

Nordea



Half-year Financial Report 2020

Nordea Hypotek AB (publ)

Half-year Financial Report 2020

January-June 2020

Operations

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

The consequences of covid-19 became increasingly apparent in the second quarter and the pandemic continues to seriously affect individuals, companies and communities. Nordea Hypotek entered the covid-19 crisis with a strong financial position, which the Company has also managed to maintain. The Company's capital position remains strong with a CET1 ratio of 15.2%, which is 8.2 percentage points above the legal requirement.

Credit quality in Nordea Hypotek's loan portfolio remains strong, with currently no signs of any negative trend in the loan portfolio or heightened default. In the second quarter, we updated our macroeconomic scenarios to include a longer-term view of the expected impact of the economic decline. Based on the result of the analysis, Nordea Hypotek has increased loan provisions from SEK 66m as per 31st of December 2019 to SEK 119m at the end of June 2020, to cover expected future credit losses and the identified development needs in our IFRS 9 models.

The housing market in Sweden

In the first six months, the price index for privately owned homes in Sweden, HOXSWE, gained 4.3%. The price trend for both houses and apartments has been positive in all large cities in the past 12 months. Apartments in Stockholm have been hit hardest by the covid-19 pandemic and prices dropped 6% between March and the first half of April 2020. Since then, apartment prices in Stockholm have recovered with an increase of 2.6% at the end of June 2020.

Profit/loss

Operating profit amounted to SEK 2,222m (2,586), down 14.1% from the same period of the previous year.

The result compared to the previous period was mainly affected by the following factors:

- Net interest income deteriorated by SEK 180m, a decrease of 5.2% compared to the same period last year. Higher lending volumes had a positive

impact on net interest income, but this was offset by lower average lending margins and higher funding costs.

- Net result from financial items at fair value decreased by SEK 59m, amounting to SEK -94m at the end of the period. This is chiefly attributable to realised and unrealised value changes for financial instruments under hedge accounting.
- Operating expenses were SEK -864m (-808), an increase of SEK 56m or 6.9% compared to the same period last year.
- In 2020, Nordea Hypotek performed a review of the distribution costs that the Company pays to the Parent Company, which chiefly explains the increase in operating expenses compared with the same period last year.
- The resolution fee during the period was SEK 217m (349m), down SEK 133m from the same period last year. The main reason for the decrease was that the resolution fees' share of the total fee base for 2020 is 0.05% compared with 0.09% for 2019.

Lending

At the end of the period, lending to the public was at SEK 599,631m (579,501), exceeding the year-end volume by 3.5% (2.2%).

Lending to the retail market rose by 3.1% (2.1%) during the period, amounting at the close of the period to SEK 488,729m (473,895).

Nordea's market share for mortgages at 30 June 2020 was 13.6% according to data published by Statistics Sweden on loans to Swedish households collateralised by a home.

Lending to legal entities increased by 5.0% (2.5), amounting at the close of the period to SEK 110,902m (105,605).

Impaired loans and loan losses

Nordea Hypotek has performed comprehensive portfolio modelling with analyses. A bottom-up loan loss forecast has been performed in the business areas. In addition, a forecast has also been made based on Nordea Hypotek's stress test model with an updated macroeconomic base scenario. For more information, see Note 4 Loans and impairment.

Impaired loans, gross, amounted to SEK 538m (596).

Net loan losses for the period amounted to SEK 58m (6) and are primarily attributable to increased model-based loan provisions.

Realised loan losses have not changed notably compared with pre-covid-19 levels, but remain at a low level. Incurred loan losses, less recoveries on written-off loans and reversed provisions, increased by SEK

1m in the first half of 2020, amounting to SEK 3m (2) at the end of the period.

Total loan provisions have increased during the year by SEK 53m, amounting to SEK 119m (66) on 30 June 2020. Updated macroeconomic scenarios in the IFRS 9 models contributed SEK 23m.

Provisions as judged by management

The management of Nordea Hypotek has judged it appropriate to supplement the outcome from the individual and modelled collective provisions with an additional cyclical provision of SEK 18m to allow for expected credit losses ensuing from future expected deteriorations in ratings not yet captured by the IFRS 9 models for collective provisions. Furthermore, an additional provision as judged by management was made of SEK 14m, which is to cover the identified development need in our IFRS 9 models for collective provisions.

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

Funding

Long-term funding occurs mainly by way of the issuance of bonds on the Swedish market, with maturities from two to ten years. During the period, bonds issued in Swedish kronor equalled SEK 81,451m (59,250) in total. The outstanding bond volume (nominal amount) at 30 June 2020 was SEK 364,814m (324,424), of which SEK 9,561m (9,561) was issued in currencies other than SEK.

At 30 June 2020, Nordea Hypotek had outstanding dated debenture loans from the Parent Company totalling SEK 1.65bn (1.65).

Covered bonds are funding instruments, regulated under the Covered Bonds (Issuance) Act (2003:1223), which give investors priority in the event the borrower's bankruptcy.

Covered bonds may only be issued following special permission from the Financial Supervisory Authority and on the basis of high-quality assets. Covered bonds and received credit ratings provide the Company with access to a broader base of funding sources.

In addition to the aforementioned long-term borrowing, during the period the Company regularly secured funding through short-term borrowings from the Parent Company. At 30 June 2020 the outstanding amount from such funding was SEK 219.0bn (236.0).

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.

Capital adequacy

Nordea Hypotek uses the Internal Ratings-based (IRB) approach (internal risk classification) for calculating credit risk in the exposure classes corporate, institution and household. At the end of June, the Company's RWA amounted to SEK 166,996m, the calculated common equity tier 1 (CET1) capital ratio was 15.2% and the capital ratio was 16.2%.

Change in the Board of Directors

No changes were made to the composition of the Board of Directors in the first half of 2020.

Material events after the balance sheet date

Besides the prevailing situation prompted by covid-19, there have been no other material events after the balance sheet date.

Assurance of the Board of Directors

The half-year interim report provides a fair overview of the Company's activities, its financial position and result, and describes material risks and uncertainties assumed by the Company.

Stockholm, 21 August 2020

Nicklas Ilebrand
Chairman of the Board

Peter Dalmalm Maria Härdling

Marte Kopperstad Nils Lindberg

Per Långsved Elisabeth Olin

Michael Skytt Magnus Montan
Managing Director

Income Statement

		Jan-Jun 2020	Jan-Jun 2019	Full year 2019
SEK (000s)	Note			
Operating income				
Interest income calculated using the effective interest method		4,788,610	4,201,442	8,614,887
Other interest income		12,809	10,680	21,193
Negative yield on financial assets		-15,252	-15,534	-36,320
Interest expense		-1,535,692	-849,191	-1,920,892
Negative yield on financial liabilities		5,548	88,150	136,612
Net interest income		3,256,023	3,435,547	6,815,480
Fee and commission income		20,971	22,806	43,644
Fee and commission expense		-38,212	-23,843	-87,191
Net fee and commission income		-17,241	-1,037	-43,547
Net result from items at fair value		-94,241	-34,861	-22,221
Total operating income		3,144,541	3,399,649	6,749,712
Operating expenses				
<i>General administrative expenses:</i>				
Staff costs		-14,632	-13,310	-27,702
Other expenses		-849,664	-794,722	-1,461,829
Total operating expenses		-864,296	-808,032	-1,489,531
Profit before loan losses		2,280,245	2,591,617	5,260,181
Net loan losses	3	-58,438	-5,857	-18,346
Operating profit		2,221,807	2,585,760	5,241,835
Income tax expense		-481,175	-552,295	-1,122,243
Net profit for the period		1,740,632	2,033,465	4,119,592

Statement of comprehensive income

		Jan-Jun 2020	Jan-Jun 2019	Full year 2019
SEK (000s)				
Net profit for the period		1,740,632	2,033,465	4,119,592
Items that may be reclassified subsequently to the income statement				
<i>Cash flow hedges:</i>				
Valuation gains/losses during the year, net of tax		12,967	409,305	224,067
Transferred to the income statement during the year		-33,326	-400,968	-228,011
<i>Available for sale investments</i> ¹				
Valuation gains/losses during the year, net of tax		-4,385	21,450	13,059
Transferred to the income statement during the year		5,474	26	-
Other comprehensive income, net of tax		-19,270	29,813	9,115
Total comprehensive income		1,721,362	2,063,278	4,128,707

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

Balance Sheet

		30 Jun 2020	31 Dec 2019	30 Jun 2019
SEK (000s)	Note			
Assets				
Loans to credit institutions	4	3,856,201	5,578,131	9,532,058
Loans to the public	4	599,631,173	579,500,671	560,931,820
Interest-bearing securities		20,981,942	21,103,915	21,425,183
Derivatives		5,674,471	4,566,105	6,772,480
Fair value changes of the hedged items in portfolio hedge of interest rate risk		522,004	-298,624	443,433
Current tax assets		6	98,274	4
Other assets		56	814,019	1,787,765
Prepaid expenses and accrued income		575,388	650,472	695,416
Total assets		631,241,241	612,012,963	601,588,159
Liabilities				
Deposits by credit institutions		219,038,495	235,964,135	226,454,319
Debt securities in issue		375,881,393	340,270,319	338,595,900
Derivatives		768,859	514,871	637,156
Fair value changes of the hedged items in portfolio hedge of interest rate risk		5,117,038	3,168,419	6,125,516
Current tax liabilities		175,810	-	318,910
Other liabilities		1,304,531	4,777,000	2,098,013
Accrued expenses and prepaid income		96,862	178,276	33,849
Deferred tax liabilities		300	4,787	7,733
Provisions		8,944	7,440	2,927
Subordinated liabilities		1,650,067	1,650,137	800,112
Total liabilities		604,042,299	586,535,384	575,074,435
Equity				
Share capital		110,000	110,000	110,000
Fair value reserves		2,257	21,527	42,225
Retained earnings		25,346,053	21,226,460	24,328,034
Net profit for the year		1,740,632	4,119,592	2,033,465
Total equity		27,198,942	25,477,579	26,513,724
Total liabilities and equity		631,241,241	612,012,963	601,588,159

Notes

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Statement of changes in equity

	Restricted equity	Unrestricted equity			
			Fair value through other comprehensive income	Retained earnings	
30 Jun 2020	Share capital ¹	Cash flow hedges			Total equity
SEK (000s)					
Balance at 1 Jan 2020	110,000	16,972	4,555	25,346,052	25,477,579
Net profit for the period	-	-	-	1,740,632	1,740,632
Items that may be reclassified subsequently to the income statement					
<i>Fair value through other comprehensive income:</i>					
Valuation gains/losses during the year, net of tax	-	-	-3,398	-	-3,398
<i>Cash flow hedges:</i>					
Valuation gains/losses during the year, net of tax	-	-15,871	-	-	-15,871
Transferred to the income statement during the year	-	-	-	-	-
Tax on transfers to the income statement during the year	-	-	-	-	-
Other comprehensive income, net of tax	-	-	-		-19,270
Total comprehensive income	-	-	-	1,740,632	27,198,942
Share-based payments	-	-	-	-	
Balance at 30 Jun 2020	110,000	1,101	1,157	27,086,684	27,198,942

	Restricted equity	Unrestricted equity			
31 Dec 2019	Share capital ¹	Cash flow hedges	Fair value through other comprehensive income	Retained earnings	Total equity
SEK (000s)					
Balance at 1 Jan 2019	110,000	20,916	-8,504	24,327,896	24,450,308
Net profit for the year	-	-	-	4,119,592	4,119,592
Items that may be reclassified subsequently to the income statement					
Fair value through other comprehensive income:					
Valuation gains/losses during the year, net of tax	-	-	13,059	-	13,059
Cash flow hedges:					
Valuation gains/losses during the year, net of tax	-	224,067	-	-	224,067
Transferred to the income statement during the year	-	-292,322	-	-	-292,322
Tax on transfers to the income statement during the year	-	64,311	-	-	64,311
Other comprehensive income, net of tax	-	-3,944	13,059	-	9,115
Total comprehensive income	-	-3,944	13,059	4,119,592	707
Group contribution paid	-	-	-	-3,945,847	-3,945,847
Tax on Group contribution paid	-	-	-	844,411	844,411
Balance at 31 Dec 2019	110,000	16,972	4,555	25,346,052	25,477,579

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

Statement of changes in equity, continued

	Restricted equity	Unrestricted equity			
30 Jun 2019	Share capital ¹	Cash flow hedges	Fair value through other comprehensive income	Retained earnings	Total equity
SEK (000s)					
Balance at 1 Jan 2019	110,000	20,916	-8,504	24,327,896	24,450,308
Net profit for the period	-	-	-	2,033,465	2,033,465
Items that may be reclassified subsequently to the income statement					
<i>Fair value through other comprehensive income</i>					
Valuation gains/losses during the year, net of tax	-	-	23,310	-	23,310
<i>Cash flow hedges:</i>					
Valuation gains/losses during the year, net of tax	-	319,258	-	-	319,258
Transferred to the income statement during the year	-	-400,968	-	-	-400,968
Tax on transferred to the income statement during the year	-	88,213	-	-	88,213
Other comprehensive income, net of tax	-	6,503	23,310	-	29,813
Total comprehensive income	-	6,503	23,310	2,033,465	2,063,278
Share-based payments	-	-	-	138	138
Balance at 30 Jun 2019	110,000	27,419	14,806	26,361,499	26,513,724

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

Cash Flow statement

	Jan-Jun 2020	Jan-Jun 2019	Full year 2019
SEK (000s)			
Operating activities			
Operating profit	2,221,807	2,585,760	5,241,835
Adjustment for items not included in cash flow	562,682	403,831	-426,851
Income taxes paid	-207,096	-204,283	-347,000
Cash flow from operating activities before changes in operating assets and liabilities	2,577,393	2,785,308	4,467,984
Changes in operating assets			
Change in treasury bills	-1,058,174	-1,887,898	248,904
Change in loans to the public	-20,189,316	-12,178,979	-30,760,940
Change in interest-bearing securities	121,973	-341,621	-20,354
Change in derivatives, net	144,789	142,064	125,423
Change in other assets	813,963	1,010,293	1,984,039
Change in operating liabilities			
Change in deposits by credit institutions	-16,969,574	4,297,000	13,797,000
Change in debt securities in issue	36,309,485	15,329,160	15,776,342
Change in other liabilities	-3,472,469	-4,922,499	-6,189,359
Cash flow from operating activities	-4,299,323	1,447,520	-5,038,945
Financing activities			
Amortised subordinated liabilities	-	-	-800,000
Other changes in equity	-	138	1,650,000
Cash flow from financing activities	-	138	850,000
Cash flow for the period	-1,721,930	4,232,966	279,039
Cash and cash equivalents at beginning of period	5,578,131	5,299,092	5,299,092
Cash and cash equivalents at end of period	3,856,201	9,532,058	5,578,131
Change	-1,721,930	4,232,966	279,039

Notes to the financial statements

Note 1. Accounting policies

The Half-year Financial Report 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), IAS 34 "Interim Financial Reporting" 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 Half-year Financial Report.

In all material respects, the accounting policies, basis for calculations and presentation are unchanged from the 2019 Annual Report, with the exception of changed accounting policies and presentation described in the section below, "Changed accounting policies and presentation". For more information see note 1 in the Annual Report 2019.

Changed accounting policies and presentation

The following changes in accounting policies and presentation were implemented by Nordea Hypotek 1 January 2020, but has not had any significant impact on Nordea Hypotek's financial statements.

- Amendments to References to the Conceptual Framework in IFRS Standards

- Amendments to IAS 1 and IAS 8: Definitions of material

Changes in IFRSs not yet applied

Other amendments to IFRS

Other amendments to IFRS are not assessed to have any significant impact on Nordea Hypotek's financial statements, capital adequacy or large exposures in the period of initial application.

Critical judgements and estimation uncertainty

Nordea Hypotek has applied significant critical judgements in the preparation of the interim report for the first half year 2020, due to the significant uncertainties concerning the potential long-term impact of covid-19 on Nordea Hypotek's financial statements. Areas particularly important in the first half-year 2020 are the fair value measurement of certain financial instruments and impairment testing of loans to the public/credit institutions.

Critical judgements are applied when determining the fair value of financial instruments that lack quoted prices or recently observed market prices. In all of these instances, decisions are based upon professional judgement in accordance with Nordea Hypotek's accounting and valuation policies. The fair values of financial assets and liabilities measured at fair value using a valuation technique. More information on financial instruments held at fair value on Nordea Hypotek's balance sheet can be found in Note 6.

Critical judgement has been applied in the assessment of when loans have experienced a significant increase in credit risk (staging) and in the application of macro scenarios when estimating the increase in expected credit losses. More information on the impairment testing of loans to the public/credit institutions can be found in note 1 in the Annual Report 2019. For information see section "Sensitivities" in Note 4.

Not 2. Segment reporting

Operating segments

	Personal Banking		Commercial & Business Banking		Group Treasury		Other operating segments		Total operating segments		Reconciliation		Total	
	Jan-Jun		Jan-Jun		Jan-Jun		Jan-Jun		Jan-Jun		Jan-Jun		Jan-Jun	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
SEKm														
Total operating income	3,787	3,459	732	644	-1,545	-881	50	91	3,024	3,313	120	86	3,144	3,399
Operating profit	3,737	3,451	727	646	-1,545	-890	-239	-707	2,680	2,499	-458	86	2,222	2,585
Loans to the public	453,147	429,376	123,810	113,493	-	-	22,673	18,063	599,630	560,932	1	-	599,631	560,932

Reconciliation between total operating segments and financial statements

	Jan-Jun 2020		Jan-Jun 2019	
	Operating profit	Loans to the public	Operating profit	Loans to the public
SEKm				
Total operating segments	2,680	599,630	2,499	560,932
Group functions and unallocated items	-458	1	86	-
Total	2,222	599,631	2,585	560,932

Not 3. Net loan losses

	Jan-Jun 2020	Jan-Jun 2019	Full year 2019
SEK (000s)			
Net loan losses, stage 1	-24,793	-1,144	-9,643
Net loan losses, stage 2	-15,280	-1,766	4,293
Net loan losses, non-defaulted	-40,073	-2,910	-5,350
Stage 3, defaulted			
Net loan losses, individually assessed, collectively calculated	-15,498	-528	-4,576
Realised loan losses	-3,242	-25,631	-32,252
Decrease of provisions to cover realised loan losses	-	18,700	18,700
Recoveries on previously realised loan losses	375	462	1,082
Reversals of provisions	-	4,050	4,050
Net loan losses, defaulted	-18,365	-2,947	-12,996
Net loan losses	-58,438	-5,857	-18,346

Key ratios	Jan-Jun 2020	Jan-Jun 2019	Full year 2019
Loan loss ratio, basis points	1.9	0.2	1.3
-of which stage 1	0.8	0.0	0.7
-of which stage 2	0.5	0.1	-0.3
-of which stage 3	0.6	0.1	0.9

Not 4. Loans and impairment

	30 Jun 2020	31 Dec 2019	30 Jun 2019
SEKm			
Loans measured to amortised cost, not impaired (stage 1 and 2)	603,069	584,546	569,931
Impaired loans (stage 3)	538	599	596
- of which servicing	89	104	59
- of which non-servicing	449	495	537
Loans before allowances	603,607	585,145	570,527
-of which credit institutions	3,856	5,578	9,532
Allowances for individually assessed loans (stage 3)	-39	-23	-19
- of which servicing	-6	-4	-2
- of which non-servicing	-33	-19	-17
Allowances for collectively assessed loans (stage 1 and 2)	-81	-43	-45
Allowances	-119	-66	-64
-of which credit institutions	-	-	-
Loans carrying amount	603,487	585,079	570,463

Note 4. Continued

Carrying amount of loans measured at amortised cost, before allowances

SEKm	30 Jun 2020		
	Stage 1	Stage 2	Stage 3
Loans to the public	596,543	538	538
Interest-bearing securities	10,339	0	0
Total	606,882	538	538

SEKm	30 Jun 2019		
	Stage 1	Stage 2	Stage 3
Loans to the public	557,280	12,651	596
Interest-bearing securities	10,608	-	-
Total	567,887	12,651	596

Allowances and provisions

SEKm	30 Jun 2020		
	Stage 1	Stage 2	Stage 3
Loans to the public	-43	-38	-39
Interest-bearing securities	-1	0	0
Provisions for off-balance sheet items	-9	0	0
Total	-53	-38	-39

SEKm	30 Jun 2019		
	Stage 1	Stage 2	Stage 3
Loans to the public	-16	-28	-19
Interest-bearing securities	-1	-	-
Provisions for off-balance sheet items	-3	0	-
Total	-20	-28	-19

Note 4. Continued

Movement of allowance accounts for loans measured at amortised cost

SEKm	Stage 1	Stage 2	Stage 3	Total
Balance at 1 Jan 2020	-20	-22	-23	-65
Changes due to origination and acquisition	-10	0	-1	-11
Changes due to transfers from stage 1 to stage 2	1	-20	0	-19
Changes due to transfers from stage 1 to stage 3	0	0	-6	-6
Changes due to transfers from stage 2 to stage 1	-1	9	0	8
Changes due to transfers from stage 2 to stage 3	0	1	-6	-5
Changes due to transfers from stage 3 to stage 1	0	0	1	1
Changes due to transfers from stage 3 to stage 2	0	-1	4	3
Changes due to credit risk without stage transfer	-14	-5	-12	-31
Changes due to repayments and disposals	1	1	3	6
Closing balance at 30 Jun 2020	-43	-38	-38	-119

SEKm	Stage 1	Stage 2	Stage 3	Total
Balance at 1 Jan 2019	-14	-27	-41	-82
Changes due to origination and acquisition	-21	-3	-1	-25
Changes due to transfers from stage 1 to stage 2	5	-62	-	-57
Changes due to transfers from stage 1 to stage 3	1	-	-48	-47
Changes due to transfers from stage 2 to stage 1	-5	34	-	29
Changes due to transfers from stage 2 to stage 3	0	9	-435	-426
Changes due to transfers from stage 3 to stage 1	0	-	1	1
Changes due to transfers from stage 3 to stage 2	0	-1	6	5
Changes due to credit risk without stage transfer	17	19	516	552
Changes due to repayments and disposals	1	2	2	5
Write-off through decrease in allowance account	-	-	-19	-19
Closing balance at 30 Jun 2019	-16	-29	-19	-64

Key ratios

	30 Jun 2020	30 Jun 2019	31 Dec 2019
Impairment rate, (stage 3), gross ¹ , basis points	8.9	10.4	10.2
Impairment rate, (stage 3), net ² , basis points	8.3	10.1	9.8
Total allowance rate ³ (stage 1, 2 and 3) ³ , basis points	2.0	1.1	1.1
Allowances in relation to impaired loans ⁴ (stage 3), %	7.2	3.2	3.9
Allowances in relation to loans stage 1 and 2 ⁵ , basis points	1.3	0.0	0.7

1) Impaired loans (stage 3) before allowances divided by total loans, measured at amortised cost, before allowances.

2) Impaired loans (stage 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 (stage 3) divided by impaired loans measured at amortised cost (stage 3), before allowances.

5) Allowances for performing loans (stage 2) divided by performing loans measured at amortised cost (stage 1 och 2), before allowances.

Forbearance

Forbearance is eased terms or restructuring by reason of the borrower experiencing or being about to experience financial difficulties. The intention of granting forbearance for a limited period of time is to ensure full repayment of the outstanding debt. Examples of eased terms are changes in amortisation profile, repayment schedule, customer margin and eased financial covenants. Forbearance is applied selectively and individually, in accordance with internal instructions and with subsequent impairment testing. Forborne loans can be servicing or non-servicing. Loan loss provisions are recognised if necessary. Customers granted forbearance are transferred to stage 2, unless they are already impaired (stage 3).

On 13 March 2020, Nordea announced that the bank would offer interest-only periods for retail and corporate customers in the Nordic countries in need of assistance caused by the covid-19 pandemic. The interest-only periods were generally granted to customers with short-term liquidity problems solely as a consequence of covid-19.

Nordea Hypotek does not currently recognise covid-19-related interest-only periods as forbearance, and thus does not automatically transfer these loans to stage 2, because the customers would not have requested interest-only arrangements had it not been for covid-19. As stated under "Forward-looking information", Nordea Hypotek has judged the risk transfers between stages in connection with government support measures ending, and has included these effects in the cyclical reserve insofar that they are not already covered by the IFRS 9 models.

The carrying amounts of loans for which Nordea Hypotek had granted interest-only periods due to covid-19 was, at the end of June 2020, SEK 64bn, which equals 11% of the loan portfolio.

Sensitivities

Provisions are sensitive to changes in ratings even if the thresholds are not reached. The table below shows how provisions would be affected if the credit quality of all lending in the bank were to deteriorate by one notch. Here, account is taken of the effect of both the higher risk for all exposure, and transfer from stage 1 to stage 2 of the receivables that have reached the threshold.

	30 Jun 2020		31 Dec 2019	
	Recognised provisions	Provisions if one notch downgrade	Recognised provisions	Provisions if one notch downgrade
SEKm				
Personal Banking	58.7	92.8	48.2	70.8
Business Banking	14.3	24.3	7.8	13.1
Wholesale Banking	0.5	0.7	0.2	0.3
Other	3.4	5.1	2.3	3.5
Total	76.9	123.0	58.5	87.7

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 base scenario is devised by Group Risk and Compliance (GRC) based on an Oxford Economics model. Their forecast is a combination of model calculations and expert opinions, and it is subject to careful scrutiny and quality assurance. The Oxford model has been devised to provide a good description of the historical correlations between economic variables and to enable use of the most important links between these variables. The forecast period in the model is 10 years and for periods beyond that a long-term average is used.

The positive and negative scenario is based on Oxford Economics' quarterly Global Risk Survey. In this survey, participants describe what they see as the greatest opportunities and risks in the global economy in the next two years. The responses provide the basis for a number of scenarios for the global economy, which simulates what happens if one of the most commonly predicted opportunities/risks transpires. Oxford Economics also states a probability figure for each scenario, based on the survey. Nordea Hypotek uses Oxford Economics' scenarios and probability figures to determine the positive and negative scenario. For Q2 2020, the following probability figures have been used: base scenario 60%, negative 20%, positive 20%. The same weights were applied in 2019.

The results of the model are judged and adjusted as needed by the Nordea Group's chief macro and finance analysts for each country, who make an assessment compared with prior, similar events to ensure consistency between countries and asset prices. The model results are verified by reviewing quantitative data before and after the reactions. In order to ensure accurate and consistent data delivery from the Nordea Group's economists, the data also undergoes a number of statistical tests.

Scenarios and provisions

30 Jun 2020

		2020	2021	2022	Un-weighted ECL SEKm	Probability weight	Model based provisions SEKm	Individual provisions SEKm	Total provisions SEKm
Favourable scenario	GDP growth, %	-4.0	4.5	2.4					
	Unemployment, %	7.9	8.5	7.7	62	20 %			
	Change in household consumption, %	-4.9	5.1	2.0					
	Change in house prices, %	-3.0	2.1	3.0					
Base scenario	GDP growth, %	-7.0	4.0	5.5					
	Unemployment, %	9.4	10.1	8.1	76	60 %	77	42 ¹	119
	Change in household consumption, %	-7.9	3.7	3.3					
	Change in house prices, %	-7.6	3.9	3.8					
Adverse scenario	GDP growth, %	-10.0	1.0	5.5					
	Unemployment, %	10.9	12.9	11.1	94	20 %			
	Change in household consumption, %	-10.8	1.7	3.5					
	Change in house prices, %	-8.6	-8.6	-4.0					

¹⁾Of which SEK 32m relates to management judgement and SEK 10m relates to corrections of the model based ECL.

Scenarios and provisions

31 Dec 2019

		2020	2021	2022	Un-weighted ECL SEKm	Probability weight	Model based provisions SEKm	Individual provisions SEKm	Total provisions SEKm
Favourable scenario	GDP growth, %	1.7	2.7	2.6					
	Unemployment, %	6.7	6.3	5.7	57	20 %			
	Change in household consumption, %	1.8	2.6	2.1					
	Change in house prices, %	1.1	2.6	3.3					
Base scenario	GDP growth, %	1.4	1.9	2.3					
	Unemployment, %	6.9	6.7	6.3	58	60 %	58	8	66
	Change in household consumption, %	1.4	2.0	2.2					
	Change in house prices, %	1.1	2.4	2.9					
Adverse scenario	GDP growth, %	1.1	1.3	1.7					
	Unemployment, %	6.9	7.0	7.1	60	20 %			
	Change in household consumption, %	1.0	1.6	2.9					
	Change in house prices, %	1.0	1.8	2.9					

Note 5. Classification of financial instruments

SEKm	Financial assets at fair value through profit or loss (FVPL)			Fair value through other comprehen- sive income (FVOCI)	Non-financial assets	Total
	Amortised cost (AC)	Mandatorily	Derivatives used for hedging			
Assets						
Loans to credit institutions	3,856	-	-	-	-	3,856
Loans to the public	599,631	-	-	-	-	599,631
Interest-bearing securities	-	10,644	-	10,338	-	20,982
Derivatives	-	3	5,672	-	-	5,675
Fair value changes of the hedged items in portfolio hedge of interest rate risk	522	-	-	-	-	522
Current tax assets	-	-	-	-	0	0
Other assets	-	-	-	-	0	0
Prepaid expenses and accrued income	575	-	-	-	0	575
Total 30 Jun 2020	604,584	10,647	5,672	10,338	0	631,241
Total 31 Dec 2019	586,244	10,742	4,540	10,388	98	612,012

	Financial liabilities at fair value through profit or loss (FVPL)				
SEKm	Amortised cost (AC)	Mandatorily	Derivatives used for hedging	Non-financial liabilities	Total
Liabilities					
Deposits by credit institutions	219,038	-	-	-	219,038
Debt securities in issue	375,881	-	-	-	375,881
Derivatives	-	59	710	-	769
Fair value changes of the hedged items in portfolio hedge of interest rate risk	5,117	-	-	-	5,117
Current tax liabilities	-	-	-	176	176
Other liabilities	1,305	-	-	0	1,305
Accrued expenses and prepaid income	78	-	-	19	97
Deferred tax liabilities	-	-	-	0	-
Provisions	-	-	-	9	9
Subordinated liabilities	1,650	-	-	-	1,650
Total 30 Jun 2020	603,069	59	710	204	604,042
Total 31 Dec 2019	585,978	30	485	42	586,535

Enforceable master netting agreements and similar arrangements

The fact that financial instruments are being accounted for on a gross basis on the balance sheet, would not imply that the financial instruments are not subject to master netting agreements or similar arrangements. Generally financial instruments (derivatives and repos), would be subject to master netting agreements, and as a consequence Nordea Hypotek would be allowed to benefit from netting both in the ordinary course of business and in the case of default towards its counter parties, in any calculations involving counterparty credit risk.

Note 6. Fair value of financial assets and liabilities

	30 Jun 2020		31 Dec 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
SEKm				
Financial assets				
Loans	604,009	649,709	584,780	603,045
Interest-bearing securities	20,982	20,982	21,104	21,104
Derivatives	5,674	5,674	4,566	4,566
Other assets	-	-	814	814
Prepaid expenses and accrued income	575	575	651	651
Total	631,240	676,940	611,915	630,180
Financial liabilities				
Deposits and debt instruments	596,936	598,801	581,053	583,645
Derivatives	769	769	515	515
Other liabilities	11	11	51	51
Accrued expenses and prepaid income	78	78	151	151
Total	597,794	599,659	581,770	584,362

Fair value of financial assets that has been valued using a valuation technique or valuation model – level 2 and 3 in the IFRS fair value hierarchy – amounted to SEK 26,652m (level 2) which refers to interest bearing-securities and derivatives and to SEK 5m which refers to derivatives (level 3) by the end of the second quarter 2020. Fair value of financial liabilities at level 2 and 3 amounted to SEK 769m and refers to derivatives (level 2). There were no financial liabilities at level 3 by the end of the second quarter 2020.

By the end of the fourth quarter 2019, the fair value of financial assets that has been valued using a valuation technique or valuation model – level 2 and 3 in the IFRS fair value hierarchy – amounted to SEK 25,670m (level 2). Financial liabilities amounted to SEK 515m (level 2). There were no financial assets or liabilities at level 3 by the end of the fourth quarter 2019.

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

Fair value measurements of assets and liabilities carried at fair value have been categorised under the three levels of the IFRS fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The categorisation of these instruments is based on the lowest level input that is significant to the fair value measurement in its entirety. Level 1 in the fair value hierarchy consists of assets and liabilities valued using unadjusted quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an on-going basis. Nordea Hypotek does not have any level 1 instruments. Level 2 in the fair value hierarchy consists of assets and liabilities that do not have directly quoted market prices available from active markets. The fair values are based on quoted prices for similar assets or liabilities in active markets or quoted prices for identical or similar assets or liabilities in markets that are not active. Alternatively, the fair values are estimated using valuation techniques or valuation models based on market prices or inputs prevailing at the balance sheet date and where any unobservable inputs have had an insignificant impact on the fair values. This is the case for shorter-term interest rate caps in liquid currencies. Level 3 in the fair value hierarchy consists of those types of assets and liabilities for which fair values cannot be obtained directly from quoted market prices

or indirectly using valuation techniques or models supported by observable market prices or rates. This is the case for longer-term interest rate caps in less liquid currencies.

All valuation models, both complex and simple models, make use of market prices and inputs. These market prices and inputs comprise interest rates, volatilities, correlations etc. Some of these prices and inputs are observable while others are not. For most non-exotic currencies the interest rates are all observable, and implied volatilities and the correlations of the interest rates and FX rates may be observable through option prices up to a certain maturity. Implied volatilities and correlations may also be observable for the most liquid equity instruments. For less liquid equity names the option market is fairly illiquid, and hence implied volatilities and correlations are unobservable. For each instrument the sensitivity towards unobservable parameters is measured. If the impact from unobservable parameters on the valuation is significant the instrument is categorised as Level 3 in the fair value hierarchy. For interest-bearing securities the categorisation into the three levels are based on the internal pricing methodology. These instruments can either be directly quoted in active markets (Level 1) or measured using a methodology giving a quote based on observable inputs (Level 2). Level 3 bonds are characterised by illiquidity. For OTC derivatives valuation models are used for establishing fair value. The models are usually in house developed, and based on assumptions about the behaviour of the underlying asset and statistical scenario analysis. Most OTC derivatives are categorised as Level 2 in the fair value

hierarchy implying that all significant model inputs are observable in active markets.

The valuation processes for fair value measurements Financial instruments

The valuation process in Nordea Hypotek consists of several steps. The first step is to determine the end of day (EOD) marking of mid-prices. It is the responsibility of the business areas to determine correct prices used for the valuation process. These prices are either internally marked prices set by a trading unit or externally sourced prices. The valuation prices and valuation approaches are then controlled and tested by a valuation control function within the 1st line of defence, which is independent from the risk taking units in the front office. The cornerstone in the control process is the independent price verification (IPV). The IPV test comprises verification of the correctness of valuations by comparing the prices to independently sourced data. The result of the IPV is analysed and any findings are escalated as appropriate. The verification of the correctness of prices and inputs is as minimum carried out on a monthly basis and is for many products carried out daily. Third-party information, such as broker quotes and pricing services, is used as benchmark data in the verification. The quality of the benchmark data is assessed on a regular basis. The valuation adjustment at portfolio level and the deferrals of day 1 P/L on Level 3 trades are calculated and reported on a monthly basis. The actual assessment of instruments in the fair value hierarchy is performed on a continuous basis. Specialised teams within the unit Balance Sheet Risk Control (BSRC) are responsible for overseeing and independently assessing the valuations performed by the 1st line of defence. These teams are responsible for 2nd line of defence oversight for valuations, with independent reporting responsibilities towards the CRO and the BAC.

Loans

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

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

Interest bearing-securities

The fair value is SEK 20,982m is categorised in Level 2. The measurement principles follow those for similar instruments that are held at fair value on the balance sheet.

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.

Note 7. Commitments

	30 Jun 2020	31 Dec 2019
SEK (000s) (nom. Amount)		
Credit commitments	67,997,173	52,062,075

Note 8. Capital adequacy

These figures are according to part 8 of CRR, in Sweden implemented in FFFS 2014:12. For more information on the leverage ratio disclosure requirement, please see the interim disclosure required by regulation (CRR article 433 and 437).

Summary of items included in own funds

SEKm	30 Jun 2020	31 Dec ² 2019	30 Jun 2019
Calculation of own funds			
Equity in the consolidated situation	25,458	25,478	24,465
Proposed/actual dividend	-	-	-
Common Equity Tier 1 capital before regulatory adjustments	25,458	25,478	24,465
Deferred tax assets	-	-	-
Intangible assets	-	-	-
IRB provisions shortfall (-)	-101	-102	-106
Deduction for investments in credit institutions (50%)	-	-	-
Pension assets in excess of related liabilities ^a	-1	-8	-12
Other items, net	-11	-28	-52
Total regulatory adjustments to Common Equity Tier 1 capital	-113	-138	-170
Common Equity Tier 1 capital (net after deduction)	25,345	25,340	24,295
Additional Tier 1 capital before regulatory adjustments	-	-	-
Total regulatory adjustments to Additional Tier 1 capital	-	-	-
Additional Tier 1 capital	-	-	-
Tier 1 capital (net after deduction)	25,345	25,340	24,295
Tier 2 capital before regulatory adjustments	1,650	1,650	800
IRB provisions excess (+)	40	22	20
Deduction for investments in credit institutions (50%)	-	-	-
Deductions for investments in insurance companies	-	-	-
Pension assets in excess of related liabilities ¹	-	-	-
Other items, net	-	-	-
Total regulatory adjustments to Tier 2 capital	40	22	20
Tier 2 capital	1,690	1,672	820
Own funds (net after deduction)	27,035	27,012	25,115

1) Based on conditional FSA approval.

2) Including profit of the period.

Own Funds, including profit

SEKm	30 Jun 2020	31 Dec 2019	30 Jun 2019
Common Equity Tier 1 capital, including profit	25,781	25,340	24,815
Total Own Funds, including profit	27,471	27,012	25,635

Note 8. Continued

Minimum capital requirement and REA

SEKm	30 Jun 2020		31 Dec 2019		30 Jun 2019	
	Minimum Capital requirement	REA	Minimum Capital requirement	REA	Minimum Capital requirement	REA
Credit risk	3,171	39,635	3,035	37,939	3,497	43,707
-of which counterparty credit risk	124	1,551	106	1,328	142	1,773
IRB	2,985	37,309	2,826	35,328	3,179	39,740
- sovereign	-	-	-	-	-	-
- corporate	1,360	17,002	1,347	16,836	1,701	21,268
- <i>advanced</i>	1,360	17,002	1,347	16,836	1,701	21,268
- <i>foundation</i>	-	-	-	-	-	-
- institutions	57	711	55	695	56	701
- retail	1,546	19,320	1,395	17,440	1,388	17,352
- <i>secured by immovable property collateral</i>	1,481	18,513	1,340	16,748	1,331	16,643
- <i>other retail</i>	65	807	55	692	57	709
- other	22	276	29	357	34	419
Standardised	186	2,326	209	2,611	318	3,967
- central governments or central banks	-	-	-	-	-	-
- regional governments or local authorities	-	-	-	-	-	-
- public sector entities	-	-	-	-	-	-
- multilateral development banks	-	-	-	-	-	-
- international organisations	-	-	-	-	-	-
- institutions	186	2,326	209	2,611	318	3,967
- corporate	-	-	-	-	-	-
- retail	-	-	-	-	-	-
- secured by mortgages on immovable properties	-	-	-	-	-	-
- in default	-	-	-	-	-	-
- associated with particularly high risk	-	-	-	-	-	-
- covered bonds	-	-	-	-	-	-
- institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
- collective investments undertakings (CIU)	-	-	-	-	-	-
- equity	-	-	-	-	-	-
- other items	-	-	-	-	-	-
Credit Value Adjustment Risk	-	-	-	-	-	-
Market risk	-	-	-	-	-	-
- trading book, Internal Approach	-	-	-	-	-	-
- trading book, Standardised Approach	-	-	-	-	-	-
- banking book, Standardised Approach	-	-	-	-	-	-
Settlement risk	-	-	-	-	-	-
Operational risk	916	11,450	956	11,949	956	11,949
Standardised	916	11,450	956	11,949	956	11,949
Additional risk exposure amount related to Finnish RW floor due to Article 458 CRR	-	-	-	-	-	-
Additional risk exposure amount related to Swedish RW floor due to Article 458 CRR	9,273	115,911	8,825	110,318	8,636	107,955
Additional risk exposure amount due to Article 3 CRR	-	-	-	-	-	-
Total	13,360	166,996	12,816	160,206	13,089	163,611

Note 8. Continued

Minimum Capital Requirement & Capital Buffers

Percentage	Minimum Capital requirement	Pillar II requirements ¹	Capital buffers			
			CCoB	CCyB	Capital Buffers total ²	Total requirement
Common Equity Tier 1 capital	4.5	0	2.5	0,0	2.5	7.0
Tier 1 capital	6.0	0	2.5	0,0	2.5	8.5
Own funds	8.0	0	2.5	0,0	2.5	10.5
SEKm						
Common Equity Tier 1 capital	7,515	0	4,175	2	4,177	11,691
Tier 1 capital	10,020	0	4,175	2	4,177	14,196
Own funds	13,360	0	4,175	2	4,177	17,536

1) In line with Finansinspektionens position communicated in FI ref. 14-6258 the authority has not made a formal decision on a specific own funds requirement for Nordea Hypotek AB. In the 2019 SREP, the supervisor has informed Nordea Hypotek AB of its supervisory capital assessment where pillar 2 is approximately 1.75 % in own funds requirement.

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

Common Equity Tier 1 available to meet Capital Buffers

Percentage points of REA	30 Jun 2020	31 Dec ¹ 2019	30 Jun 2019
Common Equity Tier 1 capital	8.2	8.9	7.4

1) Including profit of the period.

Capital ratios Percentage	30 Jun 2020	31 Dec 2019	30 Jun 2019
Common Equity Tier 1 capital ratio, including profit	15.4	15.8	15.2
Tier 1 capital ratio, including profit	15.4	15.8	15.2
Total capital ratio, including profit	16.5	16.9	15.7
Common Equity Tier 1 capital ratio, excluding profit	15.2	13.2	14.8
Tier 1 capital ratio, excluding profit	15.2	13.2	14.8
Total capital ratio, excluding profit	16.2	14.3	15.4

Leverage Ratio	30 Jun 2020	31 Dec ¹ 2019	30 Jun 2019
Tier 1 capital, transitional definition, SEKm	25,345	25,340	24,295
Leverage ratio exposure, SEKm	646,796	624,208	631,534
Leverage ratio, percentage	3.9	4.1	3.8

1) Including profit of the period.

Note 8. Continued

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

	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, foundation IRB:	-	-	-	-	-
of which	-	-	-	-	-
- rating grades 6	-	-	-	-	-
- rating grades 5	-	-	-	-	-
- rating grades 4	-	-	-	-	-
- rating grades 3	-	-	-	-	-
- rating grades 2	-	-	-	-	-
- rating grades 1	-	-	-	-	-
- unrated	-	-	-	-	-
- defaulted	-	-	-	-	-
Corporate, advanced IRB:	103,575	-	99,936	-	17.0
of which	-	-	-	-	-
- rating grades 6	62,408	-	61,613	-	6.6
- rating grades 5	14,114	-	12,481	-	21.9
- rating grades 4	24,570	-	23,563	-	38.7
- rating grades 3	2,136	-	1,944	-	39.4
- rating grades 2	114	-	112	-	54.3
- rating grades 1	26	-	24	-	55.2
- unrated	199	-	191	-	102.1
- defaulted	8	-	8	-	276.8
Institutions, foundation IRB:	9,869	-	9,869	-	7.2
of which	-	-	-	-	-
- rating grades 6	9,007	-	9,007	-	6.8
- rating grades 5	859	-	859	-	10.2
- rating grades 4	-	-	-	-	-
- rating grades 3	-	-	-	-	-
- rating grades 2	-	-	-	-	-
- rating grades 1	-	-	-	-	-
- unrated	3	-	3	-	263.6
- defaulted	-	-	-	-	-
Retail, of which secured by real estate:	478,246	67,997	546,243	67,997	3.4
of which	-	-	-	-	-
- scoring grades A	419,315	59,599	478,913	59,599	2.2
- scoring grades B	34,701	4,972	39,673	4,972	5.6
- scoring grades C	16,578	2,423	19,002	-	12.3
- scoring grades D	4,500	652	5,152	-	21.5
- scoring grades E	1,213	195	1,408	-	37.4
- scoring grades F	1,089	156	1,245	-	60.3
- not scored	180	-	180	-	59.8
- defaulted	670	-	670	-	124.0
Retail, of which other retail:	11,386	-	11,376	-	7.1
of which	-	-	-	-	-
- scoring grades A	9,073	-	9,072	-	4.3
- scoring grades B	1,034	-	1,033	-	9.8
- scoring grades C	841	-	834	-	19.0
- scoring grades D	188	-	188	-	24.3
- scoring grades E	188	-	188	-	25.7
- scoring grades F	33	-	32	-	42.7
- not scored	11	-	11	-	45.8
- defaulted	18	-	18	-	237.8
Other non credit-obligation assets:	275	-	275	-	100.0

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 9. Related party transactions

Balance sheet

SEK (000s)	Nordea Group companies	
	30 June 2020	31 Dec 2019
Assets		
Loans to credit institutions	3,856,201	5,578,131
Loans to the public	-	-
Derivatives	5,729,635	4,598,794
Other assets	0	813,788
Prepaid expenses and accrued income	19,892	21,189
Total assets	9,605,728	11,011,902
Liabilities		
Deposits by credit institutions	219,038,495	235,964,135
Debt securities in issue	31,394,594	5,454,130
Deivatives	771,484	507,046
Other liabilities	1,303,956	4,775,261
Prepaid income and accrued expenses	68,659	-
Subordinated liabilities	1,650,067	1,650,137
Total liabilities	254,227,255	248,350,709

Income statement

SEK (000s)	Nordea Group companies	
	Jan-Jun 2020	Jan-Jun 2019
Interest income	159,423	35,429
Interest expense	-23,275	790,692
Net fee and commission income	-26,371	-56
Net result from items at fair value	1,022,418	1,906,865
General administrative expenses:		
- Other expenses	-605,854	-421,333
Total	526,341	2,311,597

Note 10. Risks and uncertainties

Credit risk is the most significant risk exposure for the Company. The Company is also exposed to market risk, liquidity risk and operational risk, including legal risks. These risks are inherent in the Company's business operations and are acceptable to a certain level. Risk limits have been set by the Board of Directors in the risk appetite, and cover all material risks to which the Company is exposed. The risk appetite is updated no later than 20 February 2020.

It is still too early to draw conclusions about the economic consequences of covid-19 in the longer term. However, Nordea Hypotek entered the covid-19 crisis with a strong financial position, which the Company has managed to maintain. The underlying operations have remained strong and the Company has allowed for increased future credit losses in its provisioning. Realised credit losses have not changed compared with pre-crisis levels.

In summary, the exposures and risks above are not expected to have any material adverse effect on the Company or its financial position in the next six months.

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

Auditor's report

Nordea Hypotek AB (publ), corporate identity number 556091-5448

Introduction

We have reviewed the interim financial information of Nordea Hypotek AB (publ) as of 30 June 2020 and the six-month period then ended. The board of directors and the CEO are responsible for the preparation and presentation of the interim financial information in accordance with IAS 34 and the Swedish Annual Accounts Act for Credit Institutions and Securities Companies. Our responsibility is to express a conclusion on this interim report based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements ISRE 2410, Review of Interim Report Performed by the Independent Auditor of the Entity. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, ISA, and other generally accepted auditing standards in Sweden. The procedures performed in a review do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material respects, in accordance with IAS 34 and the Swedish Annual Accounts Act for Credit Institutions and Securities Companies.

Stockholm, 21 August 2020

Öhrlings PricewaterhouseCoopers AB

Catarina Ericsson
Authorized Public Accountant
Auditor in charge

Frida Main
Authorized Public Accountant

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