liabil-ities at fair value through profit or loss (FVPL) Mandatorily	Non-financial liabilities	Total
Deposits by credit institutions	208,194	–	–	208,194
Debt securities in issue	403,636	–	–	403,636
Derivatives	–	877	–	877
Fair value changes of the hedged items in portfolio hedge of interest rate risk	4,078	–	–	4,078
Other liabilities	6,641	–	6	6,647
Accrued expenses and prepaid income	174	–	22	196
Deferred tax liabilities	–	–	10	10
Provisions	–	–	13	13
Subordinated liabilities	1,650	–	–	1,650
Total	**624,373**	**877**	**51**	**625,301**

Assets

31 Dec 2019, SEKm	Amortised cost (AC)	Financial assets at fair value through profit or loss (FVPL) Mandatorily	Fair value through other comprehensive income (FVOCI)	Non-financial assets	Total
Loans to credit institutions	5,599	–	–	–	5,599
Loans to the public	579,773	–	–	–	579,773
Interest-bearing securities	–	10,716	10,388	–	21,104
Derivatives	–	4,566	–	–	4,566
Fair value changes of the hedged items in portfolio hedge of interest rate risk	–298	–	–	–	–298
Current tax assets	–	–	–	98	98
Other assets	814	–	–	0	814
Prepaid expenses and accrued income	357	–	–	–	357
Total	**586,245**	**15,282**	**10,388**	**98**	**612,013**

Note 24. Classification of financial instruments, cont.

Liabilities

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

Note 25. Assets and liabilities at fair value

Fair value of financial assets and liabilities

	31 Dec 2020		31 Dec 2019	
SEKm	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans	624,084	660,953	585,074	603,045
Interest-bearing securities	21,058	21,058	21,104	21,104
Derivatives	4,567	4,567	4,566	4,566
Other assets	454	454	814	814
Prepaid expenses and accrued income	207	207	357	357
Total	**650,370**	**687,239**	**611,915**	**629,886**
Financial liabilities				
Deposits and debt instruments	617,558	613,721	581,053	583,645
Derivatives	877	877	515	515
Other liabilities	6,641	6,641	4,774	4,774
Accrued expenses and prepaid income	174	174	151	151
Total	**625,250**	**621,413**	**586,493**	**589,085**

For information about valutation of items measured at fair value on the balance sheet, see Note 1 and the section ”Determination of fair value on the balance sheet” on page 38. For information about valuation of items not measured at fair value on the balance sheet, see the section ”Financial assets and liabilities not held att fair value on the balance sheet” on page 66.

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

Assets and liabilities held at fair value on the balance sheet

31 Dec 2020, SEKm	Quoted prices in active markets for the same instrument (Level 1)	Valuation technique using observable data (Level 2)	Valuation technique using non-observable data (Level 3)	Total
Assets at fair value on the balance sheet[1]				
Interest-bearing securities	454[2]	20,604	–	21,058
Derivatives	–	4,566	1	4,567
Total	454	**25,170**	1	**25,625**
Liabilities at fair value on the balance sheet[1]				
Derivatives	–	877	–	877
Total	–	**877**	–	**877**

1) All items are measured at fair value on a recurring basis at the end of each reporting period.
2) During the second half of 2020, there was a move of one bond from Level 2 to Level 1 of SEK 454m. This bond is now regarded as actively traded.

31 Dec 2019, SEKm	Quoted prices in active markets for the same instrument (Level 1)	Valuation technique using observable data (Level 2)	Valuation technique using non-observable data (Level 3)	Total
Assets at fair value on the balance sheet[1]				
Interest-bearing securities	–	21,104	–	21,104
Derivatives	–	4,566	–	4,566
Total	–	**25,670**	–	**25,670**
Liabilities at fair value on the balance sheet[1]				
Derivatives	–	515	–	515
Total	–	**515**	–	**515**

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

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

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

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

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

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

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

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

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

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

The valuation processes for fair value measurements

Financial instruments

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

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

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

Loans

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

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

Interest bearing-securities

The fair value is SEK 20,604 m (21,104) categorised in Level 2 and SEK 454m (-) is categorised in Level 1 in the fair value hierarchy.

Other assets and prepaid expenses and accrued income

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

Deposits and debt instruments

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

Other liabilities and accrued expenses and prepaid income

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

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

	31 Dec 2020			31 Dec 2019		
SEKm	Carrying amount	Fair value	Level in fair value hierarchy	Carrying amount	Fair value	Level in fair value hierarchy
Assets not held at fair value on the balance sheet						
Loans	624,084	660,953	3	585,074	603,045	3
Prepaid expenses and accrued income	207	207	3	357	357	3
Total	**624,291**	**661,160**		**585,431**	**603,402**	
Liabilities not held at fair value on the balance sheet						
Deposits and debt instruments	617,558	613,721	3	581,053	583,695	3
Other liabilities	6,641	6,641	3	4,774	4,774	3
Accrued expenses and prepaid income	174	174	3	151	151	3
Total	**624,373**	**620,536**		**585,978**	**588,620**	

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

31 Dec 2020, SEKm	Gross recognised financial assets[1]	Gross recognised financial liabilities set off on the balance sheet	Net carrying amount on the balance sheet	Amounts not set off but subject to master netting agreements and similar agreements[2] Financial instruments	Net amount
Assets					
Derivatives	4,567	–	4,567	–845	3,722
Liabilities					
Derivatives	877	–	877	–845	32

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

31 Dec 2019, SEKm	Gross recognised financial assets[1]	Gross recognised financial liabilities set off on the balance sheet	Net carrying amount on the balance sheet	Amounts not set off but subject to master netting agreements and similar agreements[2] Financial instruments	Net amount
Assets					
Derivatives	4,566	–	4,566	–524	4,042
Liabilities					
Derivatives	515	–	515	–524	–9

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

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 consequesnce Nordea Hypotek would be allowed to benefit from netting both in the ordinary course of business and in the case of default towards its counter parties, in any calculations involving counterparty credit risk. In the section "Counter Party risk and exposures" of the director's report, the size of counterparty risk at 31 December 2020 is set out.

Note 27. Assets and liabilities in foreign currencies

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

31 Dec 2020 SEKm	EUR
Assets	
Derivatives and other assets	1,916
Total assets	**1,916**
Liabilities	
Debt securities in issue	9,158
Other liabilities	1,644
Total liabilities	**10,802**

31 Dec 2019 SEKm	EUR
Assets	
Derivatives and other assets	2,427
Total assets	**2,427**
Liabilities	
Debt securities in issue	9,554
Other liabilities	2,125
Total liabilities	**11,679**

Note 28. Maturity analysis for assets and liabilities

		Expected to be recovered or settled		
Expected maturity 31 Dec 2020, SEKm	**Note**	**Within 12 months**	**After 12 months**	**Total**
Loans to credit institutions	10	4,554	–	4,554
Loans to the public	10	57,309	561,857	619,166
Interest-bearing securities	11	4,647	16,411	21,058
Derivatives	12	161	4,406	4,567
Fair value changes of the hedged items in portfolio hedge of interest rate risk		364	–	364
Current tax assets	9	382	–	382
Other assets	13	454	–	454
Prepaid expenses and accrued income	14	18	209	227
Total assets		**67,889**	**582,883**	**650,772**
Deposits by credit institutions	15	49,035	159,159	208,194
Debt securities in issue	16	59,330	344,306	403,636
Derivatives	12	37	840	877
Fair value changes of the hedged items in portfolio hedge of interest rate risk		4,078	–	4,078
Other liabilities	17	6,647	–	6,647
Accrued expenses and prepaid income	18	196	0	196
Deferred tax liabilities	9	–	10	10
Provisions	19	13	–	13
Subordinated liabilities	20	–	1,650	1,650
Total liabilities		**119,336**	**505,965**	**625,301**

		Expected to be recovered or settled		
Expected maturity 31 Dec 2019, SEKm	**Note**	**Within 12 months**	**After 12 months**	**Total**
Loans to credit institutions	10	5,599	–	5,599
Loans to the public	10	51,820	527,953	579,773
Interest-bearing securities	11	5,325	15,779	21,104
Derivatives	12	222	4,344	4,566
Fair value changes of the hedged items in portfolio hedge of interest rate risk		–299	–	–299
Current tax assets	9	98	–	98
Other assets	13	814	–	814
Prepaid expenses and accrued income	14	241	117	358
Total assets		**63,820**	**548,193**	**612,013**
Deposits by credit institutions	15	59,551	176,413	235,964
Debt securities in issue	16	52,660	287,610	340,270
Derivatives	12	18	497	515
Fair value changes of the hedged items in portfolio hedge of interest rate risk		3,168	–	3,168
Other liabilities	17	4,777	–	4,777
Accrued expenses and prepaid income	18	179	0	179
Deferred tax liabilities	9	0	5	5
Provisions	19	7	–	7
Subordinated liabilities	20	–	1,650	1,650
Total liabilities		**120,360**	**466,175**	**586,535**

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

Contractual undiscounted cash flows

31 Dec 2020, SEKm	< 1 month	1-3 months	3-12 months	1-2 years	2-5 years	5-10 years	>10 years	Total
Loans to credit institutions	4,510	–	44	–	–	–	–	4,554
Loans to the public	7,339	12,453	46,355	42,035	92,898	86,985	475,108	763,173
Interest-bearing securities	2	1,906	3,074	10,706	5,882	185	–	21,755
Other financial assets, other than derivatives	–	1,218	–	–	209	–	–	1,427
Total non-derivative financial assets	**11,851**	**15,577**	**49,473**	**52,741**	**98,989**	**87,170**	**475,108**	**790,909**
Deposits by credit institutions	1,769	16,439	31,124	159,436	–	–	–	208,768
Debt securities in issue	129	307	63,528	148,538	191,522	12,469	1,086	417,579
- of which Debt securities in issue	129	289	63,482	148,473	186,553	8,256	1,086	408,268
- of which Other	–	18	47	65	4,969	4,213	–	9,312
Subordinated liabilities	–	6	17	24	1,703	–	–	1,750
Other non-derrivative financial liabilities	–	10,970	–	–	851	–	–	11,821
Total non-derivative financial liabilities	**1,898**	**27,722**	**94,669**	**307,998**	**194,076**	**12,469**	**1,086**	**639,918**
Derivatives, cash inflow	–7	239	1,467	1,432	9,530	2,086	170	14,916
Derivatives, cash outflow	13	34	399	330	8,518	2,014	101	11,408
Derivatives, net cash flows	**–20**	**205**	**1,068**	**1,102**	**1,012**	**72**	**69**	**3,508**
Exposure	**9,933**	**–11,940**	**–44,128**	**–254,155**	**–94,075**	**74,773**	**474,091**	**154,499**
Cumulative exposure	**9,933**	**–2,007**	**–46,135**	**–300,290**	**–394,365**	**–319,592**	**154,499**	**–**

31 Dec 2019, SEKm	< 1 month	1-3 months	3-12 months	1-2 years	2-5 years	5-10 years	>10 years	Total
Loans to credit institutions	5,578	–	–	–	–	–	–	5,578
Loans to the public	7,116	13,122	39,916	40,904	80,222	84,026	430,017	695,323
Interest-bearing securities	2	44	5,686	5,001	11,219	–	–	21,952
Other financial assets, other than derivatives	–	1,274	–	–	4,557	–	–	5,831
Total non-derivative financial assets	**12,696**	**14,440**	**45,602**	**45,905**	**95,998**	**84,026**	**430,017**	**728,684**
Deposits by credit institutions	2,894	19,544	37,937	159,287	17,728	–	–	237,390
Debt securities in issue	1	303	57,593	79,534	208,075	7,518	2,395	355,419
- of which Debt securities in issue	1	303	57,593	79,534	208,075	7,518	2,395	355,419
- of which Other	–	–	–	–	–	–	–	–
Subordinated liabilities	–	6	20	27	1,744	–	–	1,797
Other non-derrivative financial liabilities	–	8,131	–	–	–	–	–	8,131
Total non-derivative financial liabilities	**2,895**	**27,984**	**95,550**	**238,848**	**227,547**	**7,518**	**2,395**	**602,737**
Derivatives, cash inflow	–3	306	1,575	1,991	10,453	2,609	206	17,137
Derivatives, cash outflow	1	78	598	1,048	9,136	2,376	155	13,390
Derivatives, net cash flows	**–4**	**228**	**977**	**943**	**1,318**	**233**	**51**	**3,747**
Exposure	**9,797**	**–13,316**	**–48,971**	**–192,000**	**–130,231**	**76,741**	**427,673**	**129,693**
Cumulative exposure	**9,797**	**–3,519**	**–52,490**	**–244,490**	**–374,721**	**–297,980**	**129,693**	**–**

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 73,677m (52,062). For further information see Note 22 "Commitments".

Note 29. Related-party transactions

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

Balance sheet

	Nordea Group companies		Key management personnel[1]	
SEK (000s)	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Assets				
Loans to credit institutions	4,553,762	5,599,320	–	–
Loans to the public[1]	–	–	76,910	31,339
Derivatives	4,559,286	4,598,794	–	–
Other assets	453,585	813,788	–	–
Prepaid expenses and accrued income	227,095	21,189	–	–
Total assets	**9,793,728**	**11,033,091**	**76,910**	**31,339**
Liabilities				
Deposits by credit institutions	208,194,432	235,964,135	–	–
Debt securities in issue	67,536,271	5,454,130	–	–
Deivatives	839,654	507,046	–	–
Other liabilities	6,641,707	4,775,261	–	–
Prepaid income and accured expenses	165,943	140,747	–	–
Subordinated liabilities	1,650,119	1,650,137	–	–
Total liabilities	**285,028,126**	**248,491,456**	**–**	**–**
Off balance[2]	501,257,440	540,964,498	–	–

1) Lending divided by collateral type: Single family properties SEK 53,649k (26,418); Tentant-owner apartments SEK 24,594k (4,922).
2) Including nominal values on derivatives.

Income statement

	Nordea Group companies		Key management personnel[1]	
SEK (000s)	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Interest income	205,779	101,152	642	235
Interest expense	488,695	1,296,526	–	–
Net fee and commission income	–68,846	–54,410	–	–
Net result from items at fair value	222,766	–159,147	–	–
General administrative expenses:				
- Staff costs	–	–	–	–
- Other expenses	–1,280,031	–1,057,404	–	–
Total	**–431,637**	**126,717**	**642**	**235**

1) Shareholders with significant influence (including its subsidiaries) and close family members of key management personnel at Nordea Hypotek, as well as companies controlled or jointly controlled by key management personnel or by close family members of key management personnel at Nordea Hypotek, are considered to be related parties to Nordea Hypotek.

With the exception of compensation, certain loans and other commitments to key management, all related party transactions are made on the same criteria and terms as those of comparable transactions with external parties of similar standing.

Compensation and loans to key management personnel

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

Note 30. Credit risk disclosures

Allowances for credit risk

SEKm	Note	31 Dec 2020	31 Dec 2019
Loans to credit institutions	10	–	–
Loans to the public	10	131	66
Interest bearing securities measured at fair value through other comprehensive income or amortised cost	11	1	0
Off balance sheet items	19	13	7
Total		**144**	**73**

Maximum exposure to credit risk

		31 Dec 2020		31 Dec 2019	
SEKm	Note	Amortised cost and Fair value through other comprehensive income	Financial assets at fair value through profit or loss	Amortised cost and Fair value through other comprehensive income	Financial assets at fair value through profit or loss
Loans to credit institutions	10	4,554	–	5,599	–
Loans to the public	10	619,019	–	579,773	–
nterest bearing securities	11	11,083	9,975	10,388	10,716
Derivatives	12	–	4,567	–	4,566
Total		**634,656**	**14,542**	**595,760**	**15,282**

Loan-to-value ratio

A common way to analyse the quality of collateral in the portfolio is to measure the Loan-to-Value (LtV), i.e. the current exposure divided by the market value of the collateral pledged. In the table below, the mortgage exposures are broken down into different LtV ranges. In 2020, mortgage exposures increased in all ranges. The relative distribution of exposures in unchanged compared with 2019.

Retail mortgage exposure[1]

	31 Dec 2020		31 Dec 2019	
	SEKbn	%	SEKbn	%
< 50 %	484.7	83	454.9	83
50–60 %	52.2	9	49.7	9
60–70 %	36.5	6	34.9	6
70–75 %	11.6	2	11.2	2
> 75 %	–	–	–	–
Total	**584.9**	**100**	**550.7**	**100**

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

Loans to corporate customers, by size of loan

Size in SEKm	31 Dec 2020	%	31 Dec 2019	%
0–10	8,983	8	8,959	9
10–50	43,829	39	41,334	41
50–100	21,162	19	19,742	19
100–250	19,714	18	16,364	16
250–500	10,184	9	8,038	8
500–	7,967	7	7,289	7
Total	**111,840**	**100**	**101,726**	**100**

Past due loans, excluding impaired loans

	31 Dec 2020		31 Dec 2019	
SEKm	Corporate customers	Household customer	Corporate customers	Household customer
6-30 days	190	13	317	23
31-60 days	–	234	21	183
61-90 days	–	36	–	51
>90 days	–	34	8	176
Total	**190**	**317**	**346**	**433**
Past due not impaired loans divided by loans to the public after allowances, %	0.17	0.06	0.33	0.09

Note 30. Credit risk disclosures, cont.

Forbearance

Forbearance refers to eased terms or restructuring of credit terms and conditions due to the borrower experiencing financial difficulties. The intention of granting forbearance for a limited period of time is to ensure full repayment of the outstanding debt. Examples of eased terms are changes in amortisation profile, repayment schedule, customer margin or eased financial covenants. Forbearance is undertaken on an individual basis, according to internal guidelines, and followed by impairment testing. Forborne exposures can be performing or non-performing. Loan loss provisions are recognised if necessary. Customers with forbearance measures are transferred to stage 2, unless already identified as credit impaired (stage 3).

On 13 March 2020 Nordea announced that it would offer COVID-19 instalment-free periods in all Nordic countries to those mortgage and car finance household customers and SMEs who were experiencing temporary liquidity problems due to the COVID-19 situation. Nordea did not register COVID-19 instalment-free periods as forbearance, and consequently did not automatically transfer the exposures to stage 2, due to the temporary nature of the instalment-free periods and as interest continued to accrue. On 1 October 2020 Nordea ended all temporary amendments to the credit risk framework and returned to the normal forbearance registration procedures, while still continuing to support customers through the crisis.

The carrying amounts of loans for which Nordea Hypotek had granted interest-only periods due to COVID-19 was, at the end of December 2020, SEK 76bn, which equals 12% of the loan portfolio.

Sensitivites

One important factor in estimating expected credit losses in accordance with IFRS 9 is to assess what constitutes a significant increase in credit risk. To understand the sensitivities for these relative triggers Nordea Hypotek has by using models calculated provisions based on two different scenarios:

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

The provisions would have increased by SEK 4.1m in scenario 1 and decreased by SEK 3.1m in scenario 2.

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

31 Dec 2020, SEK (000s)	Recognised provisions	Provisions if one notch downgrade
Business Banking	12,815	21,549
Personal Banking	61,346	88,623
Large Corporates & Institutions	679	1,320
Other	5,322	7,475
Total	**80,162**	**118,966**

31 Dec 2019, SEK (000s)	Recognised provisions	Provisions if one notch downgrade
Business Banking	7,819	13,096
Personal Banking	48,169	70,845
Large Corporates & Institutions	232	311
Other	2,265	3,562
Total	**58,485**	**87,814**

Forward-looking information

Forward-looking information is used both for assessing significant increases in credit risk and the calculation of expected credit losses. Nordea Hypotek uses three macroeconomic scenarios: a baseline scenario, a favourable scenario and an adverse scenario. For the fourth quarter of 2020, the scenarios have been weighted into the final expected credit losses (ECL) using baseline 50%, adverse 45% and favourable 5% (baseline 60%, adverse 20% and favourable 20% at year-end 2019). The weight on the adverse scenario was increased in the third quarter of 2020 to give more weight to the downside risks surrounding the expiry of customer support measures and the continuation of the pandemic. The baseline scenario was still maintained as the most probable one.

The macroeconomic scenarios are provided by Group Risk and Compliance (GRC) in Nordea, based on the Oxford Economics Model. The forecast is a combination of modelling and expert judgement, subject to thorough checks and quality control processes. The model has been built to give a good description of the historical relationships between economic variables and to capture the key linkages between those variables. The forecast period in the model is ten years, and for periods beyond, a long-term average is used in the ECL calculations.

The macroeconomic scenarios reflect Nordea Hypotek's view of how the COVID-19 virus and lockdowns will potentially impact the economic outlook. The scenarios also reflect the macroeconomic effects of government and central bank support measures. When developing the scenarios, Nordea Hypotek took into account projections from Nordic governments and central banks, Nordea Research and the ECB's macroeconomic forecasts for the euro area.

Following one of the largest contractions in output since the Second World War, the Swedish economy experienced a significant recovery of activity in Q3 2020. Although the economic recovery during the second half of 2020 appeared to be relatively strong, growth in 2021 is predicted to be slow, as the outlook is still clouded by a very high level of uncertainty. Thus, the resurgence of the COVID-19 pandemic in the autumn of 2020 with renewed and widespread lockdowns in most of Europe poses a threat to the export dependent countries like Sweden.

The high level of uncertainty also weighs on business investments. On the other hand, the eventual roll-out of vaccines, and the willingness of the Swedish government to extend special support measures for sectors hit by lockdowns, point to a continued but modest recovery in the

Note 30. Credit risk disclosures, cont.

baseline. This implies that economic output in Sweden does not return to the pre-pandemic levels before 2022. The significant loss of output will continue to weigh on labour markets leading to an additional rise in unemployment in 2021. The rise in unemployment and the impact on consumer confidence are also expected to weigh on housing markets in spite of the strong price increases seen in 2020 and the low level of interest rates.

The adjustments to model-based provisions amount to SEK 51m, including management judgements amounting to SEK 38m and corrections of SEK 13m. This management judgement covers projected loan losses not yet covered by the IFRS 9 model. The cyclical reserve amounted to SEK 21m at the end of 2020 and identified issues in the IFRS 9 model to be later covered in model updates (structural reserve) amounted to SEK 17m at the end of 2020.

The estimation of the cyclical reserve was largely unchanged in the fourth quarter of 2020 compared with the third quarter of 2020. One important source of information in the estimation of the cyclical reserve is the internal stress testing model, adjusted for the impact of government support schemes. For the retail portfolio, the most important public sector actions have been the various forms of labour market support schemes, which have significantly decreased the expected defaults and losses amongst households. Due to the wide scope of these schemes, Nordea Hypotek decreased the modelled development of new defaults originally predicted by the internal stress testing models, leading to lower predicted loan losses. These models are based on historical observations and correlations. Thus, they are not capable of replicating the impact of the current government support schemes.

The stress test model-based scenario simulations were used to challenge the internal bottom-up loan loss forecasts by the business areas, which helped Nordea Hypotek to ensure that the loan loss projections were sufficiently conservative. The cyclical reserve decided on by management aims to adjust the outcome in the IFRS 9 models so that it comprises the range of expected losses rather than the top range of the projections.

Scenarios and provisions

31 Dec 2020		2021	2022	2023	Un-weighted ECL SEK (000s)	Probability weight, %	Model based provisions SEK (000s)	Individual provisions SEK (000s)	Total provisions SEK (000s)
Favourable scenario	GDP growth, %	4.1	2.1	2.3					
	Unemployment, %	8.3	7.7	6.8	66,391	5%			
	Change in household consumption, %	2.4	2.2	2.3					
	Change in house prices, %	−2.8	−0.3	2.7					
Base scenario	GDP growth, %	1.8	5.0	3.0					
	Unemployment, %	10.0	8.1	7.3	73,744	50%	80,162	50,807	130,969
	Change in household consumption, %	0.1	5.2	2.7					
	Change in house prices, %	−3.5	−0.1	1.6					
Adverse scenario	GDP growth, %	−2.3	3.8	3.7					
	Unemployment, %	11.5	11.1	10.2	88,823	45%			
	Change in household consumption, %	−3.2	2.9	2.3					
	Change in house prices, %	−13.5	−11.1	3.8					

Scenarios and provisions

31 Dec 2019		2020	2021	2022	Un-weighted ECL SEK (000s)	Probability weight, %	Model based provisions SEK (000s)	Individual provisions SEK (000s)	Total provisions SEK (000s)
Favourable scenario	GDP growth, %	1.7	2.7	2.6					
	Unemployment, %	6.7	6.3	5.7	57,420	20%			
	Change in household consumption, %	1.8	2.6	2.1					
	Change in house prices, %	1.1	2.6	3.3					
Base scenario	GDP growth, %	1.4	1.9	2.3					
	Unemployment, %	6.9	6.7	6.3	58,362	60%	58,485	7,644	66,129
	Change in household consumption, %	1.4	2.0	2.2					
	Change in house prices, %	1.1	2.4	2.9					
Adverse scenario	GDP growth, %	1.1	1.3	1.7					
	Unemployment, %	6.9	7.0	7.1	59,918	20%			
	Change in household consumption, %	1.0	1.6	2.9					
	Change in house prices, %	1.0	1.8	2.9					

Note 31. Proposed distribution of earnings

After the company paid group contributions amounting to SEK 5,329,328,305 the following amount is available for distruibution by the Annual General Meeting of Shareholders:

Other reserve	39,821,330
Retained profit	21,157,323,956
Net profit for the year	4,164,315,772
Total	**25,361,461,058**
The Board of Directors proposes that these earnings are distributed as follows:	
To be carried forward to:	**25,361,461,058**

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.

Note 32. Sustainability report

Nordea Hypotek is also subject to sustainability reporting requirements (according to Chapter 7, section 31a of the Annual Accounts Act 1995:1554) and in this respect refers to the Group’s statutory sustainability report which is found in the administration report of Nordea’s 2020 annual report. That sustainability report covers the Parent Company Nordea Bank Abp and its subsidiaries.

Specifications to the Notes

Specification to Note 16: Swedish bonds, SEK 000s

Number	ISIN code	First sales day	Interest rate in %	Due dates for interest	Final payment day	Currency	Outstanding nominal amount 2020
5531	SE0006991246	2015-04-08	1.0000	2021-04-08	2022-04-08	SEK	86,515,000
5532	SE0007897186	2015-05-19	1.2500	2021-05-19	2021-05-19	SEK	54,634,100
5533	SE0010442731	2017-09-20	1.2500	2021-09-20	2023-09-20	SEK	59,350,000
5703	SE0004269363	2011-10-19	3.4600	2021-10-19	2026-10-19	SEK	3,000,000
5704	SE0004297125	2011-11-09	3.5350	2021-11-09	2021-11-09	SEK	1,000,000
5705	SE0004329506	2011-12-02	3.1250	2021-12-02	2026-12-02	SEK	1,000,000
5716	SE0007158597	2015-06-01	1.8375	2021-06-01	2027-06-01	SEK	500,000
5717	SE0008015358	2016-02-15	1.5600	2021-02-12	2023-02-15	SEK	1,300,000
5718	SE0009414584	2016-12-15	1.6900	2021-12-15	2026-12-15	SEK	300,000
5720	SE0011088772	2018-05-02	1.8430	2021-05-02	2030-05-02	SEK	1,000,000
5724	SE0011762137	2018-10-08	1.8000	2021-10-08	2030-10-08	SEK	250,000
5725	SE0010599373	2018-10-15	2.2500	2021-10-15	2048-10-15	SEK	400,000
5534	SE0012230415	2018-09-18	1.0000	2021-09-18	2024-09-18	SEK	67,750,000
5728	SE0013358405	2019-10-22	0.7925	2021-10-22	2032-10-22	SEK	500,000
5535	SE0013358413	2019-09-17	1.0000	2021-09-17	2025-09-17	SEK	39,550,000
5721	SE0011062926	2018-08-16	3m Stibor + 0.75	2021-01-18	2023-01-16	SEK	500,000
5722	SE0011062934	2018-08-15	3m Stibor + 0.75	2021-03-15	2023-06-15	SEK	500,000
5723	SE0011721232	2018-09-24	3m Stibor + 0.75	2021-02-24	2023-05-24	SEK	1,000,000
5719	SE0011167360	2018-04-27	3m Stibor + 1.00	2021-03-29	2022-09-27	SEK	1,500,000
5726	SE0011426006	2019-01-21	3m Stibor + 0.75	2021-03-01	2022-12-01	SEK	500,000
5727	SE0012256675	2019-02-15	3m Stibor + 0.75	2021-02-15	2024-02-15	SEK	1,750,000
5729	SE0013358421	2020-04-01	3m Stibor + 1.00	2021-01-29	2022-07-29	SEK	53,700,000
MREL loan							
2518	HYPMREL2518%	2020-03-18	3m Stibor + 0.75	2021-03-18	2025-03-18	SEK	4,750,000
2622	HYPMREL2622%	2020-12-22	3m Stibor + 0.68	2021-03-22	2026-03-22	SEK	4,200,000

Tap issues (applies to 5532-5535).
Quarterly payment of interest, first payment date in table (applies to 5719, 5721, 5722, 5723, 5726, 5727, 5729).

Loan 5531-5535, 5703-5705, 5716-5718, 5720, 5724-5725, 5728: No interest rate adjustment.

Registered Covered Bond (Loans issued in foreign currency)

Currency	Outstanding nominal amount in currency, (000s) 2020[1]
Total other bonds issued (converted into SEK):	**8,892,063**

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

Specification to Note 20: Subordinated liabilities, SEK 000s

Number	Start day	Currency	Interest rate, %	Call date	Due date	Outstanding nominal amount in currency, (000s) 2020
Loan 11	2019-12-30	SEK	3m Stibor + 1.40	2024-12-30	2024-12-30	1,650,000

Signing of the Annual Report

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

Stockholm, 1 March 2021

Per Långsved
Chariman

Peter Dalmalm
Deputy Chair

Maria Härdling
Board member

Marte Kopperstad
Board member

Magnus Montan
Board member

Elisabeth Olin
Board member

Maria Sahlén
Board member

Michael Skytt
Board member

Arvid Krönmark
Chief Executive Officer

Our audit report was submitted on 2 March 2021

Öhrlings PricewaterhouseCoopers AB

Catarina Ericsson
Authorised Public Accountant
Auditor in charge

Auditor's report

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

Report on the annual accounts

Opinions

We have audited the annual accounts of Nordea Hypotek AB (publ) for the year 2020 except for the corporate governance statement on pages 22-26.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Credit institutions and Securities Companies and present fairly, in all material respects, the financial position of Nordea Hypotek AB (publ) as of 31 December 2020 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act for Credit institutions and Securities Companies. Our opinions do not cover the corporate governance statement on pages 22-26. The statutory administration report is consistent with the other parts of the annual accounts.

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

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

Basis for Opinions

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

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

Our audit approach

Audit scope

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

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

Materiality

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

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

Key audit matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts as a whole, but we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Impairment of loans to customers	
A high level of judgement is involved in determining the appropriate impairment loss to be recognised. For individually assessed loans, judgement is involved in determining whether a loan has a loss event and in assessing the loan loss amount. Expected credit losses (ECL) are calculated as a function of the probability of default, the exposure at default and the loss given default, as well as the timing of the loss. The company categorises loans into three stages depending on the level of credit risk or changes in credit risk for each individual loan. For loans without significant increase in credit risk, stage 1, expected credit losses are calculated for estimated defaults within 12 months. For loans where there is a significant increase in credit risk, stage 2, or loans in default, stage 3, a lifetime of expected losses are calculated. The COVID-19 global pandemic significantly impacted management's determination of the ECL. As a result, the ECL has a higher than usual degree of uncertainty, which may materially change the estimate of stage 1 and stage 2 ECL in future periods. To address the uncertainties inherent in the current and future environment and to reflect all relevant risk factors not captured in the Bank's modelled results, management developed post-model-adjustments. Refer to the Annual Report Note 1 – Accounting policies (Critical judgements and estimation uncertainty), Note 8 – Net loan losses and Note 10 – Loans and impairment.	Our audit included, but were not limited to, a combination of testing of internal controls over financial reporting and substantive testing. We obtained an understanding of the loan origination process, credit risk management and the impairment allowances for loans and advances to customers. For ECL models, we involved our modelling specialists to assess the methodology, challenge the underlying assumptions and to independently reperform the calculation for a sample of loans. We had a special focus on post-model-adjustments developed as a result of the COVID-19 global pandemic and the credit risk development. We evaluated the appropriateness of the assumptions and accuracy of underlying data used to develop post-model-adjustments and reviewed that governance procedures have been performed. We assessed the disclosures related to impairment of loans.

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

Det är styrelsen och verkställande direktören som har The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and that they give a fair presentation in accordance with the Annual Accounts Act for Credit institutions and Securities Companies. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibility

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

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

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts, we have also audited the administration of the Board of Director's and the Managing Director of Nordea Hypotek AB (publ) for the year 2020 and the proposed appropriations of the company's profit or loss.

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

Basis for Opinions

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

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

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

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

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's financial situation and ensuring that the company´s organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

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

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

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

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

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

The auditor's examination of the corporate governance statement

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

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

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

Öhrlings PricewaterhouseCoopers AB, 113 97 Stockholm, was appointed auditor of Nordea Hypotek AB (publ) by the general meeting of the shareholders on the 11 March 2020 and has been the company's auditor since the 12 March 2015.

Stockholm, 2 March 2021

Öhrlings PricewaterhouseCoopers AB

Catarina Ericsson
Authorized Public Accountant
Auditor in charge

Board of Directors, Auditor and Management

Board of Directors

Chairman

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

Members

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

Maria Härdling, b 1972
Nordea Bank Abp
Acting Co-Head of Treasury & ALM, Sweden

Marte Kopperstad, b 1979
Nordea Bank Abp
Head of Products & Development Personal Banking

Magnus Montan, b 1972
External Board member

Elisabeth Olin, b 1961
Nordea Bank Abp
Head of Management Office Personal Banking, Sweden / Acting Deputy Head of Personal Banking, Sweden

Maria Sahlén, b 1979
External Board member

Michael Skytt, b 1959
Former Chief Executive Officer, Nordea Hypotek AB (publ)

Auditor

Öhrlings Pricewaterhouse Coopers AB

Catarina Ericsson
Authorised Public Accountant

Management

Arvid Krönmark, b 1979
Chief Executive Officer, Nordea Hypotek AB (publ)

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

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

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

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

Jan Hoppe, b 1981
Chief Risk Officer
Nordea Hypotek AB (publ)

Johan Widholm, b 1967
Senior Legal Counsel
Nordea Hypotek AB (publ)

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