

Nordea

Nordea Hypotek AB (publ)



Year-end Report
2021

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This Year-end Report has not been subject to review by the Company's auditors.

Year-end Report 2021

The Board of Directors and the President of Nordea Hypotek AB (publ) (corp. id no. 556091–5448), hereby present the Year-end Report for 2021. The company is a wholly owned subsidiary of Nordea Bank Abp (corp. id no. 2858394-9).



Key ratios

	31 Dec 2021	30 Jun 2021	31 Dec 2020	30 Jun 2020	31 Dec 2019
Return on average shareholders equity, % ³	8.4	7.9	15.6	13.2	15.9
Cost/income ratio, % ³	59.0	61.3	22.7	27.5	22.1
Loan loss ratio, basis points ¹	0.2	0.3	1.2	1.9	0.3
- of which stage 1	-0.2	-0.5	0.5	0.8	0.7
- of which stage 2	0.1	0.3	0.4	0.5	-0.3
- of which stage 3	0.3	0.5	0.3	0.6	0.9
Impairment rate (stage 3), net, bps ¹	5.9	7.0	8.0	8.3	9.8
Total allowance ratio (stage 1, 2 and 3), bps ¹	2.0	2.1	2.1	2.0	1.1
Tier 1 capital ratio, % ²	15.7	15.6	14.9	15.2	15.8

1) Based on IFRS 9.

2) Including profit for the year for the full years 2021, 2020 and 2019. For the half-year periods, the calculation has been made excluding the profit for the period.

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 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.
Cost/income ratio	Total operating expenses divided by total operating income.
Loan loss ratio, basis points	Net loan losses (annualised) divided by quarterly closing balance of loans to the public (lending).
Impairment rate (stage 3), net, bps	Impaired loans (Stage 3) after allowances divided by total loans measured at amortised cost before allowances.
Total allowance ratio (stage 1, 2 and 3), bps	Total allowances divided by total loans measured at amortised cost before allowances.
Tier 1 capital ratio	Tier 1 capital as a percentage of risk-weighted amounts.

Our operations 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, month by month.

Profit performance in the second half of 2021 compared with the first half of 2021

Operating profit for the second half of 2021 amounted to SEK 1,626m (1,400), which is an increase of 16.1% from the first half of 2021. When comparing profit for the second half of 2021 compared with the first half of 2021, account should mainly be taken of the following major items affecting profit:

- Net interest income amounted to SEK 3,760m (3,754); a slight increase of 0.1%.
- The net result from items at fair value improved in the second half of 2021 by SEK 142m from SEK -93m to SEK 49m and is mainly attributable to reduced repurchasing of own bonds issued.
- Net commission income decreased by SEK 31m in the second half of 2021, amounting to SEK -47m (-16) at the end of the period, mainly due to increased commission expense related to funding.
- Operating expenses decreased in the second half of 2021 by SEK 101m, amounting at the end of the period to SEK -2,135m (-2,236), which is mainly attributable to the fact that the cost of the resolution fee was taken in the first half of 2021, when Nordea Hypotek received the invoice from the National Debt Office.
- Return on equity, after standard tax, was 9.0% (7.9) at the end of the period.

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 percent from the previous year. When comparing earnings with the previous year, account should mainly be taken of the following major items affecting comparability:

- Net interest income amounted to SEK 7,514m (7,092); an increase of 6.0%. The main reason for the increase in net interest income is 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.

Lending performance in the second half of 2021 compared with the first of 2021

Compared with the first of 2021, lending to the public increased in the second half by 3.7%, amounting at the end of the year to SEK 664,615m (640,710).

Lending to companies, organisations and municipalities

Compared with the first half of 2021, lending to legal entities increased by SEK 1,801m (1.5%), amounting at the end of the year to SEK 121,271m (119,471).

Household lending

Compared with the first half of the year, lending to households increased by SEK 22,104m (4.2%), amounting at the end of the year to SEK 543,344m (521,240).

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 interest-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 possibility of interest-only arrangements 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, in spite of the recent tightened restrictions, 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.

The total loan provision decreased by SEK 1m 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.

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 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 8 "Capital adequacy".

Legal proceedings

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

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 be potential negative effects on earnings due to lower net interest income, higher market volatility and reduced business activity, which could have an adverse impact on transaction volumes and customer activity.

Assurance of the Board of Directors

The Year-end 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, 28 February 2022

Per Långsved
Chairman

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

Income statement

SEK (000s)	Note	Jul–Dec 2021	Jan–Jun 2021	Jul–Dec 2020	Full year 2021	Full year 2020
Operating income						
Interest income calculated using the effective interest method		4,569,278	4,528,584	4,863,286	9,097,862	9,651,896
Other interest income		-16,205	-1,427	3,641	-17,632	11,788
Negative yield on financial assets		-15,089	-15,062	-14,469	-30,151	-29,721
Interest expense		-928,618	-871,727	-1,025,536	-1,800,345	-2,556,566
Negative yield on financial liabilities		150,330	114,109	9,082	264,439	14,630
Net interest income		3,759,696	3,754,477	3,836,004	7,514,173	7,092,027
Fee and commission income		19,596	18,420	18,679	38,016	39,650
Fee and commission expense		-66,406	-34,093	-57,489	-100,499	-95,701
Net fee and commission income		-46,810	-15,673	-38,810	-62,483	-56,051
Net result from items at fair value		48,620	-93,359	19,958	-44,739	-74,283
Total operating income		3,761,506	3,645,445	3,817,152	7,406,951	6,961,693
Operating expenses						
<i>General administrative expenses:</i>						
Staff costs		-17,857	-17,959	-16,512	-35,816	-31,144
Other expenses		-2,117,033	-2,217,697	-699,321	-4,334,730	-1,548,985
Total operating expenses		-2,134,890	-2,235,656	-715,833	-4,370,546	-1,580,129
Profit before loan losses		1,626,616	1,409,789	3,101,319	3,036,405	5,381,564
Net loan losses	3	-571	-9,754	-18,334	-10,325	-76,772
Operating profit		1,626,045	1,400,035	3,082,985	3,026,080	5,304,792
Income tax expense		-338,725	-291,467	-659,301	-630,192	-1,140,476
Net profit for the period		1,287,320	1,108,568	2,423,684	2,395,888	4,164,316

Statement of comprehensive income

SEK (000s)	Jul–Dec 2021	Jan–Jun 2021	Jul–Dec 2020	Full year 2021	Full year 2020
Net profit for the period	1,287,320	1,108,568	2,423,684	2,395,888	4,164,316
Items that may be reclassified subsequently to the income statement					
<i>Cash flow hedges:</i>					
Valuation gains/losses, net of tax	355,368	152,670	329,279	508,038	342,246
Transferred to the income statement, net of tax	-411,611	-293,956	-289,974	-705,567	-323,300
<i>Available for sale investments¹</i>					
Valuation gains/losses, net of tax	5,288	2,912	3,734	8,200	-651
Transferred to the income statement, net of tax	–	–	-5,474	–	–
Other comprehensive income, net of tax	-50,955	-138,374	37,565	-189,329	18,295
Total comprehensive income	1,236,365	970,194	2,461,249	2,206,559	4,182,611

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

Balance sheet

SEK (000s)	Note	31 Dec 2021	30 Jun 2021	31 Dec 2020
Assets				
Loans to credit institutions	4	6,553,597	7,307,166	4,553,762
Loans to the public	4	664,614,829	640,710,207	619,166,314
Interest-bearing securities		21,052,845	21,057,086	21,057,680
Derivatives		4,125,864	4,088,359	4,566,879
Fair value changes of hedged items in hedges of interest rate risk		-1,156,764	-160,966	364,484
Deferred tax assets		41,929	27,337	–
Current tax assets		380,191	297,085	382,250
Other assets		739,405	517,629	453,585
Prepaid expenses and accrued income		106,182	107,732	227,095
Total assets		696,458,078	673,951,635	650,772,049
Liabilities				
Deposits by credit institutions		274,305,909	274,213,316	208,194,432
Debt securities in issue		385,527,612	363,476,875	403,635,619
Derivatives		1,481,428	839,291	877,488
Fair value changes of hedged items in hedges of interest rate risk		606,779	2,512,746	4,077,648
Other liabilities		4,006,658	368,019	6,647,079
Accrued expenses and prepaid income		618,485	1,438,766	195,565
Deferred tax liabilities		–	–	9,779
Provisions		11,368	10,552	12,859
Subordinated liabilities		1,650,120	1,650,063	1,650,119
Total liabilities		668,208,359	644,509,628	625,300,588
Equity				
Share capital		110,000	110,000	110,000
Fair value reserves		-149,507	-98,553	39,821
Retained earnings		25,893,338	28,321,992	21,157,324
Net profit for the year		2,395,888	1,108,568	4,164,316
Total equity		28,249,719	29,442,007	25,471,461
Total liabilities and equity		696,458,078	673,951,635	650,772,049

Notes

[Note 1](#) Accounting policies

[Note 2](#) Segment reporting

[Note 3](#) Net loan losses

[Note 4](#) Loans and impairment

[Note 5](#) Classification of financial instruments

[Note 6](#) Assets and liabilities at fair value

[Note 7](#) Commitments

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Statement of changes in equity

SEK (000s)	Restricted equity		Unrestricted equity			Total equity
	Share capital ¹⁾	Cash flow hedges	Fair value through other comprehensive income	Retained earnings		
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						
<i>Fair value through other comprehensive income:</i>						
Valuation gains/losses, net of tax	–	–	8,200	–	8,200	
<i>Cash flow hedges:</i>						
Valuation gains/losses, net of tax	–	508,038	–	–	508,038	
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	–	-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 paid	–	–	–	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.

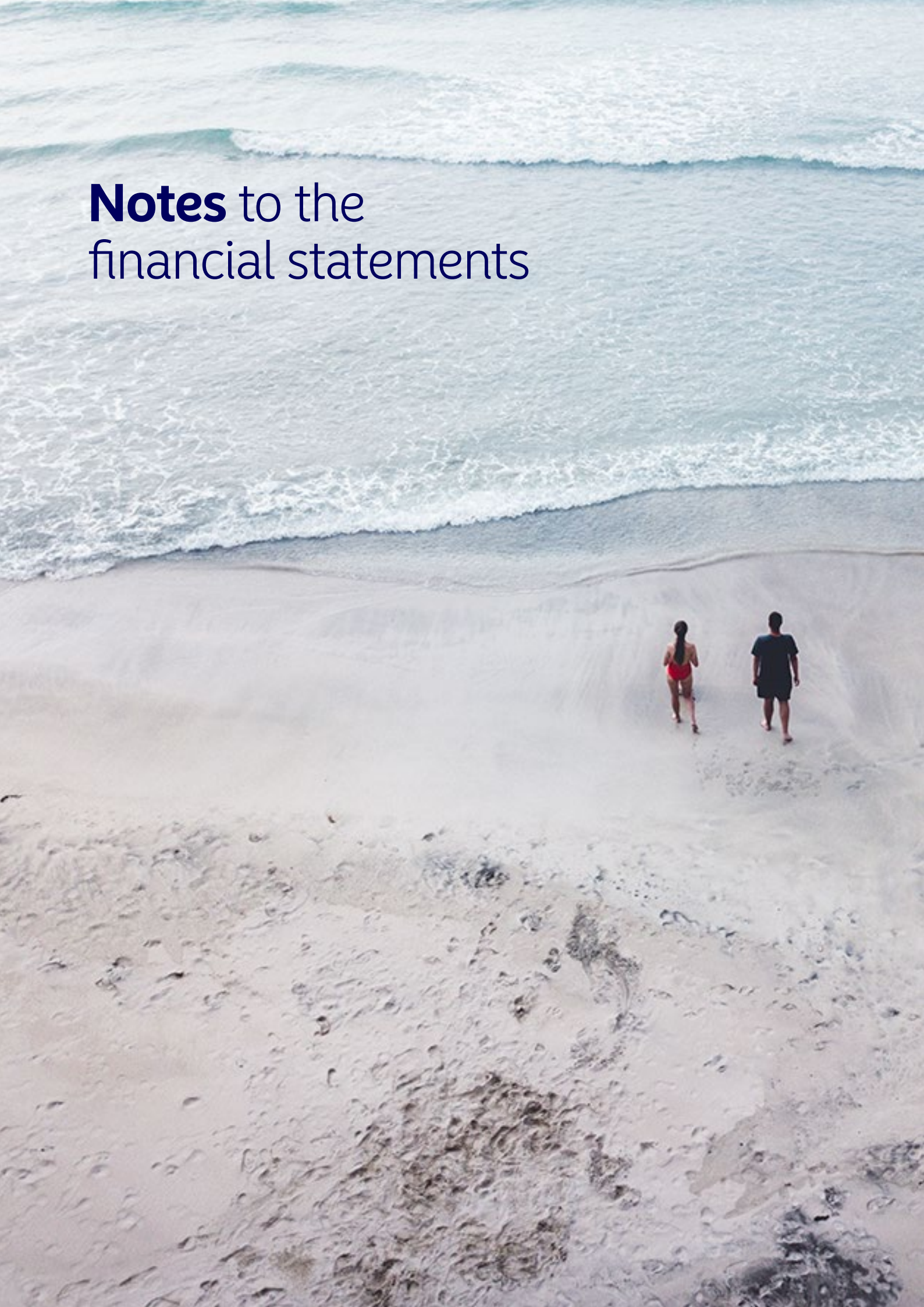
SEK (000s)	Restricted equity		Unrestricted equity			Total equity
	Share capital ¹⁾	Cash flow hedges	Fair value through other comprehensive income	Retained earnings		
Balance at 1 Jan 2020	110,000	16,972	4,555	25,346,052	25,477,579	
Net profit for the year	–	–	–	4,164,316	4,164,316	
Items that may be reclassified subsequently to the income statement						
<i>Fair value through other comprehensive income:</i>						
Valuation gains/losses, net of tax	–	–	-651	–	-651	
<i>Cash flow hedges:</i>						
Valuation gains/losses, net of tax	–	342,246	–	–	342,246	
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 paid	–	–	–	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)	Full year 2021	Full year 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
Change 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	-	-
Other changes in equity	-	-
Cash flow from financing activities	3,000,000	-
Cash flow for the year	1,999,835	-1,045,558
Cash and cash equivalents at beginning of period	4,553,762	5,599,320
Cash and cash equivalents at end of period	6,553,597	4,553,762
Change	1,999,835	-1,045,558

Notes to the financial statements



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Note 1. Accounting policies

The Year-end 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 or in other parts of the Year-end Report.

In all material respects, the accounting policies, basis for calculations and presentation are unchanged from the 2020 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 2020.

Changed accounting policies and presentation

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

Restatement of the balance sheet at 30 June 2021

Incorrect treatment of a paid premium on a hedging instrument led to an overestimation in the rows "Prepaid expenses and accrued income" on the assets side and "Fair value changes of the hedged items in portfolio hedge of interest rate risk" on the liabilities side, both in the amount of SEK 639m, in the report for the first six months of 2021. The comparative figures at 30 June 2021 presented in this report have therefore been restated. The restatement does not have any effect on the income statement or equity.

SEK (000s)	2021 30 Jun		
	Before correction	Change	After correction
Prepaid expenses and accrued income	746,452	-638,720	107,732
Total assets	674,590,355	-638,720	673,951,635
Fair value changes of hedged items in hedges of interest rate risk	3,151,466	-638,720	2,512,746
Total liabilities	645,148,348	-638,720	644,509,628

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.

SEK (000s)	Full year 2021		
	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
Impact on net profit for the year	-	-	-

SEK (000s)	Jul-Dec 2021		
	Old policy	Change	New policy
Other interest income	-4,056	-12,149	-16,205
Interest expense	-940,767	12,149	-928,618
Net interest income	3,759,696	-	3,759,696
Impact on net profit for the year	-	-	-

SEK (000s)	Jan-Jun 2021		
	Old policy	Change	New policy
Other interest income	11,319	-12,746	-1,427
Interest expense	-884,473	12,746	-871,727
Net interest income	3,754,477	-	3,754,477
Impact on net profit for the year	-	-	-

SEK (000s)	Full year 2020		
	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
Impact on net profit for the year	-	-	-

SEK (000s)	Jul-Dec 2020		
	Old policy	Change	New policy
Other interest income	12,287	-8,646	3,641
Interest expense	-1,034,182	8,646	-1,025,536
Net interest income	3,836,004	-	3,836,004
Impact on net profit for the year	-	-	-

Note 1. Accounting policies, cont.

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.

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 changes in IFRS

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

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

Note 2. Segment reporting

Reportable segment

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.

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

Operating segments

Income statement, SEKm	Personal Banking		Business Banking		Group Treasury		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	3,402¹	5,394¹	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

SEKm	2021		2020	
	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

Note 3. Net loan losses

SEK (000s)	Jul–Dec 2021	Jan–Jun 2021	Jul–Dec 2020	Full year 2021	Full year 2020
Net loan losses, stage 1	-470	15,907	-5,681	15,437	-30,474
Net loan losses, stage 2	1,935	-10,854	-11,751	-8,919	-27,031
Net loan losses, non-defaulted	1,465	5,053	-17,432	6,518	-57,505
Stage 3, defaulted					
Net loan losses, individually assessed, collectively calculated	-751	-4,871	2,166	-5,622	-13,332
Realised loan losses	-3,401	-10,973	-3,832	-14,374	-7,074
Decrease of provisions to cover realised loan losses	–	–	–	–	–
Recoveries on previously realised loan losses	2,116	1,037	764	3,153	1,139
Reversals of provisions	–	–	–	–	–
Net loan losses, defaulted	-2,036	-14,807	-902	-16,843	-19,267
Net loan losses	-571	-9,754	-18,334	-10,325	-76,772

Key ratios

	31 Dec 2021	30 Jun 2021	31 Dec 2020	30 Jun 2020
Loan loss ratio, basis points ¹	0.2	0.3	1.2	1.9
- of which stage 1	-0.2	-0.5	0.5	0.8
- of which stage 2	0.1	0.3	0.4	0.5
- of which stage 3	0.3	0.5	0.3	0.6

1) Based on IFRS 9.

Note 4. Loans and impairment

SEKm	31 Dec 2021	30 Jun 2021	31 Dec 2020
Loans measured to amortised cost, not impaired (stage 1 and 2)	670,862	647,653	623,313
Impaired loans (stage 3)	438	497	538
- of which servicing	33	81	47
- of which non-servicing	405	416	491
Loans before allowances	671,300	648,150	623,851
- of which credit institutions	6,554	7,307	4,554
Allowances for individually assessed loans (stage 3)	-42	-41	-36
- of which servicing	-3	-5	-2
- of which non-servicing	-39	-36	-34
Allowances for collectively assessed loans (stage 1 and 2)	-90	-92	-95
Allowances	-132	-133	-131
- of which credit institutions	–	–	–
Loans carrying amount	671,168	648,017	623,720

Carrying amount of loans measured at amortised cost, before allowances

SEKm	31 Dec 2021			30 Jun 2021			31 Dec 2020		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Loans to the public	660,864	9,999	438	638,678	8,975	497	616,312	7,001	538
Interest-bearing securities	9,972	–	–	9,761	–	–	11,083	–	–
Total	670,836	9,999	438	648,439	8,975	497	627,395	7,001	538

Allowances and provisions

SEKm	31 Dec 2021			30 Jun 2021			31 Dec 2020		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Loans to the public	-32	-58	-42	-32	-60	-41	-45	-49	-36
Interest-bearing securities	0	–	0	0	0	0	-1	–	0
Provisions for off-balance sheet items	-11	0	0	-11	0	0	13	0	0
Total	-43	-58	-42	-43	-60	-41	-33	-49	-36

Note 4. Loans and impairment, cont.

Movement of allowance accounts for loans measured at amortised cost

SEKm	Stage 1	Stage 2	Stage 3	Total
Balance at 1 Jan 2021	-45	-49	-37	-131
Changes due to origination and acquisition	-17	-9	-1	-27
Changes due to transfers from stage 1 to stage 2	2	-33	-	-31
Changes due to transfers from stage 1 to stage 3	0	-	-14	-14
Changes due to transfers from stage 2 to stage 1	-1	21	-	20
Changes due to transfers from stage 2 to stage 3	-	1	-6	-5
Changes due to transfers from stage 3 to stage 1	0	-	1	1
Changes due to transfers from stage 3 to stage 2	-	-1	6	5
Changes due to credit risk without stage transfer	23	4	-6	21
Changes due to repayments and disposals	7	8	14	29
Closing balance at 31 Dec 2021	-31	-58	-43	-132

SEKm	Stage 1	Stage 2	Stage 3	Total
Balance at 1 Jan 2021	-45	-49	-37	-131
Changes due to origination and acquisition	-11	-1	0	-12
Changes due to transfers from stage 1 to stage 2	2	-33	0	-31
Changes due to transfers from stage 1 to stage 3	0	0	-8	-8
Changes due to transfers from stage 2 to stage 1	-1	16	0	15
Changes due to transfers from stage 2 to stage 3	0	1	-5	-4
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	20	2	-5	17
Changes due to repayments and disposals	3	5	9	17
Closing balance at 30 Jun 2021	-32	-60	-41	-133

SEKm	Stage 1	Stage 2	Stage 3	Total
Balance at 1 Jan 2020	-20	-22	-23	-65
Changes due to origination and acquisition	-17	-6	-1	-24
Changes due to transfers from stage 1 to stage 2	0	-28	-	-28
Changes due to transfers from stage 1 to stage 3	0	-	-12	-12
Changes due to transfers from stage 2 to stage 1	-1	11	-	10
Changes due to transfers from stage 2 to stage 3	-	1	-5	-4
Changes due to transfers from stage 3 to stage 1	0	-	3	3
Changes due to transfers from stage 3 to stage 2	-	-1	3	2
Changes due to credit risk without stage transfer	-10	-7	-7	-24
Changes due to repayments and disposals	3	3	5	11
Closing balance at 31 Dec 2020	-45	-49	-37	-131

Key ratios

	31 Dec 2021	30 Jun 2021	31 Dec 2020
Impairment rate, (stage 3) ¹ , gross, basis points	6.5	7.7	8.6
Impairment rate, (stage 3) ² , net, basis points	5.9	7.0	8.0
Total allowance rate (stage 1, 2 and 3) ³ , basis points	2.0	2.1	2.1
Allowances in relation to impaired loans (stage 3) ⁴ , %	9.6	8.3	6.8
Allowances in relation to loans stage 1 and 2 ⁵ , basis points	1.3	1.4	1.5

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 1 and 2) divided by performing loans measured at amortised cost (stage 1 and 2), before allowances.

Note 4. Loans and impairment, 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 instalment-free periods were 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. 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 month	35 basic points	55 basic points
Absolute threshold, remaining maturity	250 basic points	350 basic points
Notch	1 less	1 more
Other customers portfolios		
Relative threshold	100 %	200 %
Absolute threshold, 12 month	15 basic points	25 basic points
Absolute threshold, remaining maturity	350 basic points	450 basic 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 even 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.

Sensitivities

SEKm	31 Dec 2021	
	Recognised provisions	Provisions if one notch downgrade
Business Banking	88.3	136.3
Personal Banking	12.6	22.8
Large Corporates & Institutions	0.1	0.2
Other	8.1	12.6
Total	109.1	171.9

SEKm	31 Dec 2020	
	Recognised provisions	Provisions if one notch downgrade
Business Banking	12.8	21.6
Personal Banking	61.4	88.6
Large Corporates & Institutions	0.7	1.3
Övrigt	5.3	7.5
Total	80.2	119.0

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 September 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. 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 4. Loans and impairment, 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

		2022	2023	2024	Un-weighted ECL SEKm	Probability weight	Model based provisions SEKm	Individual provisions SEKm	Total provisions SEKm
31 Dec 2021									
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	103	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	108	60 %	109	34	143
	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	120	20 %			
	Change in house prices, %	-4.7	-3.7	1.2					
31 Dec 2020									
Favourable scenario	GDP growth, %	4.1	2.1	2.3					
	Unemployment, %	8.3	7.7	6.8	66	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	74	50 %	80	64	144
	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	89	45 %			
	Change in household consumption, %	-3.2	2.9	2.3					
	Change in house prices, %	-13,5	-11.1	3.8					

Note 5. Classification of financial instruments

SEKm	Amortised cost (AC)	Financial assets at fair value through profit or loss (FVPL)		Non-financial assets	Total
		Mandatorily	Fair value through other comprehensive income (FVOCI)		
Assets					
Loans to credit institutions	6,554	–	–	–	6,554
Loans to the public	664,615	–	–	–	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 31 Dec 2021	670,857	15,208	9,971	422	696,458
Total 31 Dec 2020	624,745	14,542	11,083	402	650,772

SEKm	Amortised cost (AC)	Financial assets at fair value through profit or loss (FVPL)		Non-financial assets	Total
		Mandatorily			
Liabilities					
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 31 Dec 2021	666,352	1,481	–	375	668,208
Total 31 Dec 2020	624,373	877	–	51	625,301

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. Assets and liabilities at fair value

Fair value of financial assets and liabilities

SEKm	31 Dec 2021		31 Dec 2020	
	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

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 sheet¹				
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 sheet¹				
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 sheet¹				
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 sheet¹				
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 454 mkr. This bond is now regarded as actively traded.

Determination of fair value, the valuation process for fair value measurement and the definition of each item measured at fair value are described in the Annual Report 2020, Note 25, "Assets and liabilities at fair value".

Note 7. Commitments

SEK (000s) (nom. Amount)	31 Dec 2021	30 Jun 2021	31 Dec 2020
Credit commitments ¹	68,197,317	91,300,364	73,677,181
Other commitments ²	4,043,821	–	–
Total	72,241,138	91,300,364	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 8. Capital adequacy

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 be 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.

Note 8. 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 8. Capital adequacy, cont.

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
Group contribution, after tax	-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

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

Note 8. Capital adequacy, cont.

Minimum capital requirement and REA

SEKm	31 Dec 2021		31 Dec 2020	
	Minimum Capital requirement	REA	Minimum Capital requirement	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

Note 8. Capital adequacy, cont.

Minimum Capital Requirement & Capital Buffers

Percentage	Minimum Capital requirement	Capital buffers			Capital Buffers total ²	Total requirement
		Pillar II requirements ¹	CCoB	CCyB		
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 8. 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, foundation IRB:	–	–	–	–	–
- rating grades 6	–	–	–	–	–
- rating grades 5	–	–	–	–	–
- rating grades 4	–	–	–	–	–
- rating grades 3	–	–	–	–	–
- rating grades 2	–	–	–	–	–
- rating grades 1	–	–	–	–	–
- unrated	–	–	–	–	–
- defaulted	–	–	–	–	–
Corporate, advanced IRB:	113,545	–	109,626	–	15.5
- rating grades 6	71,076	–	69,680	–	5.6
- rating grades 5	11,109	–	9,677	–	21.9
- rating grades 4	28,194	–	27,412	–	36.1
- rating grades 3	2,738	–	2,446	–	35.9
- rating grades 2	121	–	121	–	45.2
- rating grades 1	184	–	178	–	44.2
- unrated	120	–	109	–	65.3
- defaulted	3	–	3	–	112.2
Institutions, foundation IRB:	8,403	–	8,403	–	6.5
- rating grades 6	7,987	–	7,987	–	6.3
- rating grades 5	416	–	416	–	11.7
- rating grades 4	–	–	–	–	–
- rating grades 3	–	–	–	–	–
- rating grades 2	–	–	–	–	–
- rating grades 1	–	–	–	–	–
- unrated	–	–	–	–	–
- defaulted	–	–	–	–	–
Retail, of which secured by real estate:	530,468	72,241	602,709	72,241	3.6
- scoring grades A	447,346	60,867	508,213	60,867	2.3
- scoring grades B	50,525	6,933	57,459	6,933	5.5
- scoring grades C	25,080	3,514	28,594	3,514	12.3
- scoring grades D	4,308	591	4,898	591	22.5
- scoring grades E	1,206	170	1,376	170	37.0
- 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
- scoring grades A	10,407	–	10,407	–	4.4
- scoring grades B	1,618	–	1,614	–	9.8
- scoring grades C	1,345	–	1,343	–	18.7
- scoring grades D	136	–	136	–	24.6
- scoring grades E	70	–	70	–	26.8
- 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 9. Related-party transactions

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

Balance sheet

SEK (000s)	Nordea Group companies		
	31 Dec 2021	30 Jun 2021	31 Dec 2020
Assets			
Loans to credit institutions	6,553,597	7,307,166	4,553,762
Loans to the public	–	–	–
Derivatives	4,148,663	4,075,806	4,559,286
Other assets	739,405	–	453,585
Prepaid expenses and accrued income	106,182	107,732	227,095
Total assets	11,547,847	11,490,704	9,793,728
Liabilities			
Deposits by credit institutions	274,305,909	274,213,316	208,194,432
Debt securities in issue	58,041,306	53,093,173	67,536,271
Deivatives	1,478,303	807,112	839,654
Other liabilities	4,006,066	367,213	6,641,707
Prepaid income and accrued expenses	587,865	1,405,592	165,943
Subordinated liabilities	1,650,120	1,650,063	1,650,119
Total liabilities	340,069,569	331,536,469	285,028,126

Income statement

SEK (000s)	Nordea Group companies		
	2021 Full year	2021 Jan–Jun	2020 Full year
Interest income	-336,603	-138,586	205,779
Interest expense	791,470	438,358	488,695
Net fee and commission income	-73,561	-26,949	-68,846
Net result from items at fair value	-1,677,623	-600,393	222,766
General administrative expenses:			
- Other expenses	-4,034,987	-1,944,919	-1,280,031
Total	-5,331,304	-2,272,489	-431,637

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 26 August 2021.

Nordea Hypotek entered the COVID-19 crisis with a strong financial position, which the Company has managed to maintain due to a continued strong performance of the underlying operations. Realised credit losses have not changed compared

with pre-crisis levels. Following decreased uncertainty and the stronger macroeconomic environment in Sweden, the company chose to release part of the provisions that were booked with regards to the pandemic. However, the risk of potential adverse impacts on income due to lower net interest income, higher market volatility and reduced business activity remains, which explains why not all pandemic-related provisions have been released.

The tense security policy situation in Europe and the rising inflation are uncertain factors to monitor in the future.

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

Upcoming publications

Nordea Hypotek's Annual Report for the financial year 2021, which includes the Audited Financial Statements, the Board of Directors' Report and the Corporate Governance Statement, will be published on 14 March 2022 by way of a stock exchange release and will also be available at www.nordea.com.

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.

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