Nordea

Nordea Hypotek AB (publ)

Annual Report

2021

Content

Layout and production: Solberg AB
Photo: Nordea | Print: Göteborgstryckeriet, 2022

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 2021. The company is a wholly owned subsidiary of Nordea Bank Abp (corp. id no. 2858394-9).

5 year overview

Income statement

SEKm	2021	2020	2019	2018	2017
Net interest income[1]	7,514	7,092	6,815	8,150	8,786
Net fee and commission income	-62	-56	–43	–10	4
Net result from items at fair value	-45	-74	–22	–160	–283
Total operating income	**7,407**	**6,962**	**6,750**	**7,980**	**8,507**
General administrative expenses:					
Staff costs	-36	-31	-28	-27	-26
Other expenses[1]	-4,335	-1,549	-1,462	-1,623	-1,477
Total operating expenses	**-4,371**	**-1,580**	**-1,490**	**-1,650**	**-1,503**
Profit before loan losses	**3,036**	**5,382**	**5,260**	**6,330**	**7,004**
Net loan losses	-10	-77	-18	-37	-11
Operating profit	**3,026**	**5,305**	**5,242**	**6,293**	**6,993**
Income tax expense	-630	-1,141	-1,122	-1,389	-1,551
Net profit for the year	**2,396**	**4,164**	**4,120**	**4,904**	**5,442**

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	2021	2020	2019	2018	2017
Assets					
Loans to credit institutions[1]	6,554	4,554	5,599	5,299	7,274
Loans to the public[1]	664,615	619,166	579,773	548,759	536,933
Interest-bearing securities	21,053	21,058	21,104	21,084	—
Derivatives	4,126	4,567	4,566	4,762	6,176
Fair value changes of hedged items in hedges of interest rate risk	-1,157	364	–299	20	-71
Deferred tax assets	42	–	–	–	–
Current tax assets	380	382	98	29	342
Other assets	739	454	814	2,798	1,154
Prepaid expenses and accrued income[1]	106	227	357	691	698
Total assets	**696,458**	**650,772**	**612,013**	**583,442**	**552,506**
Liabilities					
Deposits by credit institutions	274,306	208,194	235,964	222,065	194,469
Debt securities in issue	385,528	403,636	340,270	324,984	319,801
Derivatives	1,481	877	515	351	498
Fair value changes of hedged items in hedges of interest rate risk	607	4,078	3,168	3,721	4,796
Other liabilities	4,007	6,647	4,777	7,021	7,833
Accrued expenses and prepaid income	618	196	179	40	39
Deferred tax liabilities	–	10	5	6	15
Provisions	11	13	7	4	–
Subordinated liabilities	1,650	1,650	1,650	800	1,800
Equity	28,250	25,471	25,478	24,450	23,255
Total liabilities and equity	**696,458**	**650,772**	**612,013**	**583,442**	**552,506**

1) 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. Accrued interest on loans has previously been presented on the line "Prepaid expenses and accrued income". For more information see Note 1 "Accounting policies" in the Annual Report 2020. Comparative figures before 2019 on the lines "Loans to credit institutions", "Loans to the public" and "Prepaid expenses and accrued income" have not been restated.

Ratios and key figures

	2021	2020	2019	2018	2017
Return on average shareholders equity, %[5]	8.4	15.6	15.9	19.6	21.7
Return on assets, %[5]	0.3	0.6	0.7	0.8	1.0
Investment margin, %[1, 4]	1.1	1.1	1.1	1.5	1.6
Cost/income ratio, %	59.0	22.7	22.1	15.6	17.8
Risk-weighted exposure amount, SEKm [2, 3]	180,554	170,187	160,206	161,402	37,362
Capital base, SEKm[1]	29,962	27,035	27,012	25,120	24,899
Total capital ratio, %[1, 2, 3]	16.6	15.9	16.9	15.6	8.9
Tier 1 capital ratio, %[1, 2, 3]	15.7	14.9	15.8	15.1	8.3
Average number of employees (recalculated to FTEs)	24	25	24	20	22

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.
5) As of 1 January 2021 the Funds Transfer Pricing (FTP) approach applying to internal sales and distribution services procured by Nordea Hypotek has been updated to make it consistent with developments in the OECD Transfer Pricing Guidelines and local tax practice. The updated approach has prompted price adjustments to sale and distribution fees, which increases operating expenses and adversely affects operating profit. This largely explains the change in return on average shareholders equity and cost/income ratio compared to previous periods.

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.
Investment margin	Net interest income as a percentage of average total assets, monthly average.
Cost/income ratio	Total operating expenses divided by total operating income.
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.
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.
Tier 1 capital ratio	Tier 1 capital as a percentage of risk-weighted amounts.

Alternative Performance Measures

Mkr	2021	2020
Average equity, SEKm	28,553	26,616
Net profit attributable to shareholders (annualised); SEKm	2,396	4,164
Return on average shareholders equity, %[3]	**8.4**	**15.6**
Total operating income, Tsek	7,406,951	6,961,693
Total operating expenses, Tsek	-4,370,546	-1,580,129
Cost/income ratio, %[3]	**59.0**	**22.7**
Net loan losses, Tsek	-10,325	-76,772
Net loan losses, annualised, Tsek	-10,325	-76,772
Divide with loans to the public,Tsek[5]	664,614,829	619,166,314
Loan loss ratio, bps[1]	**0.2**	**1.2**
Impaired loans (+) Tsek	437,921	537,947
Divide with loans before allowances, Tsek[5]	671,300,207	623,851,045
Impairment rate (stage 3), gross, bps[1]	**6.5**	**8.6**
Impaired loans (+) Tsek	437,921	537,947
Deduct allowances for individually assessed impaired loans, Tsek	42,092	36,471
Impaired loans after allowances, Tsek	**395,829**	**501,476**
Divide with loans before allowances, Tsek[5]	671,300,207	623,851,045
Impairment rate (stage 3), net, bps[1]	**5.9**	**8.0**
Total allowances, Tsek	131,781	130,969
Divide with loans before allowances, Tsek[5]	671,300,207	623,851,045
Total allowance ratio (stage 1, 2 and 3), bps[1]	**2.0**	**2.1**
Allowances for individually assessed impaired loans, Tsek	42,092	36,471
Divide with impaired loans (+), Tsek	437,921	537,947
Allowances in relation to impaired loans (stage 3), %[1]	**9.6**	**6.8**
CET 1 capital	28.3	25.3
Risk exposure amount, SEKbn	180.6	170.2
Common Equity Tier 1 capital ratio %[2]	**15.7**	**14.9**
Tier 1 capital, SEKbn	28.3	25.3
Risk exposure amount, SEKbn	180.6	170.2
Tier 1 capital ratio %[2]	**15.7**	**14.9**
Total Own funds	30.0	27.0
Risk exposure amount, SEKbn	180.6	170.2
Total capital ratio %[2]	**16.6**	**15.9**

1) Based on IFRS 9.
2) Includes the profit for the year.
3) As of 1 January 2021 the Funds Transfer Pricing (FTP) approach applying to internal sales and distribution services procured by Nordea Hypotek has been updated to make it consistent with developments in the OECD Transfer Pricing Guidelines and local tax practice. The updated approach has prompted price adjustments to sale and distribution fees, which increases operating expenses and adversely affects operating profit. This largely explains the change in return on equity and cost/income ratio 2021 compared to previous periods.

Business volumes, key items

SEKm	2021	2020
Loans to the public	664,615	619,166
Loans to the public, excl. repos	664,615	619,166
Deposits and borrowings from the public	–	–

Alternative Performance Measures – Definitions

Nordea Hypotek's Alternative Performance Measures (APMs) are presented to provide users of Nordea Hypotek's financial reporting with relevant information and tools to be able to establish a view on Nordea Hypotek's performance. APMs on capital adequacy are disclosed to give the user a view on Nordea Hypotek's balance between capital and risk, while lending related APMs are disclosed to provide information on Nordea Hypotek's provisions in relation to credit risk. Return on equity (RoE) is intended to provide the user of financial statements with relevant information on Nordea Hypotek's performance in relation to investment measurement. The cost/income (C/I) ratio is finally disclosed to provide the user with information on the correlation between income and expense. The development compared with earlier periods is, in order to better reflect the underlying business performance, generally presented in local currencies.

Return on average shareholders equity	Net profit for the year as percentage of equity, quarterly average.
Cost/income ratio	Total operating expenses divided by total operating income.
Loan loss ratio (IFRS 9)	Net loan losses (annualised) divided by quarterly closing balance of loans to the public (lending) measured at amortised cost.
Impairment rate (Stage 3), gross (IFRS 9)	Impaired loans (Stage 3) before allowances divided by total loans measured at amortised cost before allowances.
Impairment rate (Stage 3), net (IFRS 9)	Impaired loans (Stage 3) after allowances divided by total loans measured at amortised cost before allowances.
Total allowance ratio (Stage 1, 2 and 3) (IFRS 9)	Total allowances divided by total loans measured at amortised cost before allowances.
Allowances in relation to credit impaired loans (stage 3) (IFRS 9)	Allowances for impaired loans (stage 3) divided by impaired loans measured at amortised cost (stage 3) before allowances.
Common Equity Tier 1 capital ratio	The CET 1 ratio is total CET1 Capital divided by total Risk Exposure Amount calculated in accordance to the requirements in the CRR.
Tier 1 capital ratio	Tier 1 ratio is Tier 1 capital as a percentage of risk-weighted amounts. Tier 1 Capital consist of both CET 1 capital and Additional Tier 1 capital.
Total capital ratio	Total capital ratio is total own funds divided by total Risk Exposure Amount. Total own funds is the sum of Tier 1 and Tier 2 capital.

Operations in 2021

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 liens 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 a CET1 ratio at the end of the year of 15.7% (14.9), which comfortably exceeds the legal requirement.

Credit quality in Nordea Hypotek's loan portfolio remained very strong in 2021, and we do not see any signs currently of any negative trend in the loan portfolio or heightened default. Net loan losses remain at a low level, amounting to SEK -10m (-77) in 2021. The tense security policy situation in Europe and the rising inflation are uncertain factors to monitor in the future.

The housing market in Sweden

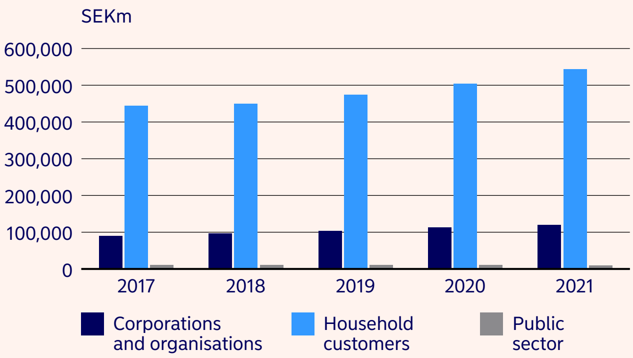
In 2021, Valueguard's price index HOXSWE gained 10.5%. The price increase was greatest for houses, which rose 11.4%, while the increase for apartments was 9.2%. The year started with substantial price increases during the period January to May, while the price progression from June to December was limited with slight price adjustments upwards or downwards.

Profit performance for FY 2021 compared with FY 2020

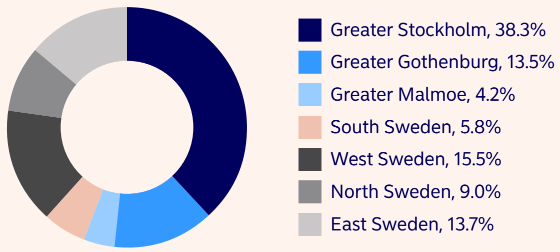
Operating profit amounted to SEK 3,026m (5,305), which is a decrease of 43.0% compared with the previous year. When comparing earnings with the previous year, account should mainly be taken of the following major items affecting comparability:

- Net interest income amounted to SEK 7,514m (7,092); an increase of 6.0%. The main reasons for the increase in net interest income are higher lending volumes and lower funding costs than in 2020.
- Net result from items at fair value improved by SEK 29m, amounting to SEK -45m (-74) at the end of the year. This is chiefly attributable to financial instruments under hedge accounting, which positively affected the item by SEK 41m, increased interest rate differential compensation related to early redemption of loans, which had a positive impact on the item in the amount of SEK 19m, and to the repurchase of issued bonds entered at amortised cost, which had a negative effect of SEK 31m on the item.
- Net commission income decreased by SEK 6m, amounting to SEK -62m (-56) 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 -4,371m (-1,580), an increase of SEK 2,790m or 176.6% compared to 2020. As of 1 January 2021 the Funds Transfer Pricing (FTP) approach applying to internal sales and distribution services procured by Nordea Hypotek from Nordea has been updated to make it consistent with developments in the OECD Transfer Pricing Guidelines and local tax practice. The updated approach has prompted price adjustments to sales and distribution costs. Compared with 2020, sales and distribution costs increased by SEK -2,755 or 215% to SEK -4,035m (-1,280), which largely explains the sharp increase in operating expenses compared to 2020.
- Return on equity, after standard tax, was 8.4% (15.6). The introduction of the new Funds Transfer Pricing (FTP) approach in 2021 is the main reason for the sharp decrease in return on equity compared with 2020.

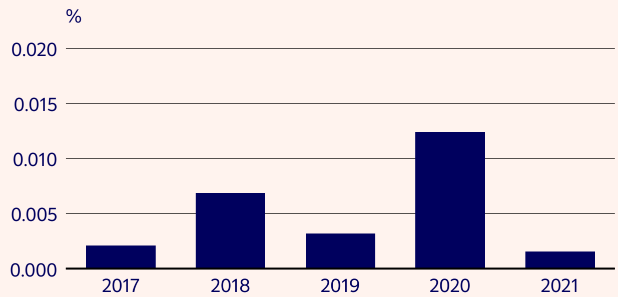
Distribution of the loan portfolio



Geographical distribution of loans in the covered pool



Net loan losses in relation to lending



Performance of lending for FY 2021 compared with FY 2020

Lending to the public increased during the year by 7.3%, amounting at the end of the year to SEK 664,615m (619,166).

Lending to companies, organisations and municipalities

Lending to legal entities increased by SEK 5,827m (5.0%), amounting at the end of the year to SEK 121,271m (115,444).

Household lending

Household lending increased by SEK 39,621m (7.9%), amounting to SEK 543,344m (503,722) at the end of the year.

The volume of loans past due that are not classified as impaired amounted to 0.09% (0.06) for household lending, and to 0.11% (0.17) for corporate lending.

Impaired loans and loan losses

Impaired loans, gross, amounted to SEK 438m (538). Net loan losses for the period were SEK -10m (-77), mainly attributable to reduced model-based loan provisions compared with 2020. Realised loan losses, less recoveries on written-off loans and reversed provisions, increased by SEK 5m in 2021, amounting to SEK -11m (-6) at the end of the year.

All COVID-19-related instalment-free periods have now expired. In terms of the household mortgage stock, the average amortisation rate is now back at the same level as before the instalment-free possibility was introduced. Nordea Hypotek will continue to closely monitor the progression of credit risk in the sectors affected by COVID-19. These customers are carefully evaluated in line with the normal credit risk assessment.

The unchanged weightings in the collectively calculated IFRS 9 reserve compared with 30 June 2021 (60% in the base scenario, 20% in the negative and 20% in the positive) reflect our view that uncertainty surrounding the effects of the pandemic have subsided, most restrictions in society have now been lifted and vaccination programmes have been extended to also include lower age groups and boosters.

The total loan provision decreased slightly compared with 2020, amounting at the end of the year to SEK 143m (144).

Provisions as judged by management

The cyclical provisions, as judged by management, amounted to SEK 11.6m at 31 December 2021. The purpose of the cyclical reserve is to take into account expected credit losses as a result of expected rating downgrades that have not yet been captured by the IFRS 9 model. The structural provisions amounted to SEK 11.8m at 31 December 2021. The purpose of the structural reserve is to cover the identified development needs in the IFRS 9 models. In 2021 the cyclical provision decreased by SEK 8.6m, chiefly as a result of the improved situation in terms of the pandemic. In 2021 the structural provision decreased by SEK 5.1m mainly driven by model improvements.

Foreign exchange risk

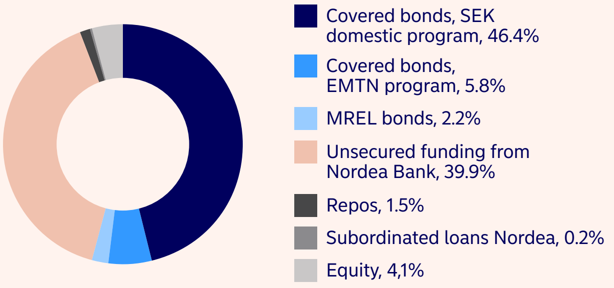
The Company's policy is to hedge foreign exchange risk exposure. The Company's foreign exchange exposures are essentially hedged through FX swaps.

Funding

In 2021, 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.

In 2021, the Company issued bonds to a nominal value of SEK 95bn (122). The issues take place regularly in existing and new series, with the majority being so-called benchmark bonds. In 2021 the Company held agreements with five banks regarding distribution of the bonds in the benchmark series.

Nordea Hypotek's funding structure



Total outstanding covered bonds at year-end amounted to a nominal SEK 365bn (386). In addition, the Company had outstanding debenture loans of SEK 1.65 billion (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 274.3bn (208.2).

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 1,630m (1,305). 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 the Annual Report 2020, Note 12 "Derivatives and Hedge accounting".

Capital adequacy

Since 2014, CRD/CRR (Capital Requirements Directive/Capital Requirements Regulation) applies in the EU. For more information about capital adequacy, please refer to Note 23 "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. At the core of our operations is the development and provision of financial services and offerings that support sustainable development by enabling customers to make conscious and sustainable choices. (https://www.nordea.com/en/sustainability/sustainable-choice).

Nordea Hypotek offers green loans to households and corporate customers to finance energy-efficient buildings. The growing interest in green loans is reflected in the 2021 growth, when the volume of green loans increased by 49% from SEK 10.2bn to SEK 15.1bn.

For more information on how the Nordea Group works with sustainability, please see Nordea's sustainability report for 2021, published at www.nordea.com/en/sustainability/reporting/.

Nordea Hypotek is also subject to sustainability reporting requirements (according to the Annual Accounts Act 1995:1554, Chapter 7, section 31a) and in this respect refers to the Group's statutory sustainability report which is found in the administration report of Nordea's 2021 annual report, published at https://www.nordea.com/en/investors/group-annual-reports. 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.

2022 outlook

Nordea Hypotek has decided not to publish any forecasts for 2022.

Corporate governance

The corporate governance report is included as part of the administration report. See the section Corporate Governance Report 2021.

Change in the Board of Directors

Emma Henriksson was appointed new board member on 2 September 2021. Emma Henriksson already served on the boards of Fabege AB (publ) and ÅWL Arkitekter AB.

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 2021.

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 potentially be 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 3,059,184,927, profit for the year of SEK 2,395,887,768 and retained earnings of SEK 25,893,338,175, as well as other provisions of SEK -149,506,666, are available for distribution by the annual meeting of shareholders.

The proposed group contribution reflects Nordea Hypotek's solid capital position.

The proposed distribution of earnings is provided in Note 31 "Proposed distribution of earnings".

Risk, Liquidity and Capital management

Maintaining risk awareness in the organisation is engrained in Nordea Hypotek's business strategy. The Nordea Group has defined a clear risk, liquidity and capital management framework, with guidelines and instructions for various types of risk, capital adequacy and capital structure, which has also been adopted by Nordea Hypotek (hereinafter, Nordea Hypotek or NH).

Internal control framework

NH's board of directors has adopted the Group Board Directive on Internal Governance of the Nordea Group, 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 conducted by Nordea Hypotek's governing body, which consists of NH's board of directors, the managing director of NH, senior management, the risk management function and other Nordea Hypotek staff and, through intra-group agreements, by units in the rest of the Nordea Group. The internal control has five main components: control environment, risk assessment, control activities, information & communication and 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

Nordea Hypotek's board of directors (NH's board), NH's Board Risk Committee (NH's BRIC) and the managing director of Nordea Hypotek (NH's MD) in Nordea Hypotek's senior management (NH's executive management) are important decision-making bodies for Nordea Hypotek's risk and capital management. Furthermore, NH's board has delegated credit decisions, in accordance with the Nordea Group's internal risk management framework and through intra-group agreements.

Nordea Hypotek's board of directors and the board risk committee

NH's board has the following overarching risk management responsibilities:

- Decides on Nordea Hypotek's risk strategy and risk appetite, including related risk appetite limits, with, at minimum, annual reviews and additional updates when needed.
- Decides and follows up on appropriate and effective risk management policy documents and periodically evaluates whether Nordea Hypotek has effective and appropriate risk management controls. NH's board approves the Group Board Directive on Capital. The directive ensures that the entire Nordea Group maintains adequate capital levels on an ongoing and forward-looking basis in accordance with the business model, risk appetite and regulatory requirements and expectations.

NH's BRIC assists NH's board in fulfilling its oversight responsibilities concerning management and control of risks, risk frameworks, controls and processes associated with Nordea Hypotek's operations, including credit, market, liquidity, business and operational risk, as well as ESG and compliance risks with related policy documents and processes.

Nordea Hypotek's managing director

NH's MD is responsible to NH's board for the overall management of Nordea Hypotek's operations and risks. Responsibilities include ensuring that the risk strategy and risk management decided by NH's board is implemented, the necessary practical measures are taken and risks are monitored and limited. NH's MD is assisted in this task by Nordea Hypotek's executive management.

Nordea Hypotek's executive management

NH's executive management consists of NH's MD, NH's Chief Operating Officer, NH's Chief Credit Officer, NH's Chief Financial Officer, NH's Chief Risk Officer, NH's Business Risk Manager, a Compliance Officer appointed for NH, and NH's Company Legal Counsel .

Credit decision-making bodies

The governing bodies for credit risk and the credit risk management policy documents are NH's board and NH's BRIC.

NH's board has delegated credit decisions in accordance with the mandates described in the Group Board Directive for Risk, adopted by Nordea Hypotek. The Nordea Group has established a number of committees that also deal with credit decisions for Nordea Hypotek.

According to the Group Board Directive for Risk, all limits in the Nordea Group are founded on credit decisions or authorisations from bodies bearing ultimate decision-making responsibility for the limit concerned. Credit decisions include pricing, risk mitigation and any terms and conditions related to the limit or expected utilisation. Credit decisions also serve to delegate decision-making within the approved limit to lower-level decision-makers unless otherwise explicitly decided.

Governance of risk management and compliance

Risk information is sent from the business areas and group functions to NH's board via NH's executive management and NH's BRIC. The flow of information starts with the divisions that monitor and analyse information on the relevant risk type in accordance with intra-group agreements. The information is presented and discussed in NH's executive management and is then submitted to NH's BRIC, where it is discussed and challenged prior to presentation to NH's board.

Group Compliance (GC) i Nordea Bank Abp is responsible for identifying Compliance Risks in NH, and performing monitoring and control to ensure that the risks are managed by the relevant functions. GC performs this task within the bounds of an intra-group agreement. GC provides value-added to NH and its stakeholders by performing an independent evaluation of the bank's compliance with laws, regulations, standards and supervisory requirements, as well as equivalent internal rules governing Nordea Hypotek's operations, and by means of performing various controls. GC reports to NH's BRIC and NH's board.

The risk management policy documents ensure consistent processes for identifying, assessing and measuring, responding to and mitigating, controlling and monitoring and reporting risks to enable informed decisions on risk-taking. They encompass all risks to which Nordea Hypotek is or could be exposed, including off-balance sheet risks and risks in a stressed situation. Detailed reports on all risks and NH's compliance with legal requirements are sent to the MD in NH's executive management, to NH's BRIC and to NH's board. The Risk Identification and Materiality Assessment Process starts with identifying risks to which NH is or could be exposed.

Risks are then assessed for relevance, classified and included in NH's risk taxonomy that is based on the Common Risk Taxonomy of the Nordea Group.

All risks in NH's risk taxonomy are classified as material or non-material. Material risks are those assessed as having a material impact on NH's current and future financial position, its customers and stakeholders.

Risk appetite

The risk appetite policy documents contribute towards effective risk management and a sound risk culture by enabling well-founded decisions on risk-taking. The objective is to ensure that the risks and the operations keep within NH's risk appetite and that emerging risks are identified and mitigated in time.

Risk capacity is the maximum level of risk NH is deemed able to assume given its capital (own funds), its risk management and control capabilities and its regulatory constraints. The risk appetite sets the aggregate level for all types of risk that NH is willing to assume within its risk capacity and in line with its business model to achieve its strategic objectives. The risk appetite limits are NH's board's wording of the approved risk appetite and comprise qualitative statements and quantitative limits and triggers by main risk type to ensure a conservative risk profile.

Credit concentration metrics cover e.g. important customer groups. Stress test metrics are applied to credit, market 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 risk appetite policy documents contain all processes and controls for determining, monitoring and communicating NH's risk appetite:

- Risk capacity-setting based on capital position: On an annual basis, NH's overall risk capacity is aligned with the financial and capital planning process, based on NH'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 to which NH is or could be exposed according to the Common Risk Taxonomy. Triggers are also determined for these main risk types. They are 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, which are set by NH's board, serve as a basis for risk limits that are set and approved at lower decision-making levels, including NH's executive management. The risk limits are set in accordance with Swedish regulatory requirements and in line with the risk limits of the Nordea Group.
- Controlling and monitoring risk exposures against risk limits: Risk appetite limits and risk limits are subject to regular controls to ensure that risk-taking activity remains within the risk appetite.
- Risk appetite limit breach management process: Nordea Hypotek's Chief Risk Officer (NH's CRO) ensures that any breaches of risk appetite limits are escalated to NH's executive management, NH's BRIC and NH's board. NH's CRO reports at least once a quarter on any breaches to NH's executive management, NH's BRIC and NH's board and other relevant governing bodies, including follow-up on the status of actions to be taken, until the relevant risk exposure is within 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 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 positions, the systemic risk profile, the recoverability and resolvability assessments as well as remuneration and incentive programmes.

Disclosure requirements of the CRR – Capital and Risk Management Report 2021

Additional information on risk and capital management is presented in the Capital and Risk Management Report 2020, in accordance with the Capital Requirements Regulation. The report is available at www.nordea.com.

Credit risk management

Credits granted must conform to the common principles established for the Nordea Group. Nordea Hypotek aims to have a well-diversified credit portfolio that is adapted to the structure of the domestic market. The key principles for managing Nordea Hypotek's credit risk are as follows:

- three lines of defence, as further described in the Group Board Directive on Internal Governance, adopted by NH's board.
- independence, i.e. the risk control function should be independent of the business it controls.
- risk-based approach, i.e. the risk control functions shall be aligned with the nature, size and complexity of the business, ensuring that efforts undertaken are proportional to the risks in question.

NH's Chief Credit Officer in the first line of defence is responsible for introducing the Nordea Group's credit process, instructions and standard credit risk procedures into Nordea Hypotek. NH's CRO in the second line of defence is responsible for introducing the Nordea Group credit risk framework, which consists of policies and instructions. NH's CRO and Chief Credit Officer are also responsible for controlling and monitoring the quality of the credit portfolio and the credit process. NH's Chief Credit Officer and NH's CRO are supported in this work by resources in the Nordea Group, in accordance with intra-group agreements.

The basis of credit risk management is limits to customers and customer groups that are aggregated and assigned to units responsible for their continuous monitoring. Besides the processes for the allocation of customer and customer group limits, Nordea Hypotek's credit risk management framework also includes the credit risk appetite framework which provides a comprehensive and risk-based portfolio perspective by means of relevant asset quality and concentration risk metrics. Within the powers to act granted by NH's board, internal credit risk limits are determined by credit decision-making bodies at different levels in the Nordea Group. These credit risk limits equal the maximum risk appetite in relation to the customer concerned. Individual credit decisions within the approved internal credit risk limit are taken within the customer responsible unit (CRU) or by Group Credit Management. The risk categorisation and the overall credit volume determine the level at which the decision will be made.

Responsibility for a credit risk rests with the CRU. Customers are risk-categorised by a rating or scoring in accordance with the Nordea Group's common guidelines and models in this respect. The rating and scoring of customers aims to predict their probability of default and to consequently rank them according to their respective default risk. Rating and scoring are used as integral parts of the credit risk management and decision-making process. Independent representatives from Group Credit Management approve the rating.

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 mainly stems 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/volatile, or require special industry know-how.

Credit decisions are reached after a credit risk assessment, based on principles that are defined consistently across the entire Nordea Group, and regulated in the intra-group agreement governing credit decisions. These principles emphasise 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. The ESG evaluation of large corporate borrowers is currently integrated into the credit process through the Nordea Group credit risk framework.

There are different types of ESG evaluations performed dependent on the type and size of the transaction and the customer's internal segmentation.

ESG-related risks identified in the ESG evaluation process are integrated into the credit risk assessment. A credit memorandum is produced, which contains a conclusion on the level of ESG-related risk associated with the customer. Approval follows the established credit decision-making process. For customers classified as having high ESG-related risk, the decision is escalated to the Executive Credit Committee (ECC).

The overall credit risk assessment shall be a combined risk conclusion on the borrower's repayment capacity and recovery position. The risk conclusion must be sufficiently forward-looking in relation to the risk profile of the customer and maturity of the transaction.

In addition to the credit risk assessment made in connection with a new or changed exposure in relation to a customer, an annual or ongoing credit review process is in place. The review process is an important part of the ongoing credit analysis. If a customer's credit profile is deemed weak, the customer is classified as a "high-risk customer" and is thus subject to more frequent review. Furthermore, 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. Pledging of collateral is fundamental to risk mitigation technique, and collaterals are always sought to minimise the potential for credit losses. In every credit decision and review, the value of collaterals must be considered.

Collaterals consist chiefly of residential real estate, tenant-owned homes and various types of municipal guarantees. The redit assessment and assignment of limits proceed on the basis of repayment capacity.

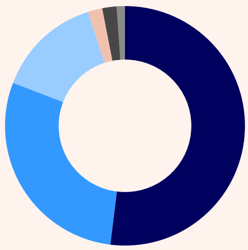
The collateral value should always be based on the market value. The market value is defined as the estimated amount for which the asset or liability would exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the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

From this value, a haircut is applied to determine the collateral value. The haircut is a percentage by which the market value of the asset is expected to decrease in the event of a forced sale of the collateral. A minimum haircut is set for each collateral type. The same principles of calculation must be used for all exposures. For high-risk customers, the value when assessing the provisioning need of an asset may differ from the maximum collateral value 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 diagram below shows the collateral distribution in Nordea Hypotek's cover pool.

Lending distribution on colleterals



Loan-to-value ratio

The loan-to-value (LTV) ratio, i.e. the credit extended divided by the market value of the collateral, is considered a useful metric for evaluating collateral quality. The table below shows how the collateral in Nordea Hypotek's cover pool is distributed in different intervals based on indexed LTV ratio. Further information is provided in Note 30.

	2021-12-31	2020-12-31	
Indexed LtV	Volume, SEK	Volume, SEK	Change, %
<50%	319,968,561,583	260,049,770,329	23
50–60%	108,597,618,449	93,885,058,741	16
60–70%	110,621,784,400	108,042,574,795	2
70–75%	40,537,199,992	40,995,297,920	-1
>75%	65,349,854,712	97,772,881,184	-33

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 credit loss model. In impairment testing (individual and collective), three forward-looking and weighted scenarios are applied. Assets to be tested for impairment are divided into three stages depending on the degree of credit deterioration. Stage 1 includes assets where there has been no significant deterioration in credit risk, stage 2 includes assets where there has been a significant deterioration and stage 3 includes defaulting assets. All assets are assessed individually for staging. For significant assets in stage 3, the impairment need is tested and calculated individually. Assets in stage 1, stage 2 and insignificant assets in stage 3 are assessed for impairment collectively.

Throughout the process of identifying and mitigating credit impairments, Nordea Hypotek continuously reviews the quality of the credit exposures. Weak and 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 only reports certain Specific Credit Risk Adjustments (SCRAs). Credit risk adjustments comprise individually and collectively assessed provisions. Credit risk adjustments during the year are recognised as credit losses in the income statement. In the balance sheet, they are recognised as allowances and provisions. Further information on impairments is presented 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 taken into account).

Exposures with individually assigned provisions count as defaulted and belong to 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.

Further information on impairments is provided in Note 10.

Default

Customers with exposures that are past due more than 90 days, that are in bankruptcy or considered unlikely to pay (UTP), are regarded as defaulted. Such customers can be either servicing debt or non-servicing. If a customer recovers from being in default, the customer is seen as cured. In order to be cured, the recovery should include the customer's total liabilities. There must also be 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 transferring assets from stage 1 to stage 2. For assets recognised from 1 January 2018, changes to the life-time 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-month expected loss. In stage 2 and 3, the provisions equal the lifetime expected loss. The output is complemented by an expert-based analysis process to ensure adequate provisioning. Defaulted customers without individual provisions have collective provisions. Further information on impairments is presented in Note 10.

Forbearance

Forbearance is eased terms or restructuring due to the borrower experiencing or being about to experience financial difficulties. The intention of 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 applied selectively and individually, in accordance with approved mandates and with subsequent impairment testing. Forborne exposures can be performing or non-performing. Individual loan loss provisions are recognised if necessary. All COVID-19-related instalment-free periods have now expired. In terms of the household mortgage stock, the average amortisation rate is now back at the same level as before the instalment-free possibility was introduced.

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 on sensitivities and triggers is provided in Note 30.

Forward-looking information

Forward-looking information is used both when judging a significant increase in credit risk and in calculating expected credit losses. Nordea Hypotek uses three macroeconomic scenarios: a base scenario, and a positive and negative scenario. The scenarios are described in more detail in Note 30.

Credit portfolio

The total credit risk exposure, including on- and off-balance sheet items, amounted to SEK 737bn (692) at year end. Credit risk exposure in the balance sheet amounted to SEK 665bn (619) at year end. See more information on, 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 majority 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 2021 amounted to SEK 121bn (115), a 5.0% increase. The real estate portfolio is the single largest industry exposure; the real estate portfolio predominantly consists of relatively large and financially strong companies, with 97% (98%) of the lending in rating grades 4- and higher.

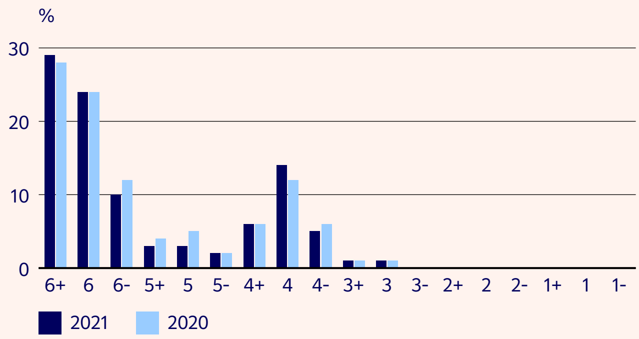
Loans to household customers

In 2021 loans to household customers increased by 7.9% to SEK 543bn (504). The increase is chiefly derived from growth on the domestic mortgage market. The household customer segment consists of a great number of customers, with 99% (99) having a scoring equalling C- or higher.

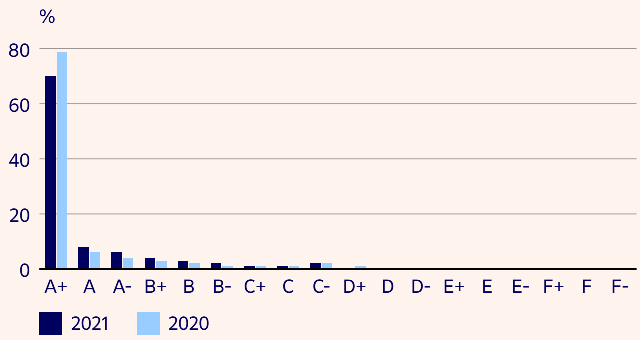
Rating and scoring distribution

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. household exposures. The progression of customers' rating and scoring is shown in the graphs below.

Rating distribution for the corporate portfolio



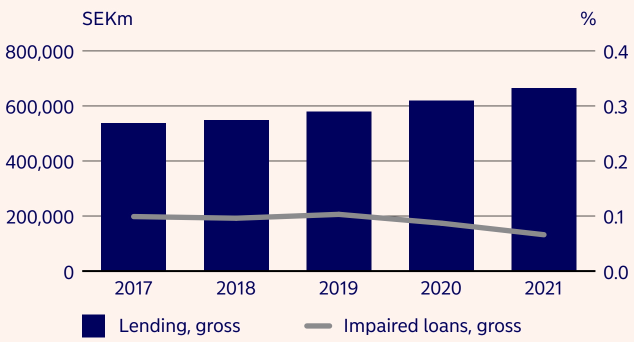
Risk grade distribution for the retail portfolio



Impaired loans (stage 3)

Impaired loans (gross) fell in 2021 to SEK 438m (538), equalling 6.5 points (8.7) of total lending. 7% (9) of impaired loans (gross) are servicing and 93% (91) are non-servicing. Impaired loans (net) after allowances for stage 3 loans amounted to SEK 396m (501), corresponding to 5.9 bps (8.0) of total lending. Allowances for stage 3 loans amounted to SEK 42m (36). Allowances for stages 1 and 2 loans were SEK 90m (94). The ratio of allowances in relation to impaired loans was 2.0 bps (2.1), and the allowance ratio for loans in stages 1 and 2 was 1.3 bps (1.5). Further information on impaired loans is provided in Note 30.

Lending to the public and impaired loans



Loans past due not impaired

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. Loans past due on the corporate side, which are not considered impaired, amounted to SEK 137m at the end of the year (190), and loans past due on the household side were at SEK 467m (317).

Net loan losses

Net loan losses amounted to SEK -10m (-77) during the period, and are mainly attributable to lower collective loan provisions. Realised loan losses amounted to SEK -14m for the period (-7).

Counterparty credit risk

Counterparty credit risk is the risk that a counterparty 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 conducts derivative transactions with the Nordea Group. In total, risk-weighted assets for counterparty risk, which is entirely in relation to the Parent Company, were SEK 1,630m (1,305) The majority of counterparty risk is attributable to derivatives.

Market risk

Market risk is the risk of loss in Nordea Hypotek's positions in either the trading book or banking book as a result of changes in market rates and parameters that affect the market values or net interest income flows. Market risk exists irrespective of the accounting treatment of the positions.

Nordea Hypotek's market risk appetite level is determined in the risk appetite limits issued by NH's board. These risk appetite limits concern banking-book positions, as Nordea Hypotek does not have a trading book. The second line of defence ensures that the risk appetite is appropriately translated through the relevant committees into specific risk appetite limits for Group Treasury. Group Treasury is responsible for managing the market risk in accordance with an intragroup agreement.

As part of the overall risk appetite policy documents, 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 essentially arises from the core operations of Nordea Hypotek, related hedges and regulatory or other external requirements (e.g. liquid asset buffer). Group Treasury is responsible for the comprehensive risk management of all non-traded market risk in the Nordea Group's balance sheet, including Nordea Hypotek.

For the sake of openness and a clear allocation of responsibilities within Group Treasury, the comprehensive risk management has been divided into four parts – each with a clear risk mandate and specific limits and controls. The other market risks to which Nordea Hypotek is exposed are interest-rate risk and credit-spread risk. The interest-rate risk in the banking-book operations is the current or future risk in Nordea Hypotek's capital and earnings attributable to unfavourable changes in interest rates. Market risks are managed centrally by Group Treasury with respect to profitability and economic value, and include gap risk, basis risk and credit-spread risk.

Because of the lending structure on Nordea Hypotek's domestic Swedish market, most contractual interest rates consist of the floating rate, although there are also loans that carry a fixed interest rate, commonly with a three-to-five year fixation period. Nordea Hypotek's funding essentially carries a fixed rate. This is used in part to hedge fixed-rate lending, although for a large part of funding, swaps are used to switch the interest rate to the floating rate to make it consistent with the administrative rate used in lending. The remaining interest rate risk is managed on behalf of Nordea Hypotek by Group Treasury. The direct interest-rate risk, net, attributable to the repricing gap, together with the limited fixed-interest-rate risk, is hedged using interest-rate swaps (IRS) and overnight index swaps (OIS).

Liquid assets are managed in accordance with the liquidity buffer policy documents. The majority of the risk of changes in interest rates attributable to bond holdings is hedged using maturity-matched IRS agreements (payer swaps) and, to a lesser extent, OIS agreements (payer swaps).

Measurement of market risk

IRRBB (interest-rate risk in the banking book) is measured, monitored and managed using three key risk metrics:

- economic value (EV)
- fair value stress loss (FVSL)
- structural interest income risk (SIIR)

The three different risk metrics are used to assess differing aspects of the manifestation of interest rate risk. These are described in more detail below.

Stress tests of economic value (EV) measure the change in the economic value of assets, liabilities and interest-bearing derivatives in banking-book operations ensuing from changes in interest rates, independently of the accounting classification and without reference to credit spreads and business margins. The model calculation is performed on the basis of a 'run-off balance sheet' and includes behavioural modelling for prepayments.

The risk metric fair value stress loss (FVSL) takes account of the potential revaluation risk with respect to positions recognised at fair value.

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.

FVSL, EV and SIIR sensitivities are measured using internal scenarios determined according to the risk appetite policy documents, the six standard scenarios adopted by the Basel Committee on Banking Supervision and a number of parallel and non-parallel shock scenarios. The exposure limit is measured in relation to the worst outcome from the internal scenarios according to the risk appetite policy documents. The risk appetite scenarios are calibrated to reflect severe but plausible events and are designed to test specific exposures that are, or may be held, under the approved mandate.

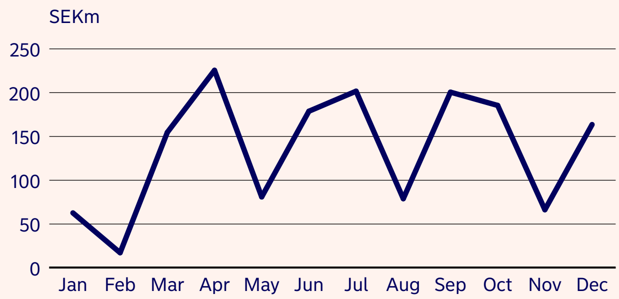
The fair-value risk appetite scenarios are applied to the banking-book portfolios, and the board risk appetite limit considers the combined impact. The fair-value stress metric is monitored daily. A range of EV scenarios are estimated daily for management information purposes, but fully calculated and monitored monthly against risk appetite limits. The SIIR earnings metric is monitored monthly.

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

Market risk analysis

Development of strucural interest income risk, 2021



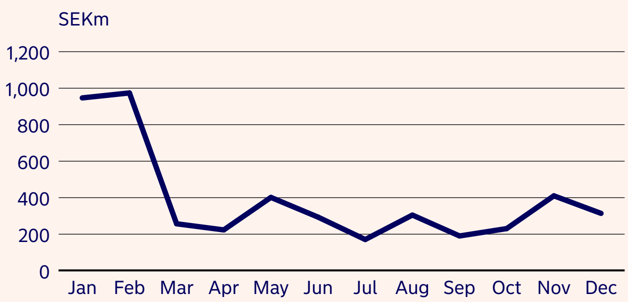
Structural Interest Income Risk (SIIR)

Earnings measurement applies interest rate shock scenario on all balance sheet items repricing or maturing within a twelve month period, assuming a constant/rolling balance sheet. Nordea Hypotek's earnings risk metric SIIR metric follows same seasonality pattern as EV metric with major retail fixings in February, May, August and November but peaks occur one month earlier due to inherent traits in SIIR measurement.

The income risk contribution from retail lending is at its highest the month before repricing, since the interest rate shock will then be applied to all the following months throughout the horizon. As repricing occurs, the risk utilization is at its lowest (for UP_50) and increases gradually up until the next repricing three months later. From an Earnings risk perspective Nordea Hypotek is exposed to lower interest rates as parts of the loan book are funded with non-interest bearing equity.

During 2021 SIIR has been within the risk appetite limit of SEK 500m.

Development of EV risk, 2021



Economic Value (EV)

From an EV perspective Hypotek will benefit from lower interest rates as parts of the fixed rate loan book is not hedged against directional interest rate moves.

During 2021, EV has been within the risk appetite limit of SEK 1,050m.

3M interest rate risk (50–60% of EV risk on peak months Feb, May, Aug, Nov)

Driving the seasonality pattern in risk utilization. Major repricing in February, May, August and November from retail lending. To some degree offset by refixing in IRS floating leg from issued covered bonds and borrowing from Nordea Bank Abp at 3M STIBOR.

The EV risk contribution from retail lending is at its highest the month of repricing, since the EV metric discounts the net present value up until repricing occurs. The EV risk contribution from each balance sheet item is thus at its lowest the month before repricing occurs, a distinct difference to the SIIR measurement.

1Y – 5Y fixed rate risk

Fixed rate lending to customers increased gradually in the 3 year and 5year tenors throughout 2021.

Due to the shape and level of the Swedish yield curve, risk profile during the year was tilted towards keeping the 3 year risk at low levels while utilizing the carry in longer rates by only partially hedging 4–5 year risk.

4 year and 5 year was hedged off in big chunks during June and July, utilizing the summer market rally to hedge off 50% of outright risk at low rate levels and allowing for new risk to build up from there. SEK delta risk between 4 year and 5 year had built up to SEK 350m at this point, and SEK 170m was hedged off during June and July.

Other market risks – pension risk

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

The pension risk in Nordea Hypotek is limited because the majority of staff have most of their years of employment within the Nordea Group, as employees of the Parent Company. Newly appointed external staff are not covered by any defined benefit pension plans.

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 business and operations. Consequently all managers are accountable for the operational risks related to their area of responsibility and to manage them within the risk limits and risk appetite limits set forth in the operational risk management policy documents.

NH's CRO is, supported by the risk control functions in the Nordea Group, the second line of defence for operational risk control and is responsible for developing and maintaining the overall operational risk management policy documents as well as for monitoring and controlling the operational risk management of the first line of defence. The second line of defence monitors and controls that operational risks are appropriately identified, assessed and mitigated. The second line of defence follows up risk exposures in relation to the risk appetite limits and assesses the adequacy and effectiveness of the operational risk management policy documents and implementation thereof.

Staff in the second line of defence are responsible for preparing and submitting regular risk reports on all material risk exposures including risk appetite limit utilisation and operational risk incidents to NH's CRO, who then reports to NH's executive management, NH's SRIC and NH's board.

Due to the COVID-19 pandemic, and dependent on local restrictions, remote working has continued to be promoted in 2021 to continue servicing customers. Preventive measures taken have focused on e.g. awareness communications and training activities, and preventive and compensating controls have been put in place to mitigate operational risk related to remote working. In response to the accelerating remote working trend in society, a number of activities supporting the transformation to a hybrid working model post COVID-19 have been initiated. While the COVID-19 crisis has presented Nordea with an elevated risk level, this has not materialised as increased operational losses. To address the elevated risk level, the risk appetite loss limit was temporarily increased. The increase has been partly but not fully rolled back as uncertainty remains related to the development of COVID-19.

The Risk Appetite Statement (RAS) for operational risk addresses:

1) residual risk level in breach of risk appetite and requirements for mitigating actions for risks; and
2) total loss amount from incidents as well as incident management

Management of operational risk

Nordea's Group Board Directives on risk, risk appetite and internal governance, adopted by NH's board, set out the principles for management of risks in Nordea Hypotek. Based on these principles, the Nordea Group has prepared internal rules as part of the policy documents for managing operational risk and compliance risk.

This also applies to Nordea Hypotek. Management of operational risk and compliance risk includes all activities aimed at identifying; assessing and measuring; responding to and mitigating; controlling and monitoring; and reporting on risks. Risks are identified through various processes according to the following descriptions.

Risk and Control Self-Assessment (RCSA)

The RCSA process provides an overview of the operational risks and compliance risks in Nordea Hypotek. The process improves risk awareness and enables effective assessment, control, and mitigation of identified risks.

Compliance independent risk assessment (CIRA)

The designated Compliance Officer performs the CIRA process and tests the outcome of the first line of defence's RCSA in terms of compliance risks. The purpose of CIRA is to obtain an independent view of compliance risks, and assess and test the first line of defence's risk management and provide advice on improving its effectiveness.

CIRA is an independent risk assessment in the second line of defence, performed in parallel with RCSA, and is carried out as a top-down assessment using the same method employed in RCSA.

Change Risk Management and Approval (CRMA) (Including quality and risk analysis)

The objective of the CRMA process is to ensure that there is a full understanding of both financial and non-financial risks arising from changes. Risks have been adequately managed consistent with Nordea Hypotek's risk strategy, risk appetite and corresponding risk limits before a change is approved or implemented.

Changes in scope of CRMA include new products, services and IT systems or significant changes thereto.

Incident reporting

The objective of incident reporting is to ensure appropriate handling and reporting of detected incidents to minimise the impact on Nordea Hypotek and its customers, prevent recurrence and to reduce the probability and impact of future incidents. In addition, incident management shall secure timely notification to defined external bodies and parties, including relevant supervisory authorities.

Reporting suspicious activity (whistleblowing)

The purpose of the whistleblowing process (reporting suspicious activity) is to enable the staff and customers of the Nordea Group to feel safe in the knowledge that they can raise the alarm if they detect or suspect professional misconduct or unethical behaviour.

There are different ways of reporting suspected unethical behaviour or suspected breaches of internal or external rules. Concerns can be raised openly, in confidence or anonymously. There are also rules and procedures for investigating such matters.

Complaints management

The objective of complaints management is to improve customer satisfaction and identify deficiencies that can be remedied through IT development or altered processes. Complaints management is attended to by the customer responsible units together with the customer ombudsman, in accordance with an intra-group agreement. The number of complaints and types of complaint are reported each month to the members of NH's executive management, together with information on current and proposed measures per area of complaint.

Third-party risk management

The objective of third party risk management is to ensure that Nordea Hypotek follows the rules and that risks related to third parties and third-party activities, including outsourcing, are appropriately managed before entering into, during, as well as when exiting a third party arrangement.

While Nordea Hypotek may delegate parts of its day-to-day operational activities to third parties, it is still always Nordea Hypotek's full responsibility to maintain effective oversight and governance of the outsourced arrangements and services.

Business continuity and crisis management

The objective of business continuity and crisis management is the overall risk management under which Nordea Hypotek ensures building and maintaining the appropriate levels of resiliency, 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 the protection and preservation of information with respect to confidentiality, integrity and availability. The Nordea Group's information security management system encompasses policies, procedures, tools and methods. The system facilitates management and control of information security risks, and helps to protect and preserve information security and attain business objectives.

Material processes

The purpose of the policy documents for material processes is to identify and document the most important processes and ensure that risks and controls in these processes are assessed and managed so that they may proceed as intended. Amongst other aspects, Nordea Hypotek's customers shall always be offered products securely and in a timely manner, and in accordance with prevailing regulations.

Reputational risk

The objective of reputational risk management is to protect the reputation of the Nordea Group and Nordea Hypotek. Reputational risk is defined as the risk of damaged trust in the Nordea brand from customers, employees, authorities, investors, partners and general public with the potential for adverse economic impact.

Reputational risk often results from, or causes, other types of risks inherent in the operations, such as credit, liquidity, market, operational, compliance and legal risks.

Reputational risk policy documents have been developed, with guiding principles for managing this type of risk. These policy documents are closely linked to those for risk management and related processes to identify, assess and mitigate risk. They stipulate for instance that account shall be taken of the opinion of stakeholders when decisions are made.

Minimum requirement for own funds for operational risk

Nordea Hypotek's capital requirement for operational risk is calculated according to the standardised approach. According thereto, the activities are divided into eight standardised business areas, and the gross income for each business area is multiplied by a predetermined beta value. The consolidated own funds requirement for operational risk is calculated as the average of the own funds requirement of the last three years.

Financial reporting risk

Financial reporting risk is defined as the risk of misstatements in external financial reporting and capital adequacy disclosures. The risk is attributable to erroneous interpretation and application of accounting standards, use of judgements in reporting and inadequate governance and control processes in terms of measurement and financial reporting. Financial reporting risk management is carried out in accordance with the AKC (Accounting Key Control) policy documents, which are based on the COSO framework (Committee of Sponsoring Organizations of the Treadway Commission). They provide a structure and instructions for designing, operating and evaluating the system of internal control over financial reporting across the Nordea Group. It is through the AKC policy documents that management provides its assurance regarding the financial statements. The control function in the second line of defence is responsible for the independent monitoring, assessment and oversight of the risks and the Company's implementation of the AKC policy documents.

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 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 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 handle compliance obligations.

On a quarterly basis, Group 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.

The ethical guidelines and the Nordea Group's values reinforce the corporate culture and establish how employees shall act. The overarching principles, governing how the operations are to be run, how customers are to be treated and how employees are expected to act, are set out in our ethical guidelines. Acting the right way does not just mean that we ask ourselves "can we do it?", but also "should we do it?". By asking these questions, we consider the potential consequences of a decision for our stakeholders. Each year, each employee must undergo compulsory training on our ethical guidelines, thus ensuring requisite awareness and knowledge of the ethical principles. Besides, all new employees must undergo compulsory training in Nordea's ethical guidelines.

Ethical guidelines and corporate values

The ethical guidelines and the corporate values reinforce Nordea Hypotek's corporate culture and establish how employees shall act. The overarching principles, which govern how Nordea Hypotek runs its business, how Nordea Hypotek acts towards its customers and the conduct that is expected of its employees, are stipulated in the Nordea Group Ethical Guidelines. Acting the right way does not just mean that Nordea Hypotek asks itself "can we do it?", but also "should we do it?". In connection with this, employees shall consider the consequences of their decisions for all stakeholders.

Each year, all employees must undergo compulsory training on the ethical guidelines, thus ensuring requisite awareness and knowledge of the ethical principles.

Customer protection

The objective of customer protection is to ensure that customers are treated fairly, with a fair outcome. Fair treatment means having open and clear communication, meeting the customer's needs (outcome-centric), awareness among employees, responding to customer complaints and communicating honestly and openly as well as developing accurate, relevant and timely management information.

Important customer protection areas are financial advice (for instance within mortgages), product governance, employees' knowledge and competence, and management of customer complaints. Customer protection within the advisory field shall ensure that the advice is adapted to the customer's needs and circumstances, that it concerns appropriate products and that lending is responsible.

Customer protection with respect to products and services concerns delivering sound and valuable products and services of high quality, that meet the customer's needs. This involves defining and targeting a specific market, offering value for money and providing accurate product material and customer communication. It is also important to manage conflicts of interest concerning products and services.

Customer complaints are an important part of following up on customer protection. In the past two years, complaints management has been developed and a new process has been introduced, with clear and regular reporting, a strong feedback culture, analysis of underlying causes and implementation of measures.

Managing business ethics

Conduct risk, or the risk of deficient business ethics, is defined as risks associated with an inappropriate corporate culture or inappropriate behaviour among employees, or the risk of somebody acting, intentionally or unintentionally, in a way that could lead to unfair outcomes and detriment to customers, or undermine market integrity.

The methods for managing conduct risk are continually developed to ensure that corporate culture and employee behaviour are consistent with the values and that fair outcomes are delivered for customers throughout all stages of the customer lifecycle. This means that customers shall be given top priority in the business strategy, in devising and developing products, in sales and in the ongoing servicing of Nordea Hypotek's customers.

ESG risk

Nordea defines ESG risk as the risk of an adverse financial impact in the short- to long-term, deriving from the direct or indirect impact that the environment (including climate) social issues and governance matters could have on Nordea Hypotek. It is important that we integrate ESG assessments into our risk management framework.

Further information on our sustainability can be found in the annual report and sustainability reports of Nordea (https://www.nordea.com/en/investors/group-annual-reports and https://www.nordea.com/en/sustainability/).

Financial crime

Financial crime poses a serious threat to the security and integrity of the global financial system, and combating it calls for cooperation between banks and authorities. Improving security in the global financial system is a joint responsibility.

The Nordea Group is obliged to follow prevailing laws and regulations concerning combating money laundering and terrorist financing, sanctions, bribes and corruption in the bank's countries of operation. Nordea Hypotek refutes being used for money laundering or any other type of financial crime. The Nordea Group therefore has guidelines that stipulate effective and uniform standards for compliance. These have been adopted by NH's board and support the customer strategy, vision and values, and provide a uniform set of risk management principles and compulsory standards for Nordea Hypotek and the Nordea Group as a whole. It is important for Nordea Hypotek to have thorough risk-based customer due diligence procedures when new customers are welcomed, and continually throughout the customer relationship. A high level of familiarity with customers and counterparties can enable the bank, using screening and monitoring, to detect suspicious or illegal transactions and report them to the authorities for further investigation. Nordea Hypotek has outsourced the work on performing all customer due diligence procedures to customer responsible units in the Nordea Group, and this is regulated in an intra-group agreement.

Nordea Hypotek also has an obligation to follow all international and national sanctions programmes. Nordea Hypotek's customers and their transactions are therefore screened against prevailing sanctions lists to ensure compliance with the sanctions requirements. Since mid-2015, extensive investments have been made in technology, capacity and more advanced assessment methods to reduce the risks associated with financial crime.

Liquidity management

In 2021, Nordea Hypotek continued to benefit from its conservative liquidity management, in terms of a strong funding base and a diversified liquidity buffer. Nordea Hypotek had good access to the Swedish covered bond market and was able to carry out issuances in line with the funding plan. Nordea Hypotek issued covered bonds to a nominal value of SEK 95bn (122).

Liquidity risk definition and identification

Liquidity risk is the risk of inability to service cash flow obligations when they fall due; or inability to meet 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

The Nordea Group's liquidity risk is managed through three lines of defence: The first line of defence consists of Group Treasury and the business areas (including Nordea Hypotek) as well as NH's CFO. Group Treasury 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). On a quarterly basis, Group Financial Management follows up on the progression of liquidity and the outcome of the stress tests performed, and presents this to NH's CFO and CRO. NH's CFO then presents the quarterly follow-up to NH's BRIC. Furthermore, the CFO is responsible for submitting an annual qualitative assessment of the Company's liquidity risks and presenting the results to NH's management and NH's BRIC. It is also the responsibility of the CFO to ensure that the size of the liquidity buffer is reviewed and approved by the executive management and the board on an annual basis.

Nordea Hypotek and Group Treasury have signed an intra-group agreement covering liquidity risk management. The second line of defence, which includes NH's CRO and units in Nordea Group Risk & Compliance (GRC) which acts according to an intra-group agreement, is responsible for independent oversight and challenge to the first line of defence.

The third line of defence includes Group Internal Audit (GIA), which is responsible for providing independent oversight of the first and second lines of defence. NH's board defines the liquidity risk appetite by setting limits for applied liquidity risk metrics. The most important metrics are the liquidity coverage ratio (LCR) and the internal liquidity stress horizon, which sets a minimum survival period of three months under Nordea-specific and market-wide stress scenarios with limited mitigation actions.

Specific policy documents with limits and monitoring metrics ensure that Nordea Hypotek stays within various risk parameters including the risk appetite.

Liquidity risk management strategy

Nordea Hypotek's liquidity risk 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 shall reflect a conservative attitude towards liquidity risk. Nordea Hypotek strives to diversify its sources of funding (from a larger group of investors) and seeks to establish and maintain relationships with investors in order to ensure market access. Nordea Hypotek's funding programme only encompasses long covered bonds. Funding for the short and medium term is managed through intra-group loans at market rates.

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

Liquidity risk measurement

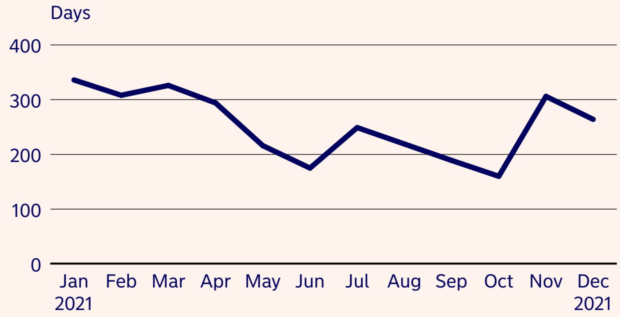
To ensure funding in situations when the bank is in urgent need of cash and the normal funding sources do not suffice, Nordea Hypotek holds a liquidity buffer. The liquidity buffer consists of central-bank eligible high-grade liquid securities that can be readily sold or used as collateral in funding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

Liquidity risk management focuses on both short-term liquidity risk and long-term structural liquidity risk. The short-term liquidity risk is measured and mitigated using LCR and the internal parameters liquidity coverage and liquidity stress horizon. The internal parameters stipulate that the liquidity buffer needs to be sufficient to cover major outflows experienced over the first three months, whereby Nordea Hypotek is subject to 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 mitigated using the net stable funding ratio (NSFR) metric. Combined, these metrics form the basis for Nordea Hypotek's liquidity risk appetite, and are reviewed and approved by the board at least annually.

Liquidity risk analysis

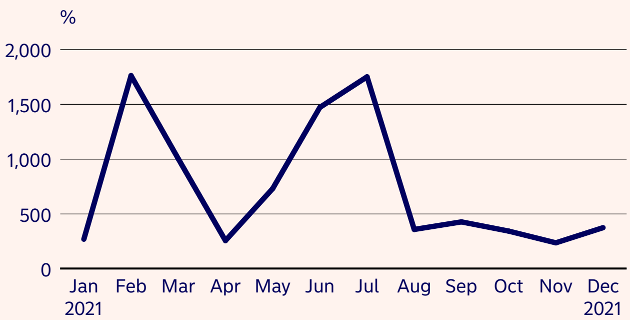
Nordea Hypotek maintains a clear and prudent liquidity risk profile with a strong funding base. At the end of 2021, the total nominal value within the covered bond programme was SEK 365bn (386). More information on Nordea Hypotek's funding sources is provided in the section "Operations in 2021".

Liquidity Stress Horizon



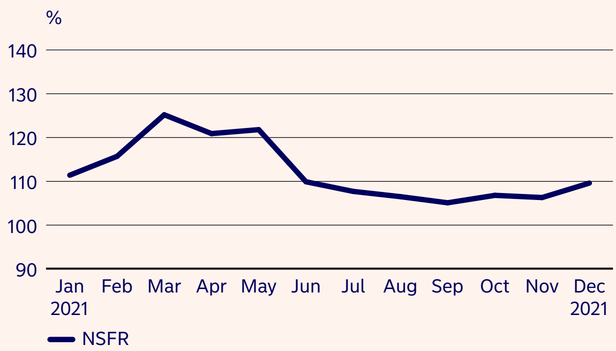
The liquidity risk position continued to be stable throughout 2021. The internal survival horizon was 264 days (325) at the end of 2021. The liquidity buffer has been sufficient to cover the stressed outflow beyond the risk appetite framework (RAF) of 90 days or the trigger of 120 days during the whole of 2021. The threshold is not to fall below 90 days. The liquidity buffer was SEK 21,130m at 31 December 2021 with a monthly average of SEK 21,053m during the year.

Liquidity Coverage Ratio



The combined liquidity coverage ratio (LCR), which measures liquidity risk according to the European Banking Authority's delegated act, stayed above the RAF of 105% and the trigger of 115% during the whole of 2021. The LCR was 375% at the end of 2021 (1,468% in 2020).

Net Stable Funding Ratio, %



The net stable funding ratio (NSFR) exceeded the RAF of 101.5% and the trigger of 102.5% during the whole of 2021. The lowest level reported for 2021 was in September when it was 105.1%. At the end of December 2021, the NSFR was 109.6%.

Operational risk

Operational risk is defined in Nordea 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 business and operations. This means that all managers are accountable for the operational risks related to their mandate and for managing these risks within risk limits and risk appetite in accordance with the operational risk management policy documents.

Nordea Hypotek's Chief Risk Officer (CRO) is, supported by the risk control functions in the Nordea Group, the second line of defence for operational risk control and is responsible for developing and maintaining the overall operational risk management policy documents as well as for monitoring and controlling the operational risk management of the first line of defence. The second line of defence monitors and controls that operational risks are appropriately identified, assessed and mitigated, follows up risk exposures towards risk appetite and assesses the adequacy and effectiveness of the operational risk management policy documents and their implementation.

The focus areas of the monitoring and control work performed by the second line of defence are decided during an annual planning process that includes key risk areas and operational risk processes. Staff in the second line of defence are responsible for preparing and submitting regular risk reports on all material risk exposures including risk appetite limit utilisation and incidents to the CRO, who then reports to the Company's management, board and risk committee.

Due to the COVID-19 pandemic, and dependent on local restrictions, remote working has continued to be promoted in 2021 to continue servicing customers. Preventive measures taken have focused on e.g. awareness communications and training activities, and compensating controls have been put in place to mitigate operational risk related to remote working. In response to the accelerating remote working trend in society, a number of activities supporting the transformation to a hybrid working model post COVID-19 have been initiated.

The Risk Appetite Statement (RAS) for operational risk addresses:

- residual risk, and
- total loss amount from incidents.

Operational risk

Management of operational risk includes all activities aimed at identifying; assessing and measuring; responding to and mitigating; controlling and monitoring; and reporting on risks. The risk management is supported by various processes including e.g. the Risk and Control Self-Assessment, Change Risk Management and Approval, Incident Management, Scenario Analysis, Business Continuity and Crisis Management, Information Security Management, Technology and Data Risk Management, Third Party Risk Management and Significant Operating processes.

Risk and Control Self-Assessment

The Risk and Control Self-Assessment (RCSA) process provides an overview and assessment of operational and compliance risks across the Company. The process improves risk awareness and enables effective assessment, control, and mitigation of identified risks. In the RCSA process, the level of inherent risk and the controls in place to mitigate the inherent risks are assessed. If mitigating actions are needed to reduce the risk, these are identified and implemented.

Change Risk Management and Approval (CRMA)

The objective of Nordea Hypotek's Change Risk Management and Approval (CRMA) framework is to ensure that there is a full understanding of both financial and non-financial risks arising from the change, and that risks have been adequately managed consistent with the Company'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, markets, processes and IT systems as well as exceptional transactions and decommissioning.

Incident management

The objective of incident management is to ensure appropriate handling and reporting of detected incidents to minimise the impact on the Company and its customers. Incident management is designed to prevent recurrence and to reduce the probability and impact of future incidents. In addition, incident management shall secure timely notification to defined external bodies and parties, including relevant supervisory authorities.

In 2021 a loss was realised linked to a fine of SEK 1,500,000 that the Nasdaq Stockholm disciplinary board decided to impose on Nordea Hypotek in November. The reason was the absence of press releases in connection with publishing six-month financial statements and year-end reports. The deficiency in the control environment which is considered to have caused the incident was remedied in 2020 and the Company has also commissioned an external review to ensure compliance.

Business continuity and crisis management

The objective of business continuity and crisis management is the overall risk management under which Nordea Hypotek ensures building and maintaining the appropriate levels of resiliency, 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.

Third-party Risk Management (TPRM)

The objective of Third Party Risk Management (TPRM) is to ensure that risks related to third parties and third-party activities, including but not limited to outsourcing, are appropriately identified, assessed and managed before entering into, during, as well as when exiting a third-party arrangement. TPRM shall ensure risks associated with third parties and third-party activities are kept within risk appetite and risk limits.

Information and communication technology risk management

The objective of ICT risk management is to ensure that information and communication technology and data management risks are appropriately identified, assessed and managed.

Financial reporting risk management

Financial reporting risk is defined as the risk of misstatements or deficiencies in financial reporting, regulatory reporting and disclosures. An internal control system is in place for managing financial reporting risk. The system provides structure and contains standards for designing, operating and evaluating the system of internal control over financial reporting across the Company. It is through the policy documents that management provides its assurance regarding the financial statements. The CRO is the risk control function for financial reporting risk and is responsible for the independent monitoring, assessment and oversight of the risks and the Company's implementation of the policy documents, and reports to the Risk Committee.

Compliance risk

Nordea defines compliance risk as the risk of failure to comply with applicable regulations and related internal rules. Employees throughout Nordea are accountable for the compliance risks related to their mandate and for managing these risks within risk limits and risk appetite in accordance with the compliance risk management framework. Group Compliance is Nordea's independent second line of defence compliance function and is responsible for developing and maintaining the risk management policy documents for compliance risks. The function will also guide the business in its implementation and application of the policy documents. Group Compliance performs this work for Nordea Hypotek under an intra-group outsourcing agreement.

A plan for compliance at Nordea Hypotek is prepared and presented annually. The annual plan contains activities for each risk area as well as Group Compliance's overall approach to key risk areas. Group Compliance reports to Nordea Hypotek's board, relevant committees and management at least once a quarter.

In 2021, COVID-19 continued to have a considerable impact on society at large. Nordea has continued to focus on maintaining service levels towards our customers, complying at all times with the government instructions regarding COVID-19. Market volatility has persisted due to the pandemic, and Nordea has continued to run full-scale risk management capabilities to ensure fair treatment of our customers and integrity in the market. For most of the year Nordea employees have operated remotely, and we have continued to actively monitor the associated risks. More recently however, Nordea has embarked on a gradual return to the office, based upon government recommendations. A hybrid working model (a mix of working from the office and home) has been implemented, acknowledging the different needs within Nordea units and considering the impact on processes and customers. To reduce the risks and protect our customers and employees we have taken several actions internally, including guidance for employees, instructions for customer interaction and restrictions in cross-border business travelling. Nordea will continue to follow the situation closely and take further actions as needed.

During 2021, Nordea's enhancement programme for compliance risk management continued and resulted in various updates to Nordea's compliance risk management policy documents. Alongside this, Nordea continued to work on ensuring that Nordea's culture and behaviours are consistent with Nordea's values and that Nordea delivers fair outcomes for its customers throughout all stages of the customer lifecycle. Nordea has also progressed in its development of the Conduct Risk Framework through improved reporting, risk identification and raised awareness. The Compliance, Conduct and Product Committee that oversees the prudent management of compliance and conduct risk has continued the work over the course of 2021. The Committee has focused on key areas such as the management of conflicts of interest in relation to products and services, information to customers as well as further strengthening the processes in relation to product governance.

Nordea's Code of Conduct defines the high-level principles that guide our business, how we treat our customers and the conduct expected from our employees. It contains our purpose and values and sets the standards for our conduct in areas such as care for the environment, labour rights, how we treat our customers, human rights, the right to privacy, fair competition, anti-bribery and anti-corruption. The Code of Conduct is reviewed annually and was last updated in June 2021. All our employees are required to complete annual training on the Code of Conduct as part of their Licence to Work.

Nordea is committed to conducting business with the highest ethical standards and according to applicable laws, rules and regulations. Nordea's internal controls and operating procedures are designed to detect and prevent misconduct and fraudulent actions. Nordea's whistleblowing function Raise Your Concern (RYC) ensures that all our stakeholders, including customers, partners, affected communities as well as our own employees, have the right to speak up and always feel safe in doing so if they have concerns about suspected misconduct such as breaches of human rights, or irregularities such as fraudulent, inappropriate, dishonest, illegal or negligent activity or behaviour in our operations, products or services. This includes any action that constitutes a violation of laws or regulations, or of our internal policies, instructions or guidelines. We offer the possibility to report openly, by providing name and contact details, as all reports are handled with strict confidentiality. However, we also provide an electronic reporting channel, WhistleB, which is managed by an external party. The system is separate from our IT systems and does not track IP addresses or other data that could identify the sender of a message. Reports can be in Danish, English, Finnish, Norwegian and Swedish.

Nordea is subject to various legal regimes and requirements, including but not limited to those of the Nordic countries, the European Union and the United States. The supervisory and governmental authorities administering and enforcing these regimes make regular enquiries and conduct investigations with regard to Nordea's compliance.

Combating financial crime

Nordea takes its responsibility to society and customers seriously and has over the years built strong defences to prevent its products, services and systems from being used for unlawful purposes. Nordea continued to strengthen its financial crime defences in 2021 within areas such as i) IT support of customer due diligence processes, ii) continued strengthening of KYC files, iii) transaction monitoring capabilities, iv) updating Nordea's policies in light of changes in regulation, v) strengthening of Nordea's Sanctions programme, and vi) providing relevant training to ensure all our employees continue to maintain the right skill set and competences. Nordea's close cooperation with regulators continued during 2021 with ongoing engagement with all four Nordic regulators covering various aspects of Nordea's financial crime programme.

Management of compliance risk

The Risk Appetite Statement (RAS) for compliance risk provides direction on compliance risk management and defines the residual risk levels at which risks would breach risk appetite, and formulates requirements on mitigation of compliance risk.

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

SEKm	31 Dec 2021 Minimum Capital requirement	31 Dec 2021 REA	31 Dec 2020 Minimum Capital requirement	31 Dec 2020 REA
Credit risk	**3,466**	**43,322**	**3,065**	**38,318**
- of which counterparty credit risk	130	1,630	104	1,305
IRB	**3,208**	**40,092**	**2,876**	**35,951**
- sovereign	–	–	–	–
- corporate	1,360	16,996	1,258	15,727
- advanced	1,360	16,996	1,258	15,727
- foundation	–	–	–	–
- institutions	44	549	56	698
- retail	1,804	22,547	1,562	19,526
- secured by immovable property collateral	1,725	21,559	1,495	18,686
- other retail	79	988	67	840
- other	–	–	–	–
Standardised	**258**	**3,230**	**189**	**2,367**
- central governments or central banks	9	120	1	15
- regional governments or local authorities	–	–	–	–
- public sector entities	–	–	–	–
- multilateral development banks	–	–	–	–
- international organisations	–	–	–	–
- institutions	249	3,110	188	2,352
- 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[1]	–	–	–	–
- banking book, Standardised Approach	–	–	–	–
Settlement risk	**–**	**–**	**–**	**–**
Operational risk	**854**	**10,677**	**916**	**11,450**
Standardised	854	10,677	916	11,450
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	**10,124**	**126,555**	**9,634**	**120,419**
Additional risk exposure amount due to Article 3 CRR	**–**	**–**	**–**	**–**
Total	**14,444**	**180,554**	**13,615**	**170,187**

Summary of items included in own funds

SEKm	31 Dec 2021[2]	31 Dec 2020[2]
Calculation of own funds		
Equity in the consolidated situation	30,646	29,636
Proposed/actual dividend	-2,396	-4,164
Common Equity Tier 1 capital before regulatory adjustments	**28,250**	**25,471**
Deferred tax assets	–	–
Intangible assets	–	–
IRB provisions shortfall (–)	-111	-71
Pension assets in excess of related liabilities[1]	-9	-10
Other items, net	150	-42
Total regulatory adjustments to Common Equity Tier 1 capital	30	-123
Common Equity Tier 1 capital (net after deduction)	**28,280**	**25,348**
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)	**28,280**	**25,348**
Tier 2 capital before regulatory adjustments	1,650	1,650
IRB provisions excess (+)	32	37
Pension assets in excess of related liabilities	–	–
Other items, net	–	–
Total regulatory adjustments to Tier 2 capital	32	37
Tier 2 capital	1,682	1,687
Own funds (net after deduction)[1]	**29,962**	**27,035**

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

Own Funds, excluding profit

Mkr	31 Dec 2021	31 Dec 2020
Common Equity Tier 1 capital, excluding profit[1]	28,284	21,181
Total Own Funds, excluding profit[1]	29,966	22,868

1) The treatment of Nordea Hypotek group contribution in relation to Common Equity Tier 1 capital and Own Funds with profit excluded calculation was amended in Q4 2021 compared to Q4 2020. Previously group contribution amounts were deducted from Common Equity Tier 1 capital / Own Funds at year end which caused material decreases compared to prior quarters. From Q4 2021 onwards the group contribution will not be recognised in Common Equity Tier 1 capital / Own Funds until profit approval in Q1 which will reduce variances in Own Funds reporting across quarters

Capital requirements

The capital requirement and the own funds described in this section follow the CRR rules and not accounting standards, see Note 23 "Capital adequacy" 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 98.1% of the credit risk exposure amount covered by internal rating based (IRB) approaches at the end of 2021. 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

The internal capital requirement is calculated based on Nordea Hypotek's internal Pillar I equivalent, plus an additional amount for other risks, and includes an economic stress buffer. On top of the internal capital requirement, the supervisory authority requires Nordea Hypotek to hold capital for the regulatory Pillar I risks and for the risks identified in connection with the annual supervisory review and evaluation process (SREP). For more details see the Nordea Capital and Risk Management Report.

Economic Capital (EC)

EC is a method for allocating the cost of holding capital as a result of risk taking and is a central component in the Value Creation Framework (VCF). The VCF supports the operational decision-making process at Nordea Hypotek to enhance performance management and ensure shareholder value creation.

EC is aligned with the Group's target CET1 level which is set by the capital policy to ensure a sustainable long-term capitalization for Nordea Group.

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 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 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 new European Covered Bond Directive and Regulation have been finalised. The Directive will enter into force on 8 July 2022 when the Swedish law is to updated. 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 December 2021. On 17 December 2021, the Swedish FSA decided to extend the risk weight floor yet again by two years, to 30 December 2023.

On 22 March, the Swedish FSA published the new approach for the setting of the countercyclical capital buffer rate. To ensure the possibility of freeing up capital during a crisis, the Swedish FSA will apply a "positive neutral" rate of 2% going forward. This means that the buffer rate will be set at 2% during normal periods.

On 26 April, the Swedish FSA decided to replace several reporting systems with a new system, called FIDAC, for both periodic and event-driven reporting. All reporting in accordance with the EBA framework is now submitted via FIDAC starting with data that has a reference date of 2021-06-30.

On 31 May, the Swedish FSA decided on a general approach to assess the size of a bank's Pillar 2 Guidance (P2G). The approach is based on a two-step assessment that starts with a sensitivity-based stress test, followed by other quantitative and qualitative assessments. P2G applies in addition to the minimum requirements, the Pillar 2 requirements and the combined buffer requirement.

On 21 June, the Swedish FSA decided to reciprocate the Norwegian risk weight floors of 20% for residential real estate exposures and 35% for commercial real estate exposures from 30 September 2021.

On 28 September, the Swedish FSA decided to increase the countercyclical capital buffer requirement to 1% from the current 0%, to be applicable from 29 September 2022. In the decision it is also stated that it seems appropriate to stepwise increase the buffer to 2% to be applicable from end-2023.

On 18 October the Swedish National Debt Office published the final MREL policy for setting MREL requirements for Swedish banks. The policy will be applied from 1 January 2022 and is based on new EU resolution directive implemented in the Swedish Law (2015:1016) on resolution (LOR).

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 due to COVID-19, and includes revisions to credit risk, market risk, operational risk, credit valuation adjustment (CVA) risk, leverage ratio and introduces a new output floor. 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 2025 to be fully implemented at 72.5% from 1 January 2030.

Before being applicable to Nordea Hypotek, the Basel IV package needs to be implemented into EU regulations. On 27 October 2021 the proposal for the implementation into EU regulations was published by the European Commission by amendments to the CRD and CRR. The proposal from the Commission is to set the start date to 1 January 2025. The proposal is now subject to negotiations between the Commission, the Council and the Parliament before the final set of regulations are decided.

Corporate governance report 2021

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, transparency and accountability.

Corporate governance at Nordea Hypotek AB (publ) (the Company) 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)

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 and bonds that are listed on Nasdaq First North Bond Market Finland, in Helsinki. The parent company Nordea Bank Abp's shares are listed on the Nasdaq stock exchanges in Helsinki, Stockholm and Copenhagen and its American Depository Receipts (ADR) are traded in the US in US dollars. Furthermore, as part of its funding operations it issues long-term debt instruments that are usually listed on various stock exchanges.

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 effective management in accordance with prudent conduct of business principles. Furthermore, the Company's commitment toits purpose, values and vision requires the integration of sound corporate governance practices into regular business activities.

The Board of Directors (the Board) and the Chief Executive Officer (the CEO) are responsible for the management of the Company. The main emphasis is on the Board noting and undertaking 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 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 (GL5) and Joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders (GL6), 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 and 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 exchanges in Stockholm and Helsinki, respectively.

The Board has adopted instructions for the CEO specifying his/her 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. The internal framework is designed to enable prudent conduct of business by defining the powers and responsibilities of the corporate bodies and employees.

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 regulations 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 Board members and auditor as well as remuneration for 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

The Articles of Association are available at www.nordea.se. privat/produkter/bolan/nordea-hypotek. 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. The Board

6.1 Composition of the Board

According to the Articles of Association, the Board must 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 annual general meeting of the shareholders (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 must be taken into consideration when conducting the overall evaluation of independence. Furthermore, 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 must 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 as well as 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 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, exhibiting adequate diversity and breadth of qualities and competences and that the gender distribution is well balanced.

The Board currently consists of eight members (three men and five women), who have been elected by the general meeting. They are Per Långsved (Chair), Peter Dalmalm (Deputy Chair), Emma Henriksson, Maria Härdling, Marte Kopperstad, Magnus Montan, Elisabeth Olin and Maria Sahlén. Emma Henriksson was appointed as new board member on 2 September 2021.

The CEO is not a member of the Board. The composition of the Board is set out in the below table.

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 members to be independent of the Company. Maria Sahlén, who is also chair of the Audit Committee, Emma Henriksson and Magnus Montan are 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 carried out in each of the Board committees (the Committee Charters). For example, the Charter determines 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 must ensure that the Company's legal and organisational structure is appropriate and transparent with a clear allocation of functions and areas of responsibility that ensures sound and efficient governance of the company, 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 the performance of 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 also reviews the risk appetite and regularly follows up on the development of risks, capital and liquidity. Significant organisational changes, certain senior management appointments and other resolutions of significance are other matters dealt with by the Board. In 2021, the Board also dealt with, among other things, various aspects related to the pandemic caused by COVID-19 as well as various issues related to internal control and compliance.

Furthermore, the Board must 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 shall ensure that measures are taken to establish and maintain required efficient and adequate systems of internal control of the business. Group Internal Audit (GIA) annually provides the appropriate governing bodies including the Company's Audit Committee with an assessment of the overall effectiveness of the governance, and the 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 2021, the Board held eighteen board meetings, one of which was held in person while eight were held via Teams/Skype/telephone and nine 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, and ensure that the Board receives sufficient information and documentation and that the work of the Board is evaluated annually.

6.5 Evaluation of the Board

The Board conducts a self-evaluation process annually, through which the performance and the work of the Board is evaluated for the purpose of continuously improving the Board's work. The evaluation is based on a methodology that includes questionnaires to evaluate the Board as a whole, the Chair and the 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 individual Board members and of the Board as a whole is completed annually as well in connection with the selection process of any new Board members.

6.6 The Board Committees

In accordance with the external framework and in order to increase the effectiveness of the board work, the Board has established three separate working committees to assist the Board in preparing matters falling within the competence of the Board and to make decisions in matters delegated by the Board.

Name	Year of birth	Position	Other relevant assignments
Per Långsved	1976	Chairman	Head of Personal Banking SE & Country Senior Executive, Sweden, Nordea Bank Abp; Chairman, Böda Sand Beach Resort AB; Board member, Quinolette AB
Peter Dalmalm	1968	Vice chairman	Head of Business Banking, Sweden, Nordea Bank Abp
Emma Henriksson	1975	Board member	Board member, Fabege AB (publ), Board member, ÅWL Arkitekter AB
Maria Härdling	1972	Board member	Head of Capital Management & Regulations, Group Financial Management, Sweden, Nordea Bank Abp
Marte Kopperstad	1979	Board member	Head of Products & Development Personal Banking, Nordea Bank Abp
Magnus Montan	1972	Board member	CEO in AB Svensk Exportkredit
Elisabeth Olin	1961	Board member	Head of Business Risk Management Personal Banking, Sweden, Nordea Bank Abp
Maria Sahlén	1979	Board member	Chief Operating Officer Sweden Nordic Real Estate Partners

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 (including efficiency of the internal control and risk management system), 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. Generally, the Company's Chief Internal Auditor (CIA), CEO, Chief Financial Officer (CFO) and Chief Risk Officer (CRO) are present at the Audit Committee meetings, with the right to participate in discussions but not in decisions. In 2021, the Audit Committee held five meetings, all five 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 must 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 must also be independent of the Company's significant shareholders and have competence in accounting and/or auditing.

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 activities, 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 as well as 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, Chief Internal Auditor (CIA), CEO, CFO, Head of Credits and Business Risk Manager are present at meetings, with the right to participate in discussions but not in decisions. In 2021, the Risk Committee held five meetings, all five via Teams/Skype/telephone.

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.

6.6.3 The Remuneration and People Committee

The Remuneration and People Committee is responsible for preparing and presenting proposals to the Board on, among other things, remuneration matters, diversity and inclusion. When preparing the proposals, the long-term interests of shareholders, investors and other stakeholders shall be considered.

At least annually, the Remuneration and People 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 assesses that the remuneration system takes into account all types of risks, liquidity and capital levels. 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 and People Committee are Marte Kopperstad (Chair), Per Långsved and Peter Dalmalm. When deemed important and to the extent possible the person corresponding to the Nordea Group's Chief People Officer, currently the Company's People Business Partner in Group People and 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 2021, the Remuneration and People Committee held six meetings, of which three via Teams/Skype/telephone and three per capsulam.

The Board annually appoints the members and the Chair of the Remuneration and People Committee. The Remuneration and People 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.

7. CEO and Executive Management

The CEO is in charge of the day-to-day management of the Company and the Company's affairs in accordance with the external and internal frameworks. 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 terms of planning Board meetings.

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 at the request of the CEO. These meetings are chaired by the CEO, who takes decisions after having consulted with the other members of NHEM. Notes of the meetings, verified by the CEO, are kept.

At the end of 2021, NHEM consisted of the following eight members: Arvid Krönmark (CEO), Maria Stolpe (Chief Operating Officer), Johan Arenander (Chief Financial Officer), Johan Wikander (Head of Credit), Johan Widholm (Senior Legal Counsel), Jan Hoppe (Chief Risk Officer), Fredrik Andersson (Compliance Officer) and Madeleine Qvarfordt (Business Risk Manager).The CEO and the senior managers in NHEM are further presented in the below table.

Name	Year of birth	Position
Arvid Krönmark	1979	CEO
Maria Stolpe	1969	Chief Operating Officer
Johan Wikander	1979	Head of Credit
Johan Arenander	1967	Chief Financial Officer
Jan Hoppe	1981	Chief Risk Officer
Fredrik Andersson	1979	Compliance Officer
Johan Widholm	1967	Senior Legal Counsel
Madeleine Qvarfordt	1985	Business Risk Manager

8. Internal Control Framework

The Board is responsible for setting and overseeing an adequate and effective internal control framework. The framework sets out the responsibilities of the Board and the management regarding internal control, all group functions and business areas, including outsourced activities and distribution channels. Under the internal control framework, all business areas, group functions and units are responsible for managing the risks they incur in conducting their activities and for having controls in place that aim to ensure compliance with internal and external requirements. As part of the internal control framework, the Company has independent control functions with appropriate and sufficient authority, stature and access to the Board to fulfil their mission as well as the risk management framework.

The internal control framework ensures 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 internal and external) and compliance with applicable laws, regulations, supervisory requirements and internal rules.

The internal control process is carried out partly by the Company's management and other staff, as well as partly by the staff of Nordea Bank Abp which acts in accordance with Intra Group Agreements 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 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.

The roles and responsibilities with respect to internal control and risk management are divided into three lines of defence.

8.1 The First Line of Defence

The *first line of defence* refers to all units and employees – including employees in Nordea Bank Abp acting in accordance with Intra Group Agreements between the Company and Nordea Bank Abp – that are neither in the second nor in the third line of defence. It is those that are risk owners and thus responsible for conducting the business within risk limits and risk appetite, and in accordance with the internal control framework.

8.2 The Second Line of Defence

The *second line of defence* control functions are responsible for maintaining the risk management framework, as part of the internal control framework, and for monitoring the implementation of the policies and procedures within this framework. The Company has two organisationally separate and independent 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 Compliance and covers all compliance risks in the company in accordance with an Intra Group Agreement between the Company and the bank.

To ensure effective risk management, the second line of defence has access to all business lines and other internal units that have the potential to generate risk as well as to relevant subsidiaries and branches and outsourced activities.

8.2.1 The Risk Control Function

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 financial and the non-financial risk policies and according to a risk-based approach, monitors 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.

8.2.2 The Compliance Function

The Compliance Function – i.e., employees in Nordea Bank Abp acting in accordance with Intra Group Agreements – is responsible for maintaining a compliance risk management framework that assists to ensure compliance with applicable laws, regulations, standards, supervisory requirements and related internal rules, as well as for providing training, advice and oversight to ensure compliance matters are adequately communicated and adhered to by management. The Compliance Function is responsible for identifying, assessing, testing, monitoring and reporting compliance risks to ensure that the risks are managed by the relevant functions.

8.3 The Third Line of Defence

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 the 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 must 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 of 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 2021, Öhrlings PricewaterhouseCoopers AB was re-elected auditor until the end of the AGM 2022. 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 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 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 (IFCR). The first line of defence is responsible for the ongoing risk management and for compliance with applicable rules. Risk owners in the first line of defence 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 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 (GAM), Company Instructions on Financial Control and the Group Valuation Committee. The 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 mechanism associated with the reporting process.

11.4 Information and Communication

Group Finance is responsible for ensuring that the GAM and other relevant directive measures 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 FRR to the Audit Committee on a quarterly basis.

An independent Risk Control Function resides in the second line of defence and is responsible for identifying, controlling and reporting on FRR. In addition, GIA 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, the Risk Control Function, the Compliance Function and GIA have important roles in respect to governance and oversight of the internal control of financial reporting. For further information, see "The Board" (section 6), "The Audit Committee" (section 6.6.1), "The Risk Committee" (section 6.6.2), "The Second Line of Defence" (section 8.2) and "Internal Audit (section 9)" in the previous pages.

Financial statements
Nordea Hypotek

Income statement

SEK (000s)	Note	2021	2020
Operating income			
Interest income calculated using the effective interest rate method		9,097,862	9,651,896
Other interest income		-17,632	11,788
Negative yield on financial assets		-30,151	-29,721
Interest expense		-1,800,345	-2,556,566
Negative yield on financial liabilities		264,439	14,630
Net interest income	3	**7,514,173**	**7,092,027**
Fee and commission income		38,016	39,650
Fee and commission expense		-100,499	-95,701
Net fee and commission income	4	**-62,483**	**-56,051**
Net result from items at fair value	5	-44,739	-74,283
Total operating income		**7,406,951**	**6,961,693**
Operating expenses			
General administrative expenses:			
Staff costs	6	-35,816	-31,144
Other expenses	7	-4,334,730	-1,548,985
Total operating expenses		**-4,370,546**	**-1,580,129**
Profit before loan losses		**3,036,405**	**5,381,564**
Net loan losses	8	-10,325	-76,772
Operating profit		**3,026,080**	**5,304,792**
Income tax expense	9	-630,192	-1,140,476
Net profit for the year		**2,395,888**	**4,164,316**

Statement of comprehensive income

SEK (000s)	2021	2020
Net profit for the year	**2 395 888**	**4,164,316**
Items that may be reclassified subsequently to the income statement		
Cash flow hedges:		
Valuation gains/losses	639,847	435,261
Tax on valuation gains/losses	-131,809	-93,015
Transferred to the income statement	-888,623	-411,323
Tax on transfers to the income statement	183,056	88,023
Available for sale investments[1]:		
Valuation gains/losses	10,266	-817
Tax on valuation gains/losses	-2,066	166
Other comprehensive income, net of tax	**-189,329**	**18,295**
Total comprehensive income	**2,206,559**	**4,182,611**

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 2021	31 Dec 2020
Assets			
Loans to credit institutions	10	6,553,597	4,553,762
Loans to the public	10	664,614,829	619,166,314
Interest-bearing securities	11	21,052,845	21,057,680
Derivatives	12	4,125,864	4,566,879
Fair value changes of hedged items in hedges of interest rate risk		-1,156,764	364,484
Deferred tax assets	9	41,929	–
Current tax assets	9	380,191	382,250
Other assets	13	739,405	453,585
Prepaid expenses and accrued income	14	106,182	227,095
Total assets		**696,458,078**	**650,772,049**
Liabilities			
Deposits by credit institutions	15	274,305,909	208,194,432
Debt securities in issue	16	385,527,612	403,635,619
Derivatives	12	1,481,428	877,488
Fair value changes of hedged items in hedges of interest rate risk		606,779	4,077,648
Other liabilities	17	4,006,658	6,647,079
Accrued expenses and prepaid income	18	618,485	195,565
Deferred tax liabilities	9	–	9,779
Provisions	19	11,368	12,859
Subordinated liabilities	20	1,650,120	1,650,119
Total liabilities		**668,208,359**	**625,300,588**
Equity			
Share capital		110,000	110,000
Fair value reserves		-149,507	39,821
Retained earnings		25,893,338	21,157,324
Net profit for the year		2,395,888	4,164,316
Total equity		**28,249,719**	**25,471,461**
Total liabilities and equity		**696,458,078**	**650,772,049**

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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 2021	**110,000**	**35,918**	**3,904**	**25,321,639**	**25,471,461**
Net profit for the year	–	–	–	2,395,888	2,395,888
Items that may be reclassified subsequently to the income statement					
Fair value through other comprehensive income:					
Valuation gains/losses	–	–	10,266	–	10,266
Tax on valuation gains/losses	–	–	-2,066	–	-2,066
Cash flow hedges:					
Valuation gains/losses	–	639,847	–	–	639,847
Tax on valuation gains/losses	–	-131,809	–	–	-131,809
Transferred to the income statement	–	-888,623	–	–	-888,623
Tax on transfers to the income statement	–	183,056	–	–	183,056
Other comprehensive income, net of tax	**–**	**-197,529**	**8,200**		**-189,329**
Total comprehensive income	**110,000**	**-197,529**	**8,200**	**2,395,888**	**2,206,559**
Shareholders' contribution received	–	–	–	3,000,000	3,000,000
Group contribution paid	–	–	–	-3,059,185	-3,059,185
Tax on Group contribution payed	–	–	–	630,192	630,192
Share-based payments	–	–	–	692	692
Balance at 31 Dec 2021	**110,000**	**-161,611**	**12,104**	**28,289,226**	**28,249,719**

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 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.

Cash flow statement

SEK (000s)	2021	2020
Operating activities		
Operating profit	3,026,080	5,304,792
Adjustment for items not included in cash flow	-2,115,409	-231,263
Income taxes paid	2,059	-283,976
Cash flow from operating activities before changes in operating assets and liabilities	**912,730**	**4,789,553**
Changes in operating assets		
Change in treasury bills	1,973,855	-209,718
Change in loans to the public	-45,461,993	-39,471,295
Change in interest-bearing securities	-16,769	46,235
Change in derivatives, net	-907,124	548,914
Change in other assets	-285,820	360,434
Changes in operating liabilities		
Change in deposits by credit institutions	66,118,523	-27,750,000
Change in debt securities in issue	-17,633,961	64,099,567
Change in other liabilities	-5,699,606	-3,459,248
Cash flow from operating activities	**-1,912,895**	**-1,045,558**
Financing activities		
Shareholder contribution	3,000,000	–
Amortised subordinated liabilities	–	–
Issued subordinated liabilities	–	–
Cash flow from financing activities	**3,000,000**	**–**
Cash flow for the year	**1,999,835**	**-1,045,558**
Cash and cash equivalents at the beginning of year	4,553,762	5,599,320
Cash and cash equivalents at the end of year	6,553,597	4,553,762
Change	**1,999,835**	**-1,045,558**

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)	2021	2020
Loan losses	13,478	77,911
Unrealised gains/losses	-21,776	22,647
Change in accruals and provisions	31,147	-596,360
Change in fair value of the hedge items, assets/liabilities (net)	-1,949,622	246,121
Other	-188,636	18,418
Total	**-2,115,409**	**-231,263**

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)	2021	2020
Interest payments received	9,074,895	9,647,072
Interest expenses paid	-1,938,278	-3,284,548

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)	2021	2020
Loans to credit institutions, payable on demand	6,553,597	4,553,762

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 10 March 2022 the Board of Directors approved the annual report, the Annual General Meeting is held on 16 March 2022.

In all material respects, the accounting policies, methods of computation and presentation are unchanged from the 2020 Annual Report, except for the items presented in "Changed accounting policies and presentation" below.

2. Changed accounting policies and presentation

The new accounting requirements implemented in 2021 and their effects on Nordea Hypotek's financial statements are described below.

Changed presentation of interest from derivatives used in economic hedges

As of January 2021 the interest components of derivatives hedging assets in economic hedges have been classified as "Other interest income" and the interest components of derivatives hedging liabilities in economic hedges have been classified as "Interest expense" in the income statement. Previously, both types of interest components were classified as "Interest expense". The new principle better reflects the economic substance of hedging transactions. Comparative figures have been restated accordingly and the impacts in 2021 and 2020, can be found in the table below.

	31 Dec 2021		
SEK (000s)	Old policy	Change	New policy
Other interest income	7,264	-24,896	-17,632
Interest expense	-1,825,241	24,896	-1,800,345
Net interest income	7,514,173	–	7,514,173
Inverkan på årets resultat	–	–	–

	31 Dec 2020		
SEK (000s)	Old policy	Change	New policy
Other interest income	25,096	-13,308	11,788
Interest expense	-2,569,874	13,308	-2,556,566
Net interest income	7,092,027	–	7,092,027
Inverkan på årets resultat	–	–	–

Interest Rate Benchmark

In 2020 the International Accounting Standards Board (IASB) published amendments to International Financial Reporting Standard (IFRS) 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 in "Interest Rate Benchmark Reform – Phase 2". Phase 2 of the interbank offered rate (IBOR) reform includes three major areas: hedge accounting, modifications and disclosures. The amendments were implemented by Nordea Hypotek on 1 January 2021. Hedge relationships in Nordea Hypotek can continue as before and no material modification gains or losses have been recognised.

The amendments clarify that hedge accounting does not have to be discontinued in the event 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.

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

Other amended requirements

No amendments were made to the Swedish Annual Accounts Act for Credit Institutions and Investment Firms (1995:1559) during the year. Finansinspektionen amended during the year regulation FFFS 2008:25 as a result of new, amended rules on the capital adequacy of investment firms. For more information see Note 23, "Capital adequacy". Furthermore, the Swedish Financial Reporting Board has notified of an amendment to RFR 2 "Accounting for legal entities" covering the updates to RFR 2 prompted by changes in updates with respect to the IFRS regulations. These amendments have not had any significant impact on Nordea Hypotek's financial statements.

Note 1. Accounting policies, cont

3. Changes in IFRSs not yet applied

Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

In 2021 the IASB published amendments to IAS 12, Income Taxes, Deferred Tax related to Assets and Liabilities arising from a Single Transaction.

The amendments require companies to recognise deferred tax on particular transactions that, on initial recognition, give rise to taxable and deductible temporary differences of equal amounts. Such a requirement may apply on the initial recognition of a lease liability and the corresponding right-of-use asset at the commencement of a lease. The requirement also applies in the context of decommissioning, restoration and similar liabilities where the corresponding amounts are recognised as part of the cost of the related asset.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted. The standard is not yet endorsed by the EU and Nordea Hypotek does not currently intend to adopt it early. The gross deferred tax assets and liabilities will be disclosed, but will be set off on the balance sheet if such requirements are met. Consequently, Nordea Hypotek's current assessment is that the amendments will not have any significant impact on its financial statements or on Nordea Hypotek's capital adequacy in the period of initial application.

Other amendments to IFRS

The IASB has published the following new or amended standards that are assessed not to have any significant impact on Nordea Hypotek's financial statements or, capital adequacy 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
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting estimates
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies

4. Critical judgements and estimation uncertainty

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

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

Critical judgements and estimates are in particular associated with:

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

Classification of financial assets

Nordea Hypotek classifies financial assets based on the business model used for managing the assets. When determining the business model for the bonds within the liquidly buffer, Nordea Hypotek makes critical judgements. The bonds in the liquidity buffer are split into two portfolios. For the first portfolio, Nordea Hypotek has determined that the business model is to 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 (FVOCI), and the bonds within the second portfolio are measured at fair value through profit or loss (FVPL). "Interest-bearing securities" including "Financial instruments pledged as collateral" in the liquidity buffer that are measured at FVOCI (the first portfolio) and FVPL (the second portfolio) amount to SEK 9,971m (11,083) and SEK 11,082m (9,975) respectively.

Nordea Hypotek also classifies financial assets based on whether or not the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. Some loan contracts at Nordea Hypotek include terms linking contractual cash-flows to the customers' achievement of environmental, social and governance (ESG) targets. This is the case for all Swedish mortgage loans, where customers have the right to a discount if certain climate targets are met regarding the properties' energy classification. Nordea Hypotek considers that these loans meet the SPPI requirements as the discount is given either at the starting point of the loan, or in connection with interest rate turnover.

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 for the new loan, discounted by the original interest rate, differs by more than 10% from the present value of the remaining expected cash flows for the old loan or if the modified cash flows are SPPI, but the original cash flows were not SPPI, and vice versa.

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 671,300m (623,851) 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

Note 1. Accounting policies, cont

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. Adjustments are made to the collectively calculated provisions if the historical data does not adequately reflect management's view on the expected credit losses. The estimation of post-model adjustments requires management to exercise critical judgements.

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's assessment was that no significant critical judgements needed to be applied in the preparation of this annual report due to COVID-19 in addition to the critical judgements described above.

5. Recognition of operating income and impairment

Net interest income

Interest income and expense are calculated and recognised using the effective interest rate method or, if considered appropriate, a method that provides a reasonable approximation in line with 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 of derivatives is classified as "Net result from items at fair value", except for derivatives used for hedging purposes. In accounting hedges the interest component of derivatives is classified as "Interest income calculated using the effective interest rate method" if the derivative is used to hedge an asset and as "Interest expense" if the derivative is used to hedge a liability. In economic hedges the interest component of derivatives is classified as "Other interest income" if the derivative is used to hedge an asset and as "Interest expense" if the derivative is used to hedge a liability.

The yield on financial assets is presented in three lines items in the income statement: "Interest income calculated using the effective interest rate method", and "Negative yield on financial assets". In the line item "Interest income calculated using the effective interest tare 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 in the income statement line item "Other interest income", except negative yield on financial assets, which is presented in a separate line item. 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. For more information regarding different types of commission income and commission expenses, see note 4 "Net fee and commission income".

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 line 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" in the income statement. Further, the interest component of derivatives including changes in accrued interest, is classified as "Net result from items at fair value", except for derivatives used for hedging, including economic hedges, where such components are classified on the same income statement row as the interest from the hedged asset and liability.

"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 transaction is finalised).

Note 1. Accounting policies, cont

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

Financial liabilities are derecognised from the balance sheet when the liability is extinguished. This usually occurs when Nordea Hypotek fulfils its part of the agreement, i.e. on the settlement date. Financial liabilities under trade date accounting are generally reclassified to "Other liabilities" on the balance sheet on trade date. For further information, see section 10 "Financial instruments" (Reverse repurchase agreements).

7. Translation of assets and liabilities denominated in foreign currencies

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

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

Exchange differences arising on the settlement of transactions at rates different from those on 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 line 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.

Under the EU carve-out version of IAS 39, fair value macro hedge accounting may for instance, in comparison with IAS 39 as issued by the IASB, be applied to on-demand (core) deposits, and hedge ineffectiveness in a hedge of assets with prepayment options is only recognised when the revised estimate of the amount of cash flows falls below the designated bottom-layer.

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 the fair value of the hedged item as regards the hedged risk can be essentially offset by changes in the 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 applied when derivatives are hedging changes in the fair value of a recognised asset or liability attributable to a specific risk. The risk of changes in the 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 the fair value of derivatives as well as changes in the fair value of the hedged item attributable to the risks being hedged are recognised separately in the income statement in the line item "Net result from items at the fair value". Given that the hedge is effective, the change in fair value of the hedged item will be offset by the change in the fair value of the hedging instrument.

The changes in the fair value of the hedged item attributable to the risks being 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

Note 1. Accounting policies, cont

in hedges of interest rate risks are reported separately in the balance sheet item "Fair value changes of hedged items in hedges of interest rate risk".

Fair value hedge accounting at Nordea Hypotek is performed both at a micro level and 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 at Nordea Hypotek consist of both individual assets or liabilities and portfolios of assets and/or liabilities.

Hedging instruments

The hedging instruments used at 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 a hedging instrument and compares the change in the fair value of the hedging instrument to the change in the 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
- 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 as well as currency exposures. The portion of the gain or loss on the hedging instrument, that is determined to be an effective hedge, is recognised in other comprehensive income and accumulated in the fair value reserve in equity. The ineffective portion of the gain or loss on the hedging instrument is recycled to the item "Net result from items at fair value" in the income statement.

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

Hedged items

A hedged item in a cash flow hedge can be highly probable floating interest rate cash flows from recognised assets or liabilities or from future assets or liabilities. Nordea Hypotek uses cash flow hedges when hedging currency risk on future payments of interest and principal (both from issued debt in foreign currency and/or intragroup lending) and when hedging interest rate risk on 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 on floating interest rates 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 meet 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 will remain 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.

Note 1. Accounting policies, cont

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 of liquidity and volume required for a market to be considered active varies depending on the class of instruments. 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 to establish fair value is higher.

Trade frequency and volume are monitored regularly in order to assess if markets are active or not active. Nordea Hypotek predominantly use 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 use valuation techniques to determine the fair value of derivatives (OTC derivatives).

For financial instruments, whos 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. Nordea Hypotek considers data from observable markets to be data that can be collected from generally available external sources and which is deemed 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".

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 principale 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 determine 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. When determining the right level for the portfolios, 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

Note 1. Accounting policies, cont

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 rate 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 "Loans and receivables to the public".

Derivatives

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

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

Offsetting of financial assets and liabilities

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

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

Issued debt and equity instruments

A financial instrument issued by Nordea Hypotek is either classified as a financial liability or equity. Issued financial instruments are classified as a financial liability if the contractual arrangement results in Nordea Hypotek having a present obligation to either deliver cash or another financial asset, or a variable number of equity instruments to the holder of the instrument. If this is not the case, the instrument is generally an equity instrument and classified as equity, net of 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 subject to impairment testing 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". "Loans to the public" includes finance leases, which are also subject to impairment testing. These balance sheet items also include assets that have been classified as "Fair value through profit or loss", which are not subject to impairment testing. 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 subject to impairment testing.

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".

Note 1. Accounting policies, cont

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 waives 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 (impaired loanes) 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 where a credit event has been identified, the exposure is tested for impairment on an individual basis. If the exposure is found impaired, an individual provision is recognised. 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 probabilityweighted to derive the net present value.

For insignificant exposures that have been individually identified as credit impaired, 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 (PD) 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). Provision 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)s at origination without the use of hindsight for assets already recognised on the balance sheet at transition. Changes to the lifetime PD are 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. Rated exposures classified as "high risk", i.e. with a rating grade of 2 or below will also be transferred to 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.

Note 1. Accounting policies, cont

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 the proceeds from the bankruptcy procedure and estimated recoveries are therefore expected to be low.
- A partial right-off may be warranted if there is reasonable financial evidence to show an inability of the borrower to repay the full amount, i.e. a considerable part of the debt cannot be reasonably demonstrated to be recoverable, due to forbearance measures or realising collateral.
- Restructuring cases.

Discount rate

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

Restructured loans and modifications

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

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

12. Taxes

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

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

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

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

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

13. 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 termination of the employment. Post-employment benefits in Nordea Hypotek consist only of pensions.

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

Note 1. Accounting policies, cont

Short-term benefits

Short-term benefits consist mainly of fixed salary. Both fixed and variable salaries are expensed in the period when the employees have performed services to Nordea Hypotek. Nordea Hypotek has also issued share-based payment programmes, which are further described in section 16 "Share-based payment". More information can be found in Note 6 "Staff costs".

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 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 at 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.

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, as well as companies controlled or jointly controlled by key management personnel or by close family members of key management personnel.

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

Note 2. Segment reporting

Basis of segmentation

Nordea Hypotek's main business areas are Personal Banking and Business Banking which corresponds to approximately 96% of Nordea Mortgage's lending portfolio. Large Corporates & Institutions and Asset & Wealth Management constitute the other reportable segments. Group Treasury is responsible for Nordea Hypotek's funding. Group functions as well as the result that is not fully allocated to any of the operating segments are shown separately as reconciling items. There have been no changes in the basis of segmentation during the year.

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 is responsible for the day to day management of the Group's liquidity positions, liquidity buffers, external and internal funding including the mobilisation of cash around the Group, and Funds Transfer Pricing (FTP).
- Other operating segments mainly refer to Large Corporates & Institutions and Asset & Wealth Management. Large Corporates & Institutions is responsible for lending to large corporate customers. Private Banking (within Asset & Wealth Management) offers household loans to private customers.

Operating segments

Income statement, SEKm	Personal Banking		Business Banking		Group Treasury		Other operating segments		Total operating segments		Reconciliation		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Net interest income	7,665	7,696	1,421	1,451	-1,668	-2,420	63	126	7,481	6,853	34	239	7,515	7,092
Net fee and commission income	35	36	3	3	-32	-31	-68	-64	-62	-56	–	–	-62	-56
Net result from items at fair value	51	32	3	4	-100	-110	1	–	-45	-74	–	–	-45	-74
Total operating income	**7,751**	**7,764**	**1,427**	**1,458**	**-1,800**	**-2,561**	**-4**	**62**	**7,374**	**6,723**	**34**	**239**	**7,408**	**6,962**
Other expenses	-3,000	-938[2]	-829	-250[2]	–	–	-542	-392[2]	-4,371	-1,580	–	–	-4,371	-1,580
Total operating expenses	**-3,000**	**-938**	**-829**	**-250**	**–**	**–**	**-542**	**-392**	**-4,371**	**-1,580**	**–**	**–**	**-4,371**	**-1,580**
Net loan losses	-21	-62	0	-5	–	–	11	-10	-10	-77	0	0	-10	-77
Operating profit	**4,730**	**6,764**	**598**	**1,203**	**-1,800**	**-2,561**	**-535**	**-340**	**2,993**	**5,066**	**34**	**239**	**3,027**	**5,305**
Balance sheet, SEKm														
Loans to the public	499,416	465,808	138,432	128,817	–	–	26,766	24,541	664,614	619,166	0	0	664,614	619,166
Other assets	–	–	–	–	31,465	31,206	379	380	31,844	31,586	–	20	31,844	31,606
Total assets	**499,416**	**465,808**	**138,432**	**128,817**	**31,465**	**31,206**	**27,145**	**24,921**	**696,458**	**650,752**	**0**	**20**	**696,458**	**650,772**
Total liabilities	**0**	**1**	**–**	**–**	**664,542**	**619,722**	**264**	**184**	**664,806**	**619,907**	**3,402[1]**	**5 394[1]**	**668,208**	**625,301**
Equity	499,416	465,807	138,432	128,817	-633,077	-588,516	26,881	24,737	31,652	30,845	-3,402	-5,374	28,250	25,471
Total liabilities and equity	**499,416**	**465,808**	**138,432**	**128,817**	**31,465**	**31,206**	**27,145**	**24,921**	**696,458**	**650,752**	**0**	**20**	**696,458**	**650,772**

1) The amount refers to Group Contribution from Nordea Hypotek AB to Nordea Bank Abp.

2) The amounts for 2020 has been restated. The amounts refer to purchased internal services from the business areas Personal Banking, Business Banking, Large Corporates & Institutions and Asset & Wealth Management.

Reconciliation between total operating segments and financial statements

	2021		2020	
SEKm	Operating profit	Total assets	Operating profit	Total assets
Total operating segments	2,993	696,458	5,066	650,752
Group functions and unallocated items	34	0	239	20
Total	**3,026**	**696,458**	**5,305**	**650,772**

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

Net interest income

SEK (000s)	2021	2020
Interest income calculated using the effective interest rate method	9,097,862	9,651,896
Other interest income[1]	-17,632	11,788
Negative yield on financial assets	-30,151	-29,721
Interest expense[1]	-1,800,345	-2,556,566
Negative yield on financial liabilities	264,439	14,630

1) Comparative figures have been restated. See Note 1 "Accounting policies", section 2 "Changed accounting policies and presentation" for more information.

Interest income calculated using the effective interest rate method

SEK (000s)	2021	2020
Loans to credit institutions	0	7
Loans to the public	9,421,293	9,673,320
Interest-bearing securities	17,647	7,993
Yield fees	4,198	4,274
Net interest paid or received on derivatives in accounting hedges of assets	-345,276	-33,698

Other interest income

SEK (000s)	2021	2020
Interest-bearing securities measured at fair value	7,263	25,096
Net interest paid or received on derivatives in economic hedges of assets	-24,895	-13,308

Interest expense

SEK (000s)	2021	2020
Deposits by credit institutions	-380,717	-666,687
Debt securities in issue	-2,364,566	-2,764,492
Subordinated liabilities	-22,741	-25,318
Other interest expense	-330,649	-177,123
Net interest paid or recevied on derivatives in hedges of liabilities	1,298,328	1,077,054
Interest expense	**-1,800,345**	**-2,556,566**

Net interest income from categories of financial instruments

SEK (000s)	2021	2020
Financial assets at fair value through other comprehensive income	-12,504	-3,372
Financial assets at amortised cost	9,425,491	9,677,601
Financial assets at fair value through profit or loss	-362,908	-40,267
Financial liabilities at amortised cost	-2,834,234	-3,618,989
Financial liabilities at fair value through profit or loss	1,298,328	1,077,054
Net interest income	**7,514,173**	**7,092,027**

Interest on impaired loans accounted for an insignificant portion of interest income.

Average interest rate, lending

Lending to the public	2021	2020
Average volume, SEKm	642,736	599,864
Average interest, %	1.47	1.61

Interest income from financial instruments not measured at fair value through profit and loss amounts to SEK 9,425m (9,678). Interest expenses from financial instruments not measured at fair calue through profit and loss amounts to SEK 2,834m (3 619).

Note 4. Net fee and commission income

SEK (000s)	2021	2020
Issuer services[1]	-31,656	-33,212
- of which income	–	–
- of which expense	-31,656	-33,212
Lending Products	36,652	38,318
- of which income[3]	36,652	38,318
- of which expense	–	–
Guarantees	984	898
- of which income	984	898
- of which expense	–	–
Other	-68,463	-62,055
- of which income	–	–
- of which expense[2]	-68,463	-62,055

1) Mainly market maker fees.
2) Refers mainly to commission costs related to issuances, mainly related to Nordea Hypotek having an agreement where the parent company guarantees Nordea Hypotek's liquidity in the event of a market crisis.
3) Mainly concerns notification fees and commissions for mortgaged properties.

Break down by business areas

SEKm 2021	Personal Banking	Business Banking	Group Treasury	Other	Total
Issuer services	–	–	-32	–	-32
Lending Products	35	2	–	–	37
Guarantees	–	1	–	–	1
Other	–	–	-68	–	-68
Total	**35**	**3**	**-100**	**–**	**-62**

SEKm 2020	Personal Banking	Business Banking	Group Treasury	Other	Total
Issuer services	–	–	-33	–	-33
Lending Products	36	2	–	–	38
Guarantees	–	1	–	–	1
Other	–	–	-62	–	-62
Total	**36**	**3**	**-95**	**–**	**-56**

Note 5. Total net result from items at fair value

SEK (000s)	2021	2020
Interest-bearing securities and other interest-related instruments	-44,739	-74,283
Total	**-44,739**	**-74,283**

Net result from categories of financial instruments

SEK (000s)	2021	2020
Financial assets at fair value through other comprensive income	-5,883	6,818
Financial assets and liabilities mandatorily at fair value through profit or loss	-1,956,960	287,715
Financial assets at amortised cost	-1,465,882	699,457
Financial liabilities at amortised cost	3,367,992	-1,066,506
Foreign exchange gains/losses excluding currency hedges	15,994	-1,767
Total	**-44,739**	**-74,283**

Note 6. Staff costs

SEK 000s	2021	2020
Salaries and remuneration[1] (specification below)	-21,407	-19,446
Pension costs (specification below)	-5,848	-4,084
Social security contributions	-8,150	-7,210
Other staff costs	-411	-404
Total	**-35,816**	**-31,144**
Salaries and remuneration:		
Senior executives[2]		
Managing Director:		
- Fixed remuneration and benefits, the period 01/01/2020 – 31/08/2020	–	-827
- Fixed remuneration and benefits, the period 01/09/2020 – 31/12/2020	–	-601
- Fixed remuneration and benefits, the period 01/01/2021 – 31/12/2021	-1,764	–
- Variable remuneration[3, 4], the period 01/01/2020 – 31/08/2020	–	-127
- Variable remuneration[3, 4], the period 01/09/2020 – 31/12/2020	–	-263
- Variable remuneration[4], the period 01/01/2021 – 31/12/2021	-999	–
For the managing director:[5]		
- Fixed remuneration and benefits, the period 01/01/2020 – 31/12/2020	–	-1,096
- Fixed remuneration and benefits, the period 01/01/2021 – 28/02/2021	-183	–
- Variable salary	-4	-16
External board members		
Nicklas Ilebrand (through 31/08/2020)	–	-167
Nils Lindberg (through 31/08/2020)	–	-117
Maria Sahlén	-131	-58
Emma Henriksson (as of 02/09/2021)	-15	–
Magnus Montan	-117	-175
Total external board members	**-263**	**-517**
Other senior executives	-6,190	-3,854
Total for senior executives	**-9,403**	**-7,301**
Other employees	-12,004	-12,145
Total	**-21,407**	**-19,446**
Pension costs:		
Defined benefit pension plans	-3,490	-2,389
Defined contribution pension plans	-2,358	-1,695
Total	**-5,848**	**-4,084**

1) Provision to the profit-sharing foundation in 2021: amounts to SEK -659k (-190) of which SEK -670k (-402) is a new provision and SEK 11k (212) concerns prior years.
2) Senior executives include the MD, deputy MD, board members not employed in the group and company management. Senior executives amount to 11 (8) positions.
3) The comparative figure for 2020 is updated compared with the annual report for 2020 due to new decisions concerning variable salary for 2020.
4) Refers to earned variable remuneration for 2021 and 2020, respectively.
5) The deputy MD left Nordea Hypotek on 28 February 2021. After that date, there is no new appointed deputy MD for Nordea Hypotek AB, for which reason the amounts for 2021 only refer to the period 01/01/2021–28/02/2021.

No specific board fee has been paid to board members employed in the group. In 2021, Nordea Hypotek had one person covered by incentive programmes/performance-related remuneration for employees. See more information below in the section "Share-based remuneration".

The employment contract of the managing director stipulates a notice period of six months from the managing director and six months from the Company. In accordance with the employment contract, the MD is entitled to six months' salary during the notice period. A deduction shall be made for any salary disbursements from other employment during the payout period. After the end of the six months, the MD is subject to a three-month competition clause according to which he/she may not accept employment in any competing company in Sweden.

Lending to senior executives

Lending to board members, the MD or equivalent senior executives amounts to SEK 27,412k (31,810). Interest income on these loans amounts to SEK 276k (320). Credit commitments were SEK 14,500k (0). Lending to other senior executives amounts to SEK 14,862k (13,166). Interest income on these loans is SEK 133k (60). There were no credit commitments to other senior executives.

Senior executives who are employed by Nordea Hypotek receive the same credit terms as employees of Nordea. In Sweden the employee interest rate on fixed- or floating-rate loans is 2.15 percentage points lower than the corresponding interest rate for external customers, with a floor of 0.50% for both floating- and fixed-rate loans. There is currently a cap of 57 Swedish price base amounts both on fixed- and floating-rate loans. Interest on loans above the defined caps is set on market terms. Loans to family members of senior executives and who are not employed by Nordea are granted on normal market terms.

Pension costs and pension obligations for the MD and senior executives

SEK	2021	2020
Pension costs for the MD, the period 01/01/2020 – 31/08/2020	–	16,352
Pension costs for the MD, the period 01/09/2020 – 31/12/2020	–	102,764
Pension costs for the MD, the period 01/01/2021 – 31/12/2021	411,548	–
Pension obligations for the MD	420,883	426,644
Pension costs for former MD	549,927	721,519
Pension obligations for former MD	18,731,178	18,464,911
Pension costs for deputy MD[1]	3,594	22,500
Pension obligations for deputy MD[2]	–	8,079,144
Pension costs for former deputy MD	263,100	258,336
Pension obligations for former deputy MD	3,110,938	3,437,715
Pension costs for external board member	170,016	169,356
Pension obligations for external board member	2,487,799	2,658,602
Pension costs for other senior executives	715,163	531,733
Pension obligations for other senior executives	19,275,182	9,782,019

1) The deputy MD left Nordea Hypotek on 28 February 2021. After that date, there is no new appointed deputy MD for Nordea Hypotek, for which reason the amounts for 2021 only refer to the period 01/01/2021–28/02/2021.
2) The deputy MD left Nordea Hypotek on 28 February 2021. In that process, the pension obligations were transferred to Nordea Bank Abp, and Nordea Hypotek therefore no longer has any pension commitment for the said deputy MD.

The age of retirement for the MD is 68 years. Upon retirement, pension is payable according to collective agreements. Fixed salary is pensionable income.

The MD of Nordea Hypotek has a defined contribution pension plan, BTP1. The premium is placed in the funds chosen by the MD. People employed before 2013 and who have not chosen to switch to the BTP1 defined contribution pension plan, are covered by defined benefit pension obligations. Pension costs are classified as "Staff costs" in the income statement, and consist of disbursed pensions, contributions made to or received from the pension foundation and related special payroll tax.

The Company's pension obligations are secured partly through provisions to the pension foundation of Nordea Bank Sweden, and partly through insurance contracts.

Share-based remuneration

In 2021 Nordea Hypotek made a provision for variable remuneration according to the Executive Incentive Programme 2021 (EIP 2021) of SEK 1,048k (246k) excluding social security contributions.

Note 6. Staff costs, cont.

The EIP 2021 is based on specific goals and targets and is capped at a maximum of 70% of fixed base salary. 40% of the EIP 2021 outcome is paid out in 2022. The remaining 60% is paid out evenly distributed over a five-year period, in the amount of 12% each year. 50% of the outcome from EIP 2021 is paid out in the form of shares in Nordea Bank Abp (excluding dividend) on each transfer date. The shares are subject to retention requirements for 12 more months.

The performance targets at group level encompassed financial criteria in the form of return on equity, revenues and C/I ratio, as well as non-financial criteria for employee engagement and customer satisfaction. The targets at business area/group function level encompassed specific financial targets for each business area/group function. At the individual level, performance was assessed in relation to the individually agreed targets, including risk management and compliance. Weighting of group targets, business area/group function targets and individual targets is established individually. Any allotment was determined based on actual results in relation to agreed targets, according to appropriate risk adjustments.

Nordea Hypotek has EIP and has had VSP (Variable Salary Part) as variable remuneration for selected senior executives.

Disclosures related to the share-based programmes in accordance with IFRS2 can be found below.

Until the end of the performance year 2018, Nordea's share-based variable pay programmes were partly in in the form of cash-linked total shareholder return (TSR) indexation (excluding dividends) and partly in the form of cash. The programmes were consequently all settled in cash and the portion indexed with Nordea's TSR was accounted for as a cash-settled share-based payment programme. Starting from the 2019 performance year, share-based variable pay programmes are partly in the form of cash and partly in the form of Nordea shares, which makes the portion paid in Nordea shares an equity-settled share-based programme.

In 2021, 2,714 shares in Nordea were allotted to the participants in these programmes, corresponding to SEK 226k based on the share price at the award date. Another 4,072 shares were granted to the participants but deferred. These deferred shares had a fair value of SEK 339k based on the share price at the award date.

The table below covers all programmes with liabilities recognised in 2021, or in the comparative figures for 2020. Figures for 2021 are provisions based on expected allotment in 2021 and all figures are excluding social security contributions.

Share-based remuneration

Programme year	Equity-settled or cash-settled	Transfer period	Cost 2021 SEKk	Cost 2020 SEK 000s	Liability 31 Dec 2021 SEK 000s	Liability 31 Dec 2020 SEK 000s	Outstanding rights
2021							
- VSP & EIP	Equity-settled	2022–2027	524	–	–	–	No
2020							
- VSP & EIP	Equity-settled	2021–2026	0	123	–	–	Yes
Previous years	Cash-settled	2022–2025	18	0	47	37	No
	Equity-settled	2022–2025	–	–	–	–	Yes

Share-based variable remuneration programmes

This section covers the variable share-based programmes where the instruments TSR indexation (cash-settled programme up until 2018) and shares (equity-settled programme as from 2019) are used for deferral/retention. The programmes are classified as: The Executive Incentive Programme (EIP) and Variable Salary Part (VSP).

The programmes are annual plans with a service condition for the respective years and are fully expensed in the year when they are earned (one-year vesting period). The individual allocations are awarded at the beginning of the subsequent year.

For material risk-takers forfeiture clauses and retention apply in line with relevant remuneration regulations.

Variable Salary Part (VSP) is generally capped at 50% of fixed remuneration and offered to selected positions where variable remuneration is widespread market practice. VSP aims to reward strong performance and efforts. Assessment of individual performance is based on a predetermined set of well-defined financial as well as non-financial criteria. Awards from VSP will not exceed the annual fixed salary and are paid in cash.

For material risk-takers, VSP awards are partly delivered in shares with subsequent retention. Parts of the awards for material risk-takers in VSP are subject to at least a three-year pro rata deferral period with forfeiture conditions applying during the deferral period.

The tables below show deferred remuneration from EIP and variable salary parts that had not yet been paid out to participants.

The table below shows the remaining liabilities for the cash-settled share-based programmes used in 2018.

2018 sharelinked deferrals (cashsettled)

SEK	2021	2020
Opening balance	36,789	65,978
Deferred/vested during the year		
TSR indexation during the year	18,365	339
Payments during the year	-7,886	-29,528
Translation differences	–	–
Closing balance	**47,268**	**36,789**

Note 6. Staff costs, cont.

The closing balances are expected to be settled the following years:

SEK	2021	2020
2021	–	7,358
2022	11,817	7,358
2023	11,817	7,358
2024	11,817	7,358
2025	11,817	7,358
2026	–	–
2027	–	–
Total	**47,268**	**36,789**

Starting from the 2019 performance year, share-based variable pay programmes are partly in the form of cash and partly in the form of Nordea shares, which makes the portion paid in Nordea shares an equity-settled share-based programme.

The granting of shares in the programmes for 2021 is decided during the spring of 2022 and is thus not included in the tables below, but is in full recognised as an expense in the income statement in 2021. A provision of SEK 524k (123) excl. social security contributions has been made for 2021 for the portion to be paid in cash. SEK 524k (123) was in addition recognised as an expense for the equity-settled share-based programme in the income statement and as an increase of equity.

2019–2020 share-linked deferrals (equity-settled)

Number of shares	2021	2020
Outstanding at beginning of year	478	0
Granted[1]	6,786	1,195
Forfeited	0	0
Allotted[2]	-2,714	-717
Outstanding at end of year	**4,550**	**478**

1) Granted rights are the number of shares from 2020 variable remuneration programmes granted in 2021. Allotment of rights have been deferred following retention requirements according to the Swedish FSA. There is no exercise price for the deferred rights.

2) Allotted rights are subject to a one-year retention period after allotment to participants. Includes shares that have been allotted to participants but withheld to cover income taxes or social security contributions.

The outstanding rights are expected to be allotted the following years:

Number of shares	2021	2020
2021	–	95
2022	860	95
2023	956	95
2024	956	95
2025	958	98
2026	820	–
2027	–	–
Total	**4,550**	**478**

Average number of employees

Full-time equivalents (FTEs)	2021	2020
Male	9	10
Female	15	15
Total average	**24**	**25**

Total employees at the end of the year were 24 (26).

Gender distribution, senior executives, %

%	31 Dec 2021	31 Dec 2020
Board of directors – men	38	50
Board of directors – women	62	50
Other senior executives – men	75	83
Other senior executives – women	25	17

Note 7. Other expenses

SEK (000s)	2021	2020
Postage, telephone and office expenses	-167	-279
Distribution costs to Nordea	-4,035,729	-1,280,215
Resolution fee	-245,832	-216,831
Professional services[1]	-4,061	-3,788
Market data services	-27,008	-26,337
Other	-21,933	-21,535
Total	**-4,334,730**	**-1,548,985**

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

Auditors' fees

SEK (000s)	2021	2020
Öhrlings PricewaterhouseCoopers		
Auditing assignments	-2,147	-2,417
Audit-related services	-143	-146
Total	**-2,290**	**-2,563**

Note 8. Net loan losses

SEK (000s) 2021	Loans to the public[2]	Interest-bearing securities	Off balance sheet items	Total
Net loan losses, stage 1	13,731	218	1,488	15,437
Net loan losses, stage 2	-8,922	–	3	-8,919
Net loan losses, non-defaulted	**4,809**	**218**	**1,491**	**6,518**
Stage 3, defaulted				
Net loan losses, individually asssed, collectively calculated[1]	-5,622	–	–	-5,622
Realised loan losses	-14,374	–	–	-14,374
Decrease of provisions to cover realised loan losses	–	–	–	–
Recoveries on previous realised loan losses	3,153	–	–	3,153
Reversals of provisions	–	–	–	–
Net loan losses, defaulted	**-16,843**	**–**	**–**	**-16,843**
Net loan losses	**-12,034**	**218**	**1,491**	**-10,325**

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 asssed, collectively calculated[1]	-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**

1) Includes individually identified assets for which the provision has been calculated based on statistical models.
2) Provisions included in Note 10 "Loans and impairment".

Key ratios

	31 Dec 2021	31 Dec 2020
Loan loss ratio, basis points[1]	0.2	1.2
-of which stage 1	-0.2	0.5
-of which stage 2	0.1	0.4
-of which stage 3	0.3	0.3

1) Based on IFRS 9.

Note 9. Taxes

Income tax expenses

SEK (000s)	2021	2020
Current tax[1]	-630,192	-1,140,476

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

SEK (000s)	2021	2020
Profit before tax	3,026,080	5,304,792
Tax calculated at a tax rate of 20.6% (21.4)	-623,372	-1,135,225
Tax charges not related to profit	–	175
Non-deductible expenses	-6,820	-5,426
Adjustments relating to prior years	–	–
Tax charge	**-630,192**	**-1,140,476**
Average effective tax rate %	20.6	21.4

Deferred tax assets and deferred tax liabilities

SEK (000s)	2021	2020
Deferred tax assets	41,929	–
Deferred tax liabilities	0	9,779
Net deferred tax liability	**41,929**	**9,779**

Note 9. Taxes, cont.

Movements in deferred tax assets and liabilities

SEK (000s)	1 Jan 2021	Adjustments to opening balance	Charged to income statement	Charged to other comprehen-sive income	Charged directly to equity	Acquisitions and disposals	Foreign exchange	Other changes	31 Dec 2021
Deferred tax assets									
Derivatives	–	–	–	41,929	–	–	–	–	41,929
Total	**–**	**–**	**–**	**41,929**	**–**	**–**	**–**	**–**	**41,929**
Deferred tax liabilities									
Derivatives	9,779	–	–	-9,779	–	–	–	–	–
Total	**9,779**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

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

Note 10. Loans and impairment

SEK (000s)	31 Dec 2021	31 Dec 2020
Loans measured at amortised cost, not impaired (stage 1 and 2)	670,862,286	623,313,098
Impaired loans (stage 3)	437,921	537,947
- of which servicing	32,760	46,668
- of which non-servicing	405,161	491,279
Loans before allowances	**671,300,207**	**623,851,045**
- of which credit institutions	6,553,597	4,553,762
Allowances for individually assessed impaired loans (stage 3)	-42,092	–36,471
- of which servicing	-3,271	–2,134
- of which non-servicing	-38,821	–34,337
Allowances for collectively assessed impaired loans (stage 1 and 2)	-89,689	–94,498
Allowances	**-131,781**	**–130,969**
Loans, carrying amount	**671,168,426**	**623,720,076**

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 2021	**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**
Changes due to origination and acquisition	–	–	–	–	161,301,975	2,193,255	20,840	163,516,070	161,301,975	2,193,255	20,840	163,516,070
Changes due to transfers between Stage 1 and Stage 2, (net)	–	–	–	–	-2,482,510	2,482,510	–	–	-2,482,510	2,482,510	–	–
Changes due to transfers between Stage 2 and Stage 3, (net)	–	–	–	–	–	47,435	-47,435	–	–	47,435	-47,435	–
Changes due to transfers between Stage 1 and Stage 3, (net)	–	–	–	–	-107,195	–	107,195	–	-107,195	–	107,195	–
Changes due to repayments and disposals	1,999,835	–	–	1,999,835	-116,166,490	-1,725,593	-164,597	-118,056,680	-114,166,655	-1,725,593	-164,597	-116,056,845
Changes due to write-offs	–	–	–	–	–	–	-14,374	-14,374	–	–	-14,374	-14,374
Other changes	–	–	–	–	5,770	195	-1,654	4,311	5,770	195	-1,654	4,311
Closing balance at 31 Dec 2021	**6,553,597**	**–**	**–**	**6,553,597**	**654,309,988**	**9,998,701**	**437,921**	**664,746,610**	**660,863,585**	**9,998,701**	**437,921**	**671,300,207**

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 2021	–	–	–	–	-45,154	-49,345	-36,470	-130,969	-45,154	-49,345	-36,470	-130,969
Changes due to origination and acquisition	–	–	–	–	-16,496	-8,907	-1,295	-26,698	-16,496	-8,907	-1,295	-26,698
Changes due to transfers from Stage 1 to Stage 2	–	–	–	–	1,610	-32,914	–	-31,304	1,610	-32,914	–	-31,304
Changes due to transfers from Stage 1 to Stage 3	–	–	–	–	83	–	-13,812	-13,729	83	–	-13,812	-13,729
Changes due to transfers from Stage 2 to Stage 1	–	–	–	–	-897	21,312	–	20,415	-897	21,312	–	20,415
Changes due to transfers from Stage 2 to Stage 3	–	–	–	–	–	905	-6,088	-5,183	–	905	-6,088	-5,183
Changes due to transfers from Stage 3 to Stage 1	–	–	–	–	-91	–	966	875	-91	–	966	875
Changes due to transfers from Stage 3 to Stage 2	–	–	–	–	–	-1,255	6,452	5,197	–	-1,255	6,452	5,197
Changes due to changes in credit risk without stage transfer	–	–	–	–	22,737	3,811	-5,810	20,738	22,737	3,811	-5,810	20,738
Changes due to repayments and disposals	–	–	–	–	6,785	8,127	13,965	28,877	6,785	8,127	13,965	28,877
Closing balance at 31 Dec 2021	–	–	–	–	-31,423	-58,266	-42,092	-131,781	-31,423	-58,266	-42,092	-131,781

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

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

Assets subject to enforcement activities

SEK (000s)	31 Dec 2021	31 Dec 2020
Amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activities	18,945	11,925

Note 10. Loans and impairments, cont.

Rating/scoring information on loans measured at amortised cost

	31 Dec 2021				31 Dec 2020			
Gross carring amount, SEK (000s)	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
7+	4,547,362	–	–	4,547,362	4,141,738	39,717	–	4,181,455
7	2,532,850	–	–	2,532,850	3,317,187	–	–	3,317,187
7–	–	–	–	–	–	–	–	–
6+ / A+	363,934,162	125,829	1	364,059,992	390,101,930	90,222	2,062	390,194,214
6 / A	78,143,700	29,915	–	78,173,615	61,137,552	47,521	–	61,185,073
6– / A–	52,565,766	65,141	–	52,630,907	37,792,075	116,538	–	37,908,613
5+ / B+	36,875,871	135,339	–	37,011,210	26,011,604	130,739	–	26,142,343
5 / B	27,688,582	281,672	–	27,970,254	20,721,854	313,957	–	21,035,811
5– / B–	16,309,988	446,246	–	16,756,234	11,453,983	382,382	691	11,837,056
4+ / C+	15,670,444	1,008,594	–	16,679,038	12,499,493	598,917	–	13,098,410
4 / C	22,331,427	1,837,827	–	24,169,254	17,023,272	620,782	–	17,644,054
4– / C–	2,319,299	1,094,994	–	24,287,293	17,005,385	635,121	–	17,640,506
3+ / D+	3,625,233	736,411	–	4,361,644	3,783,155	788,730	–	4,571,885
3 / D	2,147,407	1,045,064	–	3,192,471	1,389,246	423,598	–	1,812,844
3– / D–	1,211,052	1,021,504	380	2,232,936	933,049	1,075,838	1,206	2,010,093
2+ / E+	521,059	425,512	903	947,474	361,453	303,150	–	664,603
2 / E	921,128	453,405	2,249	1,376,782	848,643	339,331	961	1,188,935
2– / E–	162,075	204,375	–	366,450	89,399	123,055	–	212,454
1+ / F+	150,358	101,665	–	252,023	37,202	84,574	–	121,776
1 / F	391,592	360,878	21,844	774,314	243,296	404,553	41,954	689,803
1– / F–	554,537	543,655	–	1,098,192	493,562	265,172	–	758,734
0+ / 0 / 0–	139,144	69,311	412,544	620,999	399,967	141,054	468,434	1,009,455
Standardised/unrated	7,247,549	11,364	–	7,258,913	6,527,154	75,948	22,639	6,625,741
Total	**660,863,585**	**9,998,701**	**437,921**	**671,300,207**	**616,312,199**	**7,000,899**	**537,947**	**623,851,045**

Key ratios

	31 Dec 2021	31 Dec 2020
Impairment rate (stage 3), gross[1], basis points	6.5	8.6
Impairment rate (stage 3), net[2], basis points	5.9	8.0
Total allowance rate (stage 1, 2 and 3)[3], basis points	2.0	2.1
Allowances in relation to impaired loans (stage 3)[4], %	9.6	6.8
Allowances in relation to loans in stage 1 and 2[5], basis points	1.3	1.5

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 2021	31 Dec 2020
States, municipalities and other public bodies	12,650,117	8,569,613
Mortgage institutions	6,356,781	8,417,426
Other credit institutions	2,045,947	3,616,854
Other	–	453,787
Total	**21,052,845**	**21,057,680**

Provisions for credit risks amount to SEK 361k (579).

Note 12. Derivatives and Hedge accounting

Nordea Hypotek enters into derivatives for trading and 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.

Fair value in this note represents derivatives after assets and liabilities have been set off on the balance sheet. Derivatives set off on the balance sheet are in this note presented as a reduction in derivatives held for the same purpose, i.e. derivatives used for the purpose of hedge accounting are set off against other derivatives used for hedge accounting and derivatives not used for hedge accounting are set off against other derivatives not used for hedge accounting.

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 2021, SEKm	**Positive**	**Negative**	**Total nom amount**
Derivatives not used for hedge accounting	-2	20	34,643
Fair value hedges	3,508	1,397	604,429
Cash flow hedges	620	65	16,876
Total derivatives	**4,126**	**1,482**	**655,948**

	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
Total	**4,566**	**877**	**550,186**

Derivatives not used for hedge accounting

	Fair value		
31 Dec 2021, SEKm	**Positive**	**Negative**	**Total nom amount**
Interest rate swaps	-16	20	9,223
Options	14	0	25,420
Total	**-2**	**20**	**34,643**

	Fair value		
31 Dec 2020, SEKm	**Positive**	**Negative**	**Total nom amount**
Interest rate swaps	9	87	12,293
Options	2	0	36,640
Total	**9**	**87**	**48,929**

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. 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.

For hedge accounting relationships related to interest rate risk, the hedged risk is the change in the fair value of the hedged item due to changes in benchmark interest rates. The hedge ratio is established by matching the notional of the derivatives against the principal of the hedged items.

In order to hedge and manage the risk and limit the impact on Nordea Hypotek's margins, profit or loss and equity, Nordea uses hedging instruments to swap interest rate exposures into either fixed or variable rates.

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.

The benchmark interest rate risk is determined as a change in the present value of the future cash flows using benchmark discount curves. The benchmark interest rate risk is separately identifiable and reliably measurable and is typically the most significant component of the overall change in fair value or cash flows.

Fair value hedges

Nordea Hypotek enters into interest rate swaps and cross-currency interest rate swaps in order to reduce or eliminate changes in the fair value of the hedged items due to interest rate risk.

Hedged items are fixed rate financial assets and liabilities in both local and foreign currencies such as loans, FVOCI debt securities, deposits and debt securities in issue.

Hedging instruments are interest rate swaps and crosscurrency interest rate swaps (the portion related to interest rate risk is designated in fair value hedge relationships).

Nordea Hypotek applies fair value hedge accounting both at micro level at which one hedged item is hedged using one or several hedging instruments and at portfolio level where groups of items are hedged using multiple hedging instruments. Nordea Hypotek applies fair value hedge accounting at micro level for hedging of fixed-rate FVOCI debt securities and fixed-rate debt securities in issue.

Portfolio fair value hedge accounting is applied for hedging of loans and deposit, where fixed-rate loans and term deposits are initially offset and the residual exposure hedged using a portfolio of interest rate swaps up to the designated portion of either the net asset or liability in a given time bucket. For hedge effectiveness testing Nordea Hypotek uses both critical terms matching (for prospective effectiveness testing) and regression analysis (for retrospective effectiveness testing).

Note 12. Derivatives and Hedge accounting, cont.

The table below presents 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 2021		Interest rate risk 2020	
SEKm	Carrying amount of hedged assets/liabilities[1]	of which accumulated amount of fair value hedge adjustment[2]	Carrying amount of hedged assets/liabilities[1]	of which accumulated amount of fair value hedge adjustment[2]
Fair value hedges				
Loans to the public	274,785	-1,157	194,685	364
Interest-bearing securities[3]	5,980	–	6,957	–
Debt securitites in issue	291,482	607	296,296	4,078

1) The balance sheet row "Fair value changes of the hedged items in hedges of interest rate risk" has been split on the individual rows in this column.
2) All related to continuing hedges of interest rate risk.
3) This row includes "Financial instruments pledged as collateral".

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

Hedging instruments

	Fair value		
31 Dec 2021, SEKm	Positive	Negative	Total nom. amount
Fair value hedges			
Interest rate risk	3,508	1,397	604,429

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

The below table presents the changes in the fair value of the hedged items and the changes in the fair value of the hedging instruments used as the basis for recognising ineffectiveness. These changes are recognised on the row "Net result from items at fair value" in the income statement.

Hedge ineffectiveness

	Interest rate risk	
SEKm	2021	2020
Fair value hedges		
Changes in fair value of hedging instruments	-2,008	239
Changes in fair value of hedged items used as basis for recognising hedge ineffectiveness	2,000	-267
Hedge ineffectiveness recognised in the income statement[1, 2]	-8	-28

1) Recognised on the row Net result from items at fair value.
2) When disclosing the hedge ineffectiveness, the valuation adjustments (CVA, DVA, FFVA) has not been considered.

Source of ineffectiveness include the following:
- A mismatch between the reset frequency of the swap and the benchmark frequency.
- The fair value of the floating leg of the swap on a date other than the reset date.

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 2021, SEKm	Payable on demand	Maximum 3 months	3–12 months	1–5 years	More than 5 years	Total
Instrument hedging interest rate risk	–	22,900	144,842	432,812	3,875	604,429
Total	**–**	**22,900**	**144,842**	**432,812**	**3,875**	**604,429**

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**

Note 12. Derivatives and Hedge accounting, cont.

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 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 "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 hedges addressing currency risks including the notional and the carrying amounts of the hedging instruments and the changes in fair values used for measuring hedge ineffectiveness separately showing the effective and ineffective portions.

Hedging instruments

31 Dec 2021, SEKm	Fair value Positive	Fair value Negative	Total nom. amount
Cash flow hedges			
Foreign exchange risk	620	65	16,877
Total derivatives used for hedge accounting	**620**	**65**	**16,877**

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**

The table below specifies the fair value adjustments arising from continuing hedge relationships, irrespective of whether there has been a change in hedge designation during the year. The table also presents the changes in fair value used to measuring hedge ineffectiveness separately showing the effective and ineffective portions.

Hedge ineffectiveness

SEKm	Foreign exchange risk 2021	Foreign exchange risk 2020
Cash flow hedges		
Changes in fair value of hedging instruments	640	435
Changes in fair value of hedged items used as basis for recognising hedge ineffectiveness	-640	-435
Hedge ineffectiveness recognised in the income statement[1, 2]	–	–
Hedging gains or losses recognised in OCI	640	435

1) Recognised on the row "Net result from items at fair value".
2) When disclosing the hedge ineffectiveness, the valuation adjustments CVA, DVA and FFVA have not been considered.

Cash flow hedge reserve

SEKm	Foreign exchange risk 2021	Foreign exchange risk 2020
Balance at 1 Jan	36	17
Cash flow hedges:		
Valuation gains/losses	640	435
Tax on valuation gains/losses	-132	-93
Transferred to the income statement	-889	-411
Tax on transfers to the income statement	183	88
Other comprehensive income, net of tax	**-198**	**19**
Total comprehensive income	-198	19
Balance at 31 Dec	**-162**	**36**
- of which relates to continuing hedges for which hedge accounting is applied	-162	36
- of which relates to hedging relationships for which hedge accounting is no longer applied	–	–

Note 12. Derivatives and Hedge accounting, cont.

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

Maturity profile of the nominal amount of hedging instruments

31 Dec 2021, SEKm	Payable on demand	Maximum 3 months	3–12 months	1–5 years	More than 5 years	Total
Instrument hedging foreign exchange risk	–	–	12	16,865	–	16,877
Total	**–**	**–**	**12**	**16,865**	**–**	**16,877**

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**

Note 13. Other assets

SEK (000s)	31 Dec 2021	31 Dec 2020
Other assets[1]	739,405	453,585

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 2021	31 Dec 2020
Accrued interest income	–	19,961
Prepaid expenses	106,182	207,134
Total	**106,182**	**227,095**

Note 15. Deposits by credit institutions

SEK (000s)	31 Dec 2021	31 Dec 2020
Swedish banks	274,305,909	208,194,432

Note 16. Debt securities in issue[1]

SEK (000s)	31 Dec 2021	31 Dec 2020
Swedish bonds	345,007,635	394,477,661
Foreign securities	40,519,977	9,157,958
Total	**385,527,612**	**403,635,619**

1) See "Specification to Notes".

Note 17. Other liabilities

SEK (000s)	31 Dec 2021	31 Dec 2020
Accounts payable	3,662	63,662
Liabilities, group contribution	3,059,185	5,329,328
Other liabilites[1]	943,811	1,254,089
Total	**4,006,658**	**6,647,079**

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 2021	31 Dec 2020
Accrued interest[1]	243,620	164,902
Other accrued expenses	367,385	21,559
Prepaid income	7,480	9,104
Total	**618,485**	**195,565**

1) The entire amount refers to accrued Resolution Fee allocated from Nordea Bank Abp.

Note 19. Provisions

SEK (000s)	31 Dec 2021	31 Dec 2020
Commitments[1]	11,368	12,859

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 2021	**12,807**	**52**	**–**	**12,859**
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	–1,488	–3	–	–1,491
Changes due to repayments and disposals	–	–	–	–
Write-off through decrease in allowance account	–	–	–	–
Other changes	–	–	–	–
Translation differences	–	–	–	–
Closing balance at 31 Dec 2021	**11,319**	**49**	**–**	**11,368**

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**

Note 19. Provisions, cont.

Rating/scoring information on off balance sheet items

	31 Dec 2021				31 Dec 2020			
SEKm	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
7+	–	–	–	–	–	–	–	–
7	–	–	–	–	–	–	–	–
7–	–	–	–	–	–	–	–	–
6+ / A+	47,497	–	–	47,497	57,952	–	–	57,952
6 / A	5,653	–	–	5,653	4,300	–	–	4,300
6– / A–	4,310	–	–	4,310	2,855	–	–	2,855
5+ / B+	3,049	–	–	3,049	2,275	–	–	2,275
5 / B	2,242	–	–	2,242	1,788	–	–	1,788
5– / B–	1,255	–	–	1,255	1,033	–	–	1,033
4+ / C+	930	–	–	930	678	–	–	678
4 / C	734	–	–	734	508	–	–	508
4– / C–	1,653	–	–	1,653	1,315	–	–	1,315
3+ / D+	228	–	–	228	396	–	–	396
3 / D	178	–	–	178	129	–	–	129
3– / D–	151	–	–	151	164	–	–	164
2+ / E+	–	72	–	72	–	59	–	59
2 / E	–	69	–	69	–	70	–	70
2– / E–	–	20	–	20	–	10	–	10
1+ / F+	–	13	–	13	–	9	–	9
1 / F	–	65	–	65	–	75	–	75
1– / F–	–	78	–	78	–	61	–	61
0+ / 0 / 0–	–	–	–	–	–	–	–	–
Standardised/unrated	–	–	–	–	–	–	–	–
Total	**67,880**	**317**	**–**	**68,197**	**73,394**	**284**	**–**	**73,677**

Note 20. Subordinated liabilities[1]

SEK (000s)	31 Dec 2021	31 Dec 2020
Dated subordinated debenture loans	1,650,120	1,650,119

1) See "Specification to Notes".

These debenture loans are subordiated to other liabilities.

Note 21. Assets pledged as security for own liabilities

SEK (000s)	31 Dec 2021	31 Dec 2020
Assets pledged for own liabilities		
Loans to the public	637,698,451	594,667,658
The above pledges certain to the following liability		
Debt securities in issue	358,763,942	389,810,305

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 2021	31 Dec 2020
Credit commitments[1]	68,197,317	73,677,181
Other commitments[2]	4,043,821	–
Total	**72,241,138**	**73,677,181**

1) Since 2021, credit commitments consist of new credit commitments, and credit commitments that increase the customer's existing borrowings in connection with homebuying.
2) Refers to loans granted yet unpaid. As of 2021, loans granted yet unpaid are reported following improvements made in 2021.

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 entered into force two years later, i.e. in June 2021.

The capital 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. All Tier 1 capital instruments are undated subordinated capital loans.

Additional Tier 1 instruments

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

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.

These disclosures have been prepared in accordance with Part 8 of the CRR and applicable national regulations. Due to amendments of both CRR and the national regulations FFFS 2008:25 and FFFS 2014:12, the below table "Key ratios" is included as from Q2 2021.

Key ratios

Total Own Funds in Q4 2021 amounted to SEK 29,962, an increase of SEK 2,927m year-on-year, mainly driven by increased CET1 capital. REA increased SEK 10,367 during the same period, mainly stemming from increased mortgage lending. Leverage ratio increased from 3.80% to 3.96% during the year, mainly following increased Tier 1 capital.

Available own funds (amounts), SEKm	31 Dec 2021	31 Dec 2020
Common Equity Tier 1 (CET1) capital, including profit	28,280	25,348
Tier 1 capital, including profit	28,280	25,348
Total capital, including profit	29,962	27,035
Risk-weighted exposures amounts (REA), SEKm		
Total risk-weighted exposure amount	180,554	170,187
Capital ratios (as a percentage of risk-weighted exposure amount)		
Common Equity Tier 1 ratio (%)	15.7	14.9
Tier 1 ratio (%)	15.7	14.9
Total capital ratio (%)	16.6	15.9
Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)		
Additional own funds requirements to address risks other than the risk of excessive leverage (%)	1.8	1.8
- of which: to be made up of CET1 capital (percentage points)	1.8	1.3
- of which: to be made up of Tier 1 capital (percentage points)	1.8	1.8
Total SREP own funds requirements (%)	9.8	9.8
Combined buffer requirement (as a percentage of risk-weighted exposure amount)		
Capital conservation buffer (%)	2.5	2.5
Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0.0	0.0
Institution specific countercyclical capital buffer (%)	0.0	0.0
Systemic risk buffer (%)	0.0	0.0
Global Systemically Important Institution buffer (%)	0.0	0.0
Other Systemically Important Institution buffer (%)	0.0	0.0
Combined buffer requirement (%)	2.5	2.5
Overall capital requirements (%)	12.3	12.3
CET1 available after meeting the total SREP own funds requirements (%)	6.8	6.1
Leverage ratio		
Leverage ratio total exposure measure	713,835	667,053
Leverage ratio	4.0	3.8
Additional own funds requirements to address risks of excessive leverage (as a percentage of leverage ratio total exposure amount)		
Additional own funds requirements to address the risk of excessive leverage (%)	0.0	–
- of which: to be made up of CET1 capital (percentage points)	0.0	–
Total SREP leverage ratio requirements (%)	3.0	–
Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)		
Leverage ratio buffer requirement (%)	0.0	–
Overall leverage ratio requirements (%)	3.0	–
Liquidity Coverage Ratio		
Total high-quality liquid assets (HQLA) (Weighted value – average)	18,391	20,248
Cash outflows – Total weighted value	14,253	4,226
Cash inflows – Total weighted value	9,352	2,846
Total net cash outflows (adjusted value)	4,901	1,380
Liquidity coverage ratio (%)	375	1,468
Net Stable Funding Ratio		
Total available stable funding	541,364	–
Total required stable funding	494,072	–
NSFR ratio (%)	110	–

Note 23. Capital adequacy, cont.

Minimum Capital Requirement & Capital Buffers

			Capital Buffers			
Percentage	**Minimum Capital requirement**	**Pillar II requirement[1]**	**CCoB**	**CCyB**	**Capital Buffers total[2]**	**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	8,125	0	4,514	2	4,516	12,641
Tier 1 capital	10,833	0	4,514	2	4,516	15,349
Own funds	14,444	0	4,514	2	4,516	18,960

1) In the 2021 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.

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:					
- of which rating grades 6	–	–	–	–	–
- of which rating grades 5	–	–	–	–	–
- of which rating grades 4	–	–	–	–	–
- of which rating grades 3	–	–	–	–	–
- of which rating grades 2	–	–	–	–	–
- of which rating grades 1	–	–	–	–	–
- unrated	–	–	–	–	–
- defaulted	–	–	–	–	–
Corporate, of which advanced IRB:	**113,545**	**–**	**109,626**	**–**	**15.5**
- of which rating grades 6	71,076	–	69,680	–	5.6
- of which rating grades 5	11,109	–	9,677	–	21.9
- of which rating grades 4	28,194	–	27,412	–	36.1
- of which rating grades 3	2,738	–	2,446	–	35.9
- of which rating grades 2	121	–	121	–	45.2
- of which rating grades 1	184	–	178	–	44.2
- unrated	120	–	109	–	65.3
- defaulted	3	–	3	–	112.2
Institutions, of which foundation IRB:	**8,403**	**–**	**8,403**	**–**	**6.5**
- of which rating grades 6	7,987	–	7,987	–	6.3
- of which rating grades 5	416	–	416	–	11.7
- of which rating grades 4	–	–	–	–	–
- of which rating grades 3	–	–	–	–	–
- of which rating grades 2	–	–	–	–	–
- of which rating grades 1	–	–	–	–	–
- unrated	–	–	–	–	–
- defaulted	–	–	–	–	–
Retail, of which secured by real estate:	**530,468**	**72,241**	**602,709**	**72,241**	**3.6**
- of which scoring grades A	447,346	60,867	508,213	60,867	2.3
- of which scoring grades B	50,525	6,933	57,459	6,933	5.5
- of which scoring grades C	25,080	3,514	28,594	3,514	12.3
- of which scoring grades D	4,308	591	4,898	591	22.5
- of which scoring grades E	1,206	170	1,376	170	37.0
- of which scoring grades F	1,203	166	1,369	166	59.8
- not scored	236	–	236	–	60.9
- defaulted	564	–	564	–	123.3
Retail, of which other retail:	**13,654**	**–**	**13,648**	**–**	**7.2**
- of which scoring grades A	10,407	–	10,407	–	4.4
- of which scoring grades B	1,618	–	1,614	–	9.8
- of which scoring grades C	1,345	–	1,343	–	18.7
- of which scoring grades D	136	–	136	–	24.6
- of which scoring grades E	70	–	70	–	26.8
- of which scoring grades F	45	–	45	–	45.2
- not scored	15	–	15	–	46.3
- defaulted	18	–	18	–	235.0
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 2021, 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	6,554	–	–	–	6,554
Loans to the public	664615	–	–	–	664,615
Interest-bearing securities	–	11,082	9,971	–	21,053
Derivatives	–	4,126	–	–	4,126
Fair value changes of hedged items in hedges of interest rate risk	-1,157	–	–	–	-1,157
Deferred tax assets	–	–	–	42	42
Current tax assets	–	–	–	380	380
Other assets	739	–	–	0	739
Prepaid expenses and accrued income	106	–	–	–	106
Total	**670,857**	**15,208**	**9,971**	**422**	**696,458**

Liabilities

31 Dec 2021, SEKm	Amortised cost (AC)	Financial liabilities at fair value through profit or loss (FVPL) Mandatorily	Non-financial liabilities	Total
Deposits by credit institutions	274,306	–	–	274,306
Debt securities in issue	385,528	–	–	385,528
Derivatives	–	1,481	–	1,481
Fair value changes of hedged items in hedges of interest rate risk	607	–	–	607
Other liabilities	4,006	–	1	4,007
Accrued expenses and prepaid income	244	–	374	618
Deferred tax liabilities	–	–	–	–
Provisions	11	–	–	11
Subordinated liabilities	1,650	–	–	1,650
Total	**666,352**	**1,481**	**375**	**668,208**

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 hedged items in hedges 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**

Note 24. Classification of financial instruments, cont.

Liabilities

31 Dec 2020, SEKm	Amortised cost (AC)	Financial liabilities 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 hedged items in hedges 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	**624,386**	**877**	**38**	**625,301**

Note 25. Assets and liabilities at fair value

Fair value of financial assets and liabilities

	31 Dec 2021		31 Dec 2020	
SEKm	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans	670,012	681,001	624,084	660,953
Interest-bearing securities	21,053	21,053	21,058	21,058
Derivatives	4,126	4,126	4,567	4,567
Other assets	739	739	454	454
Prepaid expenses and accrued income	106	106	207	207
Total	**696,036**	**707,025**	**650,370**	**687,239**
Financial liabilities				
Deposits and debt instruments	662,091	664,856	617,558	613,721
Derivatives	1,481	1,481	877	877
Other liabilities	4,006	4,006	6,641	6,641
Provisions	11	11	13	13
Accrued expenses and prepaid income	244	244	174	174
Total	**667,833**	**670,598**	**625,263**	**621,426**

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". 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".

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

Assets and liabilities held at fair value on the balance sheet

31 Dec 2021, 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	258	20,795	–	21,053
Derivatives	4,126	–	0	4,126
Total	4,384	**20,795**	0	**25,179**
Liabilities at fair value on the balance sheet[1]				
Derivatives	–	1,481	0	1,481
Total	–	**1,481**	0	**1,481**

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

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.

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.

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.

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.

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

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

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 20,795m (SEK 20,604m) categorised in Level 2 and SEK 258m (454) 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

SEKm	31 Dec 2021 Carrying amount	31 Dec 2021 Fair value	Level in fair value hierarchy	31 Dec 2020 Carrying amount	31 Dec 2020 Fair value	Level in fair value hierarchy
Assets not held at fair value on the balance sheet						
Loans	670,012	681,001	3	624,084	660,953	3
Prepaid expenses and accrued income	106	106	3	207	207	3
Total	**670,118**	**681,107**		**624,291**	**661,160**	
Liabilities not held at fair value on the balance sheet						
Deposits and debt instruments	662,091	664,856	3	617,558	613,721	3
Other liabilities	4,006	4,006	3	6,641	6,641	3
Accrued expenses and prepaid income	244	244	3	174	174	3
Total	**666,341**	**669,106**		**624,373**	**620,536**	

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

31 Dec 2021, 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	4,126	–	4,126	-1,493	2,633
Liabilities					
Derivatives	1,481	–	1,481	-1,493	-12

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 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.

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 2021 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 2021 SEKm	EUR
Assets	
Derivatives and other assets	2,132
Total assets	**2,132**
Liabilities	
Debt securities in issue	40,520
Other liabilities	1,032
Total liabilities	**41,552**

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**

Note 28. Maturity analysis for assets and liabilities

Expected maturity 31 Dec 2021, SEKm	Note	Expected to be recovered or settled		Total
		Within 12 months	After 12 months	
Loans to credit institutions	10	6,554	–	6,554
Loans to the public	10	56,477	608,138	664,615
Interest-bearing securities	11	10,477	10,576	21,053
Derivatives	12	305	3,821	4,126
Fair value changes of hedged items in hedges of interest rate risk		-1,157	–	-1,157
Deferred tax assets	9	–	42	42
Current tax assets	9	380	–	380
Other assets	13	739	–	739
Prepaid expenses and accrued income	14	18	88	106
Total assets		**73,793**	**622,665**	**696,458**
Deposits by credit institutions	15	117,693	156,613	274,306
Debt securities in issue	16	83,325	302,203	385,528
Derivatives	12	114	1,367	1,481
Fair value changes of hedged items in hedges of interest rate risk		607	–	607
Other liabilities	17	4,007	–	4,007
Accrued expenses and prepaid income	18	618	0	618
Deferred tax liabilities	9	–	–	–
Provisions	19	11	–	11
Subordinated liabilities	20	–	1,650	1,650
Total liabilities		**206,375**	**461,833**	**668,208**

Expected maturity 31 Dec 2020, SEKm	Note	Expected to be recovered or settled		Total
		Within 12 months	After 12 months	
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 hedged items in hedges 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 hedged items in hedges 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**

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

Contractual undiscounted cash flows

31 Dec 2021, 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	6,510	–	44	–	–	–	–	6,554
Loans to the public	6,405	10,324	48,822	45,189	89,587	74,707	537,455	812,489
Interest-bearing securities	3	792	10,027	7,860	2,721	367	–	21,770
Other financial assets, other than derivatives	–	-19	–	–	130	–	–	111
Total non-derivative financial assets	**12,918**	**11,097**	**58,893**	**53,049**	**92,438**	**75,074**	**537,455**	**840,924**
Deposits by credit institutions	8,620	8,571	100,806	133,734	23,163	–	–	274,894
Debt securities in issue	132	316	87,636	77,366	245,999	2,312	1,138	414,899
- of which Debt securities in issue	132	297	87,588	77,299	230,722	2,300	1,138	399,476
- of which Other	–	19	48	67	15,277	12	–	15,423
Subordinated liabilities	–	6	18	24	1,704	–	–	1,752
Other non-derrivative financial liabilities	–	5,357	–	–	1,368	–	–	6,725
Total non-derivative financial liabilities	**8,752**	**14,250**	**188,460**	**211,124**	**272,234**	**2,312**	**1,138**	**698,270**
Derivatives, cash inflow	-14	303	1,525	3,213	41,740	185	157	47,109
Derivatives, cash outflow	21	97	626	2,584	41,430	156	125	45,039
Derivatives, net cash flows	**-35**	**206**	**899**	**629**	**310**	**29**	**32**	**2,070**
Exposure	**4,131**	**-2,947**	**-128,668**	**-157,446**	**-179,486**	**72,791**	**536,349**	**144,724**
Cumulative exposure	**4,131**	**1,184**	**-127,484**	**-284,930**	**-464,416**	**-391,625**	**144,724**	**–**

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**	**–**

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 68,197m (73,677). 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 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Assets				
Loans to credit institutions	6,553,597	4,553,762	–	–
Loans to the public[2]	–	–	24,405	31,934
Derivatives	4,148,663	4,559,286	–	–
Other assets	739,405	453,585	–	–
Prepaid expenses and accrued income	106,182	227,095	–	–
Total assets	**11,547,847**	**9,793,728**	**24,405**	**31,934**
Liabilities				
Deposits by credit institutions	274,305,909	208,194,432	–	–
Debt securities in issue	58,041,306	67,536,271	–	–
Deivatives	1,478,303	839,654	–	–
Other liabilities	4,006,066	6,641,707	–	–
Prepaid income and accured expenses	587,865	165,943	–	–
Subordinated liabilities	1,650,120	1,650,119	–	–
Total liabilities	**340,069,569**	**285,028,126**	**–**	**–**
Off balance[3]	621,305,251	501,257,440	–	–

1) Other related parties comprise close family members of key management personnel, as well as companies controlled or jointly controlled by key management personnel or by close family members of key management personnel.
2) Lending divided by collateral type: Single family properties SEK 18,005m (21,070); Tentant-owner apartments SEK 6,400m (10,864).
3) Including nominal values on derivatives.

Income statement

	Nordea Group companies		Key management personnel[1]	
SEK (000s)	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Interest income	-336,603	205,779	207	244
Interest expense	791,470	488,695	–	–
Net fee and commission income	-73,561	-68,846	–	–
Net result from items at fair value	-1,677,623	222,766	–	–
General administrative expenses:				
- Staff costs	–	–	–	–
- Other expenses	-4,034,987	-1,280,031	–	–
Total	**-5,331,304**	**-431,637**	**207**	**244**

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

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 2021	31 Dec 2020
Loans to credit institutions	10	–	–
Loans to the public	10	132	131
Interest bearing securities measured at fair value through other comprehensive income or amortised cost	11	0	1
Off balance sheet items	19	11	13
Total		**143**	**144**

Maximum exposure to credit risk

		31 Dec 2021		31 Dec 2020	
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	6,554	–	4,554	–
Loans to the public	10	664,615	–	619,019	–
nterest bearing securities	11	9,971	11,082	11,083	9,975
Derivatives	12	–	4,126	–	4,567
Total		**681,140**	**15,208**	**634,656**	**14,542**

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 2021, mortgage exposures increased in all ranges. The relative distribution of exposures in unchanged compared with 2020.

Retail mortgage exposure[1]

	31 Dec 2021		31 Dec 2020	
	SEKbn	%	SEKbn	%
<50%	524.7	83	484.7	83
50–60%	54.7	9	52.2	9
60–70%	37.6	6	36.5	6
70–75%	11.7	2	11.6	2
>75%	–	–	–	–
Total	**628.7**	**100**	**584.9**	**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 2021	%	31 Dec 2020	%
0–10	77,093	64	8,983	8
10–50	32,295	27	43,829	39
50–100	10,419	8	21,162	19
100–250	1,071	1	19,714	18
250–500	–	–	10,184	9
500–	–	–	7,967	7
Total	**120,878**	**100**	**111,840**	**100**

Past due loans, excluding impaired loans

	31 Dec 2021		31 Dec 2020	
SEKm	Corporate customers	Household customer	Corporate customers	Household customer
6–30 days	132	35	190	13
31–60 days	2	248	–	234
61–90 days	–	54	–	36
>90 days	3	130	–	34
Total	**137**	**467**	**190**	**317**
Past due not impaired loans divided by loans to the public after allowances, %	0.11	0.09	0.17	0.06

Note 30. Credit risk disclosures, cont.

Forbearance

All COVID-19-related instalment-free periods have now expired. For household loans the average amortization pace is now back at the same level as before the istalment-free periods were introduced.

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 6.9 SEKm in scenario 1 and decreased by 4.0 SEKm 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 2021, SEK (000s)	Recognised provisions	Provisions if one notch downgrade
Business Banking	88,379	136,303
Personal Banking	12,566	22,813
Large Corporates & Institutions	92	167
Other	8,080	12,591
Total	**109,117**	**171,874**

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**

Forward-looking information

Forward-looking information is used for both assessing significant increases in credit risk and calculating expected credit losses. Nordea uses three macroeconomic scenarios: a baseline scenario, a favourable scenario and an adverse scenario. For 2021, the scenarios were weighted into the final expected credit losses (ECL) as follows: baseline 60%, adverse 20% and favourable 20% (baseline 50%, adverse 45% and favourable 5% at the end of December 2020 and baseline 60%, adverse 20% and favourable 20% at the end of June 2021). The consistency in weightings over the past few quarters reflects continued reduced uncertainty regarding the impact of the pandemic, less severe restrictions and the extension of vaccination programmes to include boosters and cover younger people.

The macroeconomic scenarios are provided by Group Risk 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. For periods beyond, a long-term average is used in the ECL calculations.

The macroeconomic scenarios reflect Nordea's view of how the Nordic economies will potentially develop following the reopening of societies after COVID-19- related lockdowns. The scenarios take into account the macroeconomic effects of government and central bank support measures. When developing the scenarios, Nordea took into account projections made by Nordic governments and central banks, Nordea Research and the European Central Bank's macroeconomic forecasts for the euro area.

Economic projections from the Nordic central banks and the European Central Bank are used as a basis for the baseline scenario. In Denmark, Finland, Norway and Sweden, real GDP has more than recovered from the fall in economic activity caused by the lockdowns of the past two years. Economic prospects are good, although growth is expected to be lower than in recent quarters. Strained global supply chains and bottlenecks are creating headwinds for growth but these problems are expected to subside as consumption patterns normalise, demand slows and production capacity is adjusted. The spread of COVID-19 has increased again and it is still unclear how serious the economic implications of the new Omicron variant are and not least how governments, households and companies will react. The baseline scenario is that Omicron will not have any major impact on growth.

Nordea's two alternative macroeconomic scenarios cover a range of plausible impacts of the pandemic on the Nordic economies, reflecting the persisting uncertainty concerning the pandemic's future evolution and economic effects.

At the end of 2021 adjustments to model-based allowances/provisions amounted to 34 SEKm, including management judgements. The management judgements cover expected credit losses not yet covered by the IFRS 9 model. The cyclical reserve amounted to 11.6 SEKm at the end of 2021 and the reserve covering issues identified in the IFRS 9 model to be later covered in model updates (structural reserve) amounted to 11.8 SEKm. Uncertainty surrounding the effects of the pandemic continue to subside, the restrictions in society are not as extensive and vaccination programmes are being extended to also include lower age groups and boosters. For that reason, the cyclical reserve has decreased by 8.6 SEKm during 2021. The structural reserve has decreased by 5.1 SEKm during 2021 mainly driven by model-improvements.

The internal stress testing model has been 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

Note 30. Credit risk disclosures, cont.

significantly reduced expected defaults and losses among households. Due to the wide scope of these schemes, Nordea 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 do not replicate the impact of the government support schemes launched during the pandemic.

With regard to the expected rating migration in the corporate portfolio, Nordea took into consideration the positive impact of the various government guarantee and support schemes, primarily addressing the liquidity shock caused by the lockdowns and quarantines. At the same time, additional negative rating migration was assumed for industries affected by COVID-19. This was based on an updated view of particularly sensitive industries, with the main findings incorporated into the scenario projections.

The stress test model-based scenario simulations support the loan loss forecasts made by the business areas, and help Nordea ensure that its loan loss projections are appropriate.

Scenarios and provisions

31 Dec 2021		2022	2023	2024	Un-weighted ECL SEK (000s)	Probability weight, %	Model based provisions SEK (000s)	Individual provisions SEK (000s)	Total provisions SEK (000s)
Favourable scenario	GDP growth, %	5.2	2.4	1.8					
	Unemployment, %	7.2	6.7	6.7					
	Change in household consumption, %	6.2	2.8	2.4	102,792	20%			
	Change in house prices, %	4.6	2.5	2.4					
Base scenario	GDP growth, %	3.6	2.2	1.8					
	Unemployment, %	7.6	7.2	7.1					
	Change in household consumption, %	4.6	2.6	2.1	107,744	60%	109,117	34,032	143,149
	Change in house prices, %	2.1	1.8	3.0					
Adverse scenario	GDP growth, %	1.4	1.7	2.0					
	Unemployment, %	8.3	8.1	7.9					
	Change in household consumption, %	2.9	1.2	1.6	119,562	20%			
	Change in house prices, %	-4.7	-3.7	1.2					

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	63,666	143,828
	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					

Note 31. Proposed distribution of earnings

After the company paid group contributions amounting to SEK 3,059,184,927 the following amount is available for distruibution by the Annual General Meeting of Shareholders:

Other reserve	-149,506,666
Retained profit	25,893,338,175
Net profit for the year	2,395,887,768
Total	**28,139,719,277**
The Board of Directors proposes that these earnings are distributed as follows:	
To be carried forward to:	**28,139,719,277**

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 2021 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 2021
5531	SE0006991246	2015-04-08	1.0000	2022-04-08	2022-04-08	SEK	70,515,000
5533	SE0010442731	2017-09-20	1.2500	2022-09-20	2023-09-20	SEK	64,400,000
5703	SE0004269363	2011-10-19	3.4600	2022-10-19	2026-10-19	SEK	3,000,000
5705	SE0004329506	2011-12-02	3.1250	2022-12-02	2026-12-02	SEK	1,000,000
5716	SE0007158597	2015-06-01	1.8375	2022-06-01	2027-06-01	SEK	500,000
5717	SE0008015358	2016-02-15	1.5600	2022-02-15	2023-02-15	SEK	1,300,000
5718	SE0009414584	2016-12-15	1.6900	2022-12-15	2026-12-15	SEK	300,000
5720	SE0011088772	2018-05-02	1.8430	2022-05-02	2030-05-02	SEK	1,000,000
5724	SE0011762137	2018-10-08	1.8000	2022-10-08	2030-10-08	SEK	250,000
5725	SE0010599373	2018-10-15	2.2500	2022-10-15	2048-10-15	SEK	400,000
5534	SE0012230415	2018-09-18	1.0000	2022-09-18	2024-09-18	SEK	79,200,000
5728	SE0013358405	2019-10-22	0.7925	2022-10-22	2032-10-22	SEK	500,000
5535	SE0013358413	2019-09-17	1.0000	2022-09-17	2025-09-17	SEK	62,950,000
5536	SE0013358439	2020-09-16	0.5000	2022-09-16	2026-09-16	SEK	24,050,000
5721	SE0011062926	2018-08-16	3m Stibor + 0.75	2022-01-17	2023-01-16	SEK	500,000
5722	SE0011062934	2018-08-15	3m Stibor + 0.75	2022-03-15	2023-06-15	SEK	500,000
5723	SE0011721232	2018-09-24	3m Stibor + 0.75	2022-02-24	2023-05-24	SEK	1,000,000
5727	SE0012256675	2019-02-15	3m Stibor + 0.75	2022-02-15	2024-02-15	SEK	1,750,000
5719	SE0011167360	2018-04-27	3m Stibor + 1.00	2022-03-28	2022-09-27	SEK	1,500,000
5726	SE0011426006	2019-01-21	3m Stibor + 0.75	2022-03-01	2022-12-01	SEK	500,000
MREL loan							
2518	HYPMREL2518%	2020-03-18	3m Stibor + 0.75	2022-03-18	2025-03-18	SEK	4,750,000
2622	HYPMREL2622%	2020-12-22	3m Stibor + 0.68	2022-03-22	2026-03-22	SEK	4,200,000
2412	HYPMREL2412%	2021-12-17	3m Stibor + 0.60	2022-03-17	2024-12-17	SEK	6,100,000

Tap issues (applies to 5531-5536).
Quarterly payment of interest, first payment date in table (applies to 5721,5722,5723,5727,5719,5726,2412,2622).

Loan 5531-5536, 5703-5718, 5720, 5724, 5725, 5728, 2518: No interest rate adjustment.

Registered Covered Bond (Loans issued in foreign currency), SEK 000s

ISIN code	Issue day	Final payment day	Interest rate, %	Currency	Outstanding nominal amount in currency, 2021[1]
FI4000491097	2021-03-19	2024-03-19	0.2080	EUR	30,873,750
Total other bonds issued, unlisted (converted to SEK)					8,883,891
Total					**39,757,641**

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, 2021
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, 10 March 2022

Per Långsved
Chariman

Peter Dalmalm
Deputy Chair

Emma Henriksson
Board member

Maria Härdling
Board member

Marte Kopperstad
Board member

Magnus Montan
Board member

Elisabeth Olin
Board member

Maria Sahlén
Board member

Arvid Krönmark
Chief Executive Officer

Our audit report was submitted on 11 March 2022

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 2021 except for the corporate governance statement on pages 24–28.

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 2021 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 24–28. 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 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. There are still uncertainties related to the COVID-19 global pandemic, which may 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 relevant risk factors not captured in the Companies 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 and note 30 Credit Risk disclosures.	Our audit included, but were not limited to, a combination of testing of controls and substantive testing related to credit allowances. We obtained an understanding of the loan origination process, credit risk management and the impairment allowances for loans and advances to customers. Based on risk we selected individual loans and performed detailed credit file reviews and assessed its credit risk. 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 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

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 2021 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 ESEF report

Opinion

In addition to our audit of the annual accounts, we have also examined that the Board of Directors and the Managing Director have prepared the annual accounts in a format that enables uniform electronic reporting (the Esef report) pursuant to Chapter 16, Section 4(a) of the Swedish Securities Market Act (2007:528) for Nordea Hypotek AB (publ) for the financial year 2021 .

Our examination and our opinion relate only to the statutory requirements.

In our opinion, the Esef report #4b2392f94608c1394eeff926cd3f97cf2be9f9054677f8f76f1ebb24fa719226 has been prepared in a format that, in all material respects, enables uniform electronic reporting.

Basis for Opinions

We have performed the examination in accordance with FAR's recommendation RevR 18 Examination of the Esef report. Our responsibility under this recommendation is described in more detail in the Auditors' responsibility 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 evidence I (we) have obtained is sufficient and appropriate to provide a basis for our opinion.

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

The Board of Directors and the Managing Director are responsible for ensuring that the Esef report has been prepared in accordance with the Chapter 16, Section 4(a) of the Swedish Securities Market Act (2007:528), and for such internal control that the Board of Directors and the Managing Director determine is necessary to prepare the Esef report without material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to form an opinion with reasonable assurance whether the Esef report is in all material respects prepared in a format that meets the requirements of Chapter 16, Section 4(a) of the Swedish Securities Market Act (2007:528), based on the procedures performed.

RevR 18 requires us to plan and execute procedures to achieve reasonable assurance that the Esef report is prepared in a format that meets these requirements.

Reasonable assurance is a high level of assurance, but it is not a guarantee that an engagement carried out according to RevR 18 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the ESEF report.

The audit firm applies ISQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Services Engagements and accordingly maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with professional ethical requirements, professional standards and legal and regulatory requirements.

The reasonable assurance engagement involves obtaining evidence, through various procedures, that the Esef report has been prepared in a format that enables uniform electronic reporting of the annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the report, whether due to fraud or error. In carrying out this risk assessment, and in order to design procedures that are appropriate in the circumstances, the auditor considers those elements of internal control that are relevant to the preparation of the Esef report by the Board of Directors and the Managing Director, but not for the purpose of expressing an opinion on the effectiveness of those internal controls. The reasonable assurance engagement also includes an evaluation of the appropriateness and reasonableness of assumptions made by the Board of Directors and the Managing Director.

The procedures mainly include a technical validation of the Esef report, i.e. if the file containing the Esef report meets the technical specification set out in the Commission's Delegated Regulation (EU) 2019/815 and a reconciliation of the Esef report with the audited annual accounts.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 24–28 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 12 March 2021 and has been the company's auditor since the 12 March 2015.

Stockholm, 11 March 2022

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
Head of Personal Banking, Sweden,
Country Senior Executive, Sweden,
Nordea Bank Abp
Chairman, Böda Sand Beach Resort AB,
Board member, Quinolette AB

Members

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

Emma Henriksson, b 1975
External Board member
Board member, babege AB (publ)
Board member, ÅWL Arkitekter AB

Maria Härdling, b 1972
Head of Capital Management &
Regulations, Group Financial
Management, Sweden,
Nordea Bank Abp

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

Magnus Montan, b 1972
External Board member
CEO in AB Svensk Exportkredit

Elisabeth Olin, b 1961
Head of Business Risk Management
Personal Banking, Sweden,
Nordea Bank Abp

Maria Sahlén, b 1979
External Board member
Chief Operating Officer Sweden Nordic
Real Estate Partners

Auditor

Öhrlings Pricewaterhouse Coopers AB

Catarina Ericsson
Authorised Public Accountant

Management

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

Fredrik Andersson, b 1979
Compliance Officer,
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)

Maria Stolpe, b 1969
Chief Operating Officer,
Nordea Hypotek AB (publ)

Madeleine Qvarfordt, b 1985
Business Risk Manager,
Nordea Hypotek AB (publ)

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

Johan Wikander, b 1979
Head of Credit,
Nordea Hypotek AB (publ)

Upcoming publications

Nordea Hypotek's Half-year Financial Report for the first half-year 2022 will be published on 29 August 2022 by way of a stock exchange release and will also be available at www.nordea.com.

Addresses

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