

Nordea

Nordea Hypotek AB (publ)



Year-end Report
2022

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

Year-end Report 2022

The Board of Directors and the President of Nordea Hypotek AB (publ) (corp. id no. 556091–5448), hereby present the Year-end Report for 2022. The company is a wholly owned subsidiary of Nordea Bank Abp (corp. id no. 2858394-9).



Key ratios

	31 dec 2022	30 jun 2022	31 dec 2021	30 jun 2020	31 dec 2020
Return on average shareholders equity, % ^{3, 4}	6.3	6.0	8.4	7.9	15.6
Cost/income ratio, % ^{3, 4}	65.8	68.9	59.0	61.3	22.7
Loan loss ratio, basis points ¹	1.7	0.8	0.2	0.3	1.2
- of which stage 1	0.5	0.0	-0.2	-0.5	0.5
- of which stage 2	0.8	0.3	0.1	0.3	0.4
- of which stage 3	0.5	0.5	0.3	0.5	0.3
Impairment rate (stage ³), gross ¹ , basis points ¹	5.8	7.1	6.5	7.7	8.6
Impairment rate (stage ³), net, bps ¹	4.8	6.2	5.9	7.0	8.0
Total allowance ratio (stage 1, 2 and 3), bps ¹	3.5	2.3	2.0	2.1	2.1
Allowances in relation to impaired loans (stage ³), % ¹	16.6	12.1	9.6	8.3	6.8
Common Equity Tier 1 ratio (%) ²	17.7	15.2	15.7	15.6	14.9
Tier 1 ratio (%) ²	17.7	15.2	15.7	15.6	14.9
Total capital ratio (%) ²	18.7	16.1	16.6	16.6	14.9
Business volumes					
Loans to the public, SEKm	700,282	687,599	664,615	640,710	619,166

1) Based on IFRS 9.

2) Including profit for the year for the full years 2022, 2021 and 2020. 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 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, which increases operating costs and negatively affects operating profit. This largely explains the change in return on average equity and the K/I ratio in 2021 compared to previous periods.

4) In Sweden, a bank tax was introduced on 1 January 2022 in Sweden, which Nordea Hypotek is covered by. This tax has increased operating costs by SEK 186m, which has resulted in a higher K/I ratio in 2022 compared to 2021. Furthermore, this tax has also negatively affected the return on equity in 2022 compared to 2021.

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

Our operations 2022

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 main purpose of the lending is 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.

The world economy sustained a substantial and broad downturn in 2022. Russia's invasion of Ukraine led to sharp increases in food and energy prices, hitting households and businesses hard. Confidence indicators plummeted while at the same time inflation rose to the highest level in almost 40 years globally. However, labour markets remain strong and global supply problems have subsided. The central banks have drastically tightened monetary policy to combat high inflation, and the Riksbank hiked the policy rate in steps from 0% at the beginning of the year to 2.5% in November, and signals further increases in 2023. The Swedish economy displayed solid growth in 2022, with increased domestic demand. However, weak consumption tendencies began to appear at the end of the year.

In this tough market situation, Nordea Hypotek has continued to increase its share* of the Swedish mortgage market and has grown the most of all players in the market. The credit losses in Nordea Hypotek's loan portfolio are still low and the company's capital position is still very strong with a core tier 1 capital (CET1) at the end of the year of 17.7 percent (15.7), which is by a margin above the legal requirement. Nordea Hypotek continues its focus on sustainability. During 2022, green lending has increased by 146 percent, from SEK 15.1 billion to SEK 37.2 bn, and in November the company issued its first green covered bond of SEK 6 bn.

Credit quality in Nordea's Hypotek lending portfolio remained strong in 2022. In 2022 realised loan losses were SEK -6m (-11), and net loan losses, including loan provisions, amounted to SEK -120m in 2022 (-10). What effect the high inflation and falling housing prices will have on credit losses is currently uncertain and something the company will carefully monitor ahead.

The housing market in Sweden

In 2022, Valueguard's price index HOXSWE declined 12.7%. The price decline was greatest for houses, which fell 13.7%, while the decrease for apartments was 11.0%. The year started with price increases in the first quarter, while the price decline between March and December was rapid at 16.4% for the HOXSWE index.

Profit performance in the second half of 2022 compared with the first half of 2022

Operating profit for the second half of 2022 amounted to SEK 1,261m (1,088), which is an increase of 15.9% compared with the first six months of 2022. When comparing profit for the second half of 2022 compared with the first half of 2022, account should mainly be taken of the following major items affecting profit:

- Net interest income amounted to SEK 3,305m (3,743); a decline of 11.7%.
- Net result from items at fair value improved in the second half of 2022 by SEK 507m, from SEK -130m to SEK 377m, and is mainly affected by the market value of interest rate caps and collars, which positively impacted the item by SEK 279m.
- Net commission income decreased by SEK 16m in the second half of 2022, amounting to SEK -40m (-23) at the end of the period,
- Operating expenses decreased in the second half of 2022 by SEK 182m, amounting at the end of the period to SEK -2,290m (-2,472), mainly because 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 6.7% (6.0) at the end of the period.

Profit performance for FY 2022 compared with FY 2021

Operating profit was SEK 2,349m (3,026), which is a decrease of 22.4% 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 7,048m (7,514); a decline of 6.2%. The decrease in net interest income is mainly due to higher funding costs, which have not been fully offset by higher interest income and which have driven lower average margins. Higher lending volumes (5.2%) partially compensate for the lower margins.
- Net result from items at fair value improved by SEK 291m, amounting to SEK 246m (-45) at the end of the year. This is chiefly attributable to the market value of interest rate caps and collars that had a positive effect of SEK 279m on the item. In other respects, the item is affected in the amount of SEK 12m by early redemption charges, and in the amount of SEK -42m from the repurchase of issued bonds entered at amortised cost.
- Net commission income was practically unchanged in 2022 compared with 2021 and decreased by SEK 1m, amounting at year-end to SEK -63m (-62).
- Operating expenses at the end of the year were SEK -4,761m (-4,371), an increase of SEK -391m or 8.9% compared to 2021. The increase in costs is mainly due to two underlying components – distribution and selling expenses have increased by SEK 209m as a consequence of higher lending volumes, and also the introduction of risk tax has been charged to earnings in the amount of SEK -186m.
- Return on equity, after standard tax, was 6.3% (8.4). Reduced net interest income combined with higher operating expenses are the main reasons for the reduced return on equity.

Lending performance in the second half of 2022 compared with the first half of 2022

Compared with the first half of 2022, lending to the public increased in the second half by 1.8%, amounting at the end of the year to SEK 700,282m (687,599).

* according to Statistics Sweden (SCB) statistics for monetary financial institutions (MFI) lending to households with collateral in housing.

Lending to companies, organisations and municipalities

Compared with the first half of 2022, lending to legal entities increased by SEK 3,810m (3.0%), amounting at the end of the year to SEK 128,807m (124,997).

Household lending

Compared with the first half of the year, lending to households increased by SEK 8,854m (1.6%), amounting at the end of the year to SEK 571,475m (562,621).

Performance of lending for FY 2022 compared with FY 2021

Lending to the public increased during the year by 5.4% (7.3), amounting at the end of the year to SEK 700,282m (664,615).

Lending to companies, organisations and municipalities

Lending to legal entities increased by SEK 7,536m (6.2%), amounting at the end of the year to SEK 128,807m (121,271).

Household lending

Household lending increased by SEK 28,132m (5.2%), amounting to SEK 571,475m (543,344) at the end of the year.

Impaired loans and loan losses

Impaired loans, gross, amounted to SEK 410m (438). Net loan losses for the period were SEK -120m (-10), mainly attributable to increased loan provisions compared with 2021. Realised loan losses, less recoveries on written-off loans and reversed provisions, decreased by SEK 5m in 2022, amounting to SEK -6m (-11) at the end of the year.

The changed weightings in the collectively calculated IFRS 9 reserve compared to 30 June 2021 (50% base scenario, 40% adverse and 10% favourable) reflect our view that the likelihood of recession has increased with uncertainty surrounding the effects of the war in Ukraine. Companies are shelving investments and household expenditure is affected by falling disposable income and declining house prices.

The total loan provision has increased compared with 2021, amounting at the end of the year to SEK 258m (143).

Provisions as judged by management

The cyclical provisions, as judged by management, amounted to SEK 123.4m at 31 December 2022 (11.6). The increase of SEK 111.8 million is due to a new judgement caused by the extraordinary circumstances ensuing from the higher energy and commodity prices, and reduced demand. Structural provisions amounted to SEK 2.8m at 31 December 2022. The structural reserve has the purpose of covering the identified development need in the IFRS 9 models. In 2022 the structural provision decreased by SEK 9.0m 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 2022, 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 2022, the Company issued bonds to a nominal value of SEK 88.25bn (95). The issues take place regularly in existing and new series, with the majority being so-called benchmark bonds. In 2022 the Company held agreements with five banks regarding distribution of the bonds in the benchmark series.

In 2022, the Company issued its first green covered bond, of SEK 6 billion. Green covered bonds form part of Nordea Hypotek's long-term funding and Nordea Hypotek intends to use the issue proceeds from the bond to directly or indirectly finance or refinance green assets in accordance with the Nordea Green Funding Framework, August 2022, published at www.nordea.com.

Total outstanding covered bonds at year-end amounted to a nominal SEK 382 (365). 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 295.0bn (274.3).

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 1,033m (1,630). 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.

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 10 "Capital adequacy".

Legal proceedings

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

Material changes after the end of the financial year

No major events have occurred since 31 December 2022. However, there are risks linked to the poorer state of the economy in Sweden due to high inflation, higher interest rates and falling house prices. This could potentially have adverse effects on earnings through lower net interest income, higher market volatility and reduced business 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, 27 February 2023

Per Långsved
Chairman

Peter Dalmalm
Deputy Chair

Maria Härdling
Board member

Marte Kopperstad
Board member

Emma Henriksson
Board member

Elisabeth Olin
Board member

Maria Sahlén
Board member

Pia Tverin
Chief Executive Officer

Income statement

SEK (000s)	Note	Jul–Dec 2022	Jan–Jun 2022	Jul–Dec 2021	Full year 2022	Full year 2021
Operating income						
Interest income calculated using the effective interest method		8,622,551	4,640,199	4,569,278	13,262,750	9,097,862
Other interest income		72,930	-7,396	-16,205	65,533	-17,632
Negative yield on financial assets		-750	-9,061	-15,089	-9,811	-30,151
Interest expense		-5,316,865	-985,787	-928,618	-6,302,652	-1,800,345
Negative yield on financial liabilities		-72,607	104,800	150,330	32,194	264,439
Net interest income		3,305,259	3,742,755	3,759,696	7,048,014	7,514,173
Fee and commission income		16,028	18,510	19,596	34,538	38,016
Fee and commission expense		-56,004	-41,997	-66,406	-98,001	-100,499
Net fee and commission income		-39,976	-23,487	-46,810	-63,463	-62,483
Net result from items at fair value		376,694	-130,279	48,620	246,413	-44,739
Total operating income		3,641,977	3,588,989	3,761,506	7,230,964	7,406,951
Operating expenses						
<i>General administrative expenses:</i>						
Staff costs		-10,053	-27,154	-17,857	-37,207	-35,816
Other expenses	3	-2,186,864	-2,112,237	-2,117,033	-4,299,099	-4,088,898
Regulatory fees	4	-92,838	-332,324	–	-425,162	-245,832
Total operating expenses		-2,289,755	-2,471,715	-2,134,890	-4,761,468	-4,370,546
Profit before loan losses		1,352,222	1,117,274	1,626,616	2,469,496	3,036,405
Net loan losses	5	-91,111	-28,896	-571	-120,007	-10,325
Operating profit		1,261,111	1,088,378	1,626,045	2,349,489	3,026,080
Income tax expense		-270,431	-219,840	-338,725	-490,271	-630,192
Net profit for the period		990,680	868,538	1,287,320	1,859,218	2,395,888

Statement of comprehensive income

SEK (000s)	Jul–Dec 2022	Jan–Jun 2022	Jul–Dec 2021	Full year 2022	Full year 2021
Periodens resultat	990,680	868,538	1,287,320	1,859,218	2,395,888
Items that may be reclassified subsequently to the income statement					
<i>Cash flow hedges:</i>					
Valuation gains/losses, net of tax	1,117,240	1,414,994	355,368	2,532,234	508,038
Transferred to the income statement, net of tax	-1,161,474	-1,197,131	-411,611	-2,358,605	-705,567
<i>Available for sale investments¹</i>					
Valuation gains/losses, net of tax	22,383	-26,645	5,288	-4,262	8,200
Other comprehensive income, net of tax	-21,851	191,218	-50,955	169,367	-189,329
Total comprehensive income	968,829	1,059,756	1,236,365	2,028,585	2,206,559

1) Results from revaluations related to hedged risks in fair value hedges are reported directly in the income statement.

Balance sheet

SEK (000s)	Note	31 Dec 2022	30 Jun 2022	31 Dec 2021
Assets				
Loans to credit institutions	6	4,304,109	9,946,134	6,553,597
Loans to the public	6	700,282,421	687,598,708	664,614,829
Interest-bearing securities		20,002,237	22,152,291	21,052,845
Derivatives		15,185,233	12,900,466	4,125,864
Fair value changes of hedged items in portfolio hedges of interest rate risk		-10,851,998	-9,734,503	-1,156,764
Deferred tax assets		–	–	41,929
Current tax assets		15,831	374,255	380,191
Other assets		1,380,392	1,410,406	739,405
Prepaid expenses and accrued income		62,798	88,419	106,182
Total assets		730,381,023	724,736,176	696,458,078
Liabilities				
Deposits by credit institutions		294,979,551	334,479,748	274,305,909
Debt securities in issue		382,084,433	345,346,279	386,134,391
Derivatives		14,792,329	12,775,452	1,481,428
Current tax liabilities		-1,004	–	–
Other liabilities		3,740,196	542,306	4,006,658
Accrued expenses and prepaid income		734,422	600,847	618,485
Deferred tax liabilities		3,118	14,595	–
Provisions		8,104	10,210	11,368
Pension obligations		–	7,488	–
Subordinated liabilities		1,650,373	1,650,101	1,650,120
Total liabilities		697,991,522	695,427,026	668,208,359
Equity				
Share capital		110,000	110,000	110,000
Fair value reserves		19,860	41,711	-149,507
Retained earnings		30,400,423	28,288,901	25,893,338
Net profit for the year		1,859,218	868,538	2,395,888
Total equity		32,389,501	29,309,150	28,249,719
Total liabilities and equity		730,381,023	724,736,176	696,458,078

Other notes

[Note 1](#) Accounting policies

[Note 2](#) Segment reporting

[Note 4](#) Loans and impairment

[Note 7](#) Classification of financial instruments

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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 2022	110,000	-161,611	12,104	28,289,226	28,249,719
Net profit for the year	–	–	–	1,859,218	1,859,218
Items that may be reclassified subsequently to the income statement					0
<i>Fair value through other comprehensive income:</i>					0
Valuation gains/losses, net of tax	–	–	-5,368	–	-5,368
Tax on valuation gains/losses	–	–	1,106	–	1,106
<i>Cash flow hedges:</i>					0
Valuation gains/losses, net of tax	–	3,189,212	–	–	3,189,212
Transferred to the income statement	–	-656,978	–	–	-656,978
Tax on valuation gains/losses	–	-2,970,535	–	–	-2,970,535
Tax on transfers to the income statement	–	611,930	–	–	611,930
Other comprehensive income, net of tax	0	173,629	-4,262	1,859,218	2,028,585
Total comprehensive income	0	173,629	-4,262	1,859,218	2,028,585
Shareholders' contribution received	–	–	–	4,000,000	4,000,000
Group contribution paid	–	–	–	-2,378,795	-2,378,795
Tax on Group contribution paid	–	–	–	490,032	490,032
Share-based payments	–	–	–	-40	-40
Balance at 31 Dec 2022	110,000	12,018	7,842	32,259,641	32,389,501

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 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	–	–	10,266	–	10,266
Tax on valuation gains/losses	–	–	-2,066	–	-2,066
<i>Cash flow hedges:</i>					
Valuation gains/losses, net of tax	–	639,847	–	–	639,847
Tax on valuation gains/losses	–	-131,809	–	–	-131,809
Transferred to the income statement during the year	–	-888,623	–	–	-888,623
Tax on transfers to the income statement during the year	–	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.

Cash flow statement

SEK (000s)	Full year 2022	Full year 2021
Operating activities		
Operating profit	2,349,489	3,026,080
Adjustment for items not included in cash flow	-5,314,475	-2,115,409
Income taxes paid	363,117	2,059
Cash flow from operating activities before changes in operating assets and liabilities	-2,601,869	912,730
Changes in operating assets		
Change in treasury bills	5,801,283	1,973,855
Change in loans to the public	-35,787,939	-45,461,993
Change in interest-bearing securities	981,950	-16,769
Change in derivatives, net	-3,247,364	-907,124
Change in other assets	-640,986	-285,820
Change in operating liabilities		
Change in deposits by credit institutions	19,970,823	66,118,523
Change in debt securities in issue	11,919,873	-17,633,961
Change in other liabilities	-2,645,259	-5,699,606
Cash flow from operating activities	-3,647,619	-1,912,895
Financing activities		
Shareholder contribution	4,000,000	3,000,000
Amortised subordinated liabilities	–	–
Other changes in equity	–	–
Cash flow from financing activities	4,000,000	3,000,000
Cash flow for the year	-2,249,488	1,999,835
Cash and cash equivalents at beginning of period	6,553,597	4,553,762
Cash and cash equivalents at end of period	4,304,109	6,553,597
Change	-2,249,488	1,999,835

Notes to the financial statements



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Note 1. Accounting policies

The January–June report for Nordea Hypotek AB (publ) is prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Investment Firms (1995:1559), the 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 with due consideration for 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 “Financial statements”.

The accounting policies and methods of computation are unchanged from Note 1 in the Annual Report 2021, except for those relating to the items presented in the section “Changed accounting policies and presentation” below. Further information is presented in Note 1 of the 2021 annual report.

Changed accounting policies and presentation

The following changes in accounting policies and presentation were initially applied by Nordea Hypotek on 1 January 2022.

Changed presentation of regulatory fees

In 2022 Nordea Hypotek began presenting resolution fees and the Swedish bank tax separately on the new row “Regulatory fees” in the income statement. The earlier policy was to present similar expenses on the row “Other expenses”. The new presentation provides a more transparent depiction of Nordea Hypotek’s underlying performance and the impact of regulatory fees. Resolution fees will continue to be recognised in full in the first quarter, while the Swedish bank tax will be amortised linearly over the course of the year.

Comparative figures have been restated accordingly and the impact on the second quarter of 2022 can be found in the table below.

SEK (000s)	Full Year 2022		
	Old policy	Change	New policy
General administrative costs			
Other expenses	-4,299,099	425,162	-3,873,937
Regulatory fees	–	-425,162	-425,162
Total operating cost	-4,761,468	0	-4,761,468

SEK (000s)	Jul–Dec 2022		
	Old policy	Change	New policy
General administrative costs			
Other expenses	-2,279,700	92,838	-2,186,862
Regulatory fees	–	-92,838	-92,838
Total operating cost	-2,289,753	0	-2,289,753

SEK (000s)	Jan–Jun 2022		
	Old policy	Change	New policy
General administrative costs			
Other expenses	-2,444,561	332,324	-2,112,237
Regulatory fees	–	-332,324	-332,324
Total operating cost	-2,471,715	0	-2,471,715

SEK (000s)	Full Year 2021		
	Old policy	Change	New policy
General administrative costs			
Other expenses	-4,334,730	245,832	-4,088,898
Regulatory fees	–	-245,832	-245,832
Total operating cost	-4,370,546	0	-4,370,546

SEK (000s)	Jul–Dec 2021		
	Old policy	Change	New policy
General administrative costs			
Other expenses	-2,117,034	–	-2,117,034
Regulatory fees	–	–	–
Total operating cost	-2,134,891	0	-2,134,891

Changed presentation of hedged items used in fair value hedges at micro level

Nordea Hypotek applies fair value hedge accounting both at the micro level (individual assets/liabilities or closed portfolios of assets/liabilities, in which one or multiple items are hedged using one or multiple hedging instruments), and at the macro level (open portfolios in which groups of items are hedged using multiple hedging instruments).

As of 2022 Nordea presents the fair value changes of hedged items used in fair value hedge accounting at micro level in the same balance sheet line item as hedged items instead of, as earlier, in the balance sheet line item “Fair value changes of hedged items in hedges of interest rate risk”. Fair value changes of hedged items used in fair value hedge accounting at macro level are as earlier presented on the separate balance sheet item, which from 2022 is renamed from “Fair value changes of hedged items in hedges of interest rate risk” to “Fair value changes of hedged items in portfolio hedges of interest rate risk”. Comparative figures have been restated accordingly and the impact in 2022 and 2021 is shown in the tables below.

Note 1. Accounting policies, cont.

SEK (000s)	31 Dec 22		
	Old policy	Change	New policy
Debt securities in issue	397,358,205	-15,273,771	382,084,434
Fair value changes of hedged items in hedges of interest rate risk	-15,273,771	15,273,771	–
Total liabilities	697,991,522	0	697,991,522

SEK (000s)	31 Dec 21		
	Old policy	Change	New policy
Debt securities in issue	385,527,612	606,779	386,134,391
Fair value changes of hedged items in hedges of interest rate risk	606,779	-606,779	–
Total liabilities	668,208,359	0	668,208,359

SEK (000s)	30 Jun 22		
	Old policy	Change	New policy
Debt securities in issue	357,889,551	-12,543,272	345,346,279
Fair value changes of hedged items in hedges of interest rate risk	-12,543,272	12,543,272	–
Total liabilities	695,427,026	0	695,427,026

Other amended requirements

No amendments were made to the Swedish Annual Accounts Act for Credit Institutions and Investment Firms (1995:1559) during the year. Neither has the Swedish FSA published any changes applicable during the year regarding the regulation FFFS 2008:25. Furthermore, the Swedish Financial Reporting Board has not published any notifications to amend RFR 2 "Accounting for legal entities" that have had any impact on Nordea Hypotek's financial statements for 2022.

The following amended standards issued by the International Accounting Standards Board (IASB) were implemented by Nordea Hypotek on 1 January 2022, but have not had any significant impact on Nordea Hypotek's financial statements.

- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts – Cost of Fulfilling a Contract
- Annual improvements to IFRS Standards 2018–2020

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.

The amendments have been approved by the EU and are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted. The gross deferred tax assets and liabilities will be disclosed but will be offset on the balance sheet if such requirements are met. However, as those amounts are expected to be offset on the balance sheet it is Nordea Hypotek's current assessment that the amendment will not have any other 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, which are assessed not to have any significant impact on Nordea Hypotek's financial statements or capital adequacy in the period of initial application:

- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and also Classification of Liabilities as Current or Non-current – Deferral of Effective Date, as well as Non-current Liabilities with Covenants
- 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

	Personal Banking		Business Banking		Group Treasury		Other operating segments		Total operating segments		Reconciliation		Total	
Income statement, SEKm	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Net interest income	9,630	7,665	2,035	1,421	-4,798	-1,668	120	63	6,988	7,481	60	34	7,048	7,515
Net fee and commission income	31	35	3	3	-49	-32	-49	-68	-63	-62	0	-	-63	-62
Net result from items at fair value	10	51	2	3	234	-100	0	1	246	-45	0	-	246	-45
Total operating income	9,671	7,751	2,040	1,427	-4,612	-1,800	72	-4	7,171	7,374	60	34	7,231	7,408
Other expenses	0	-3,000	0	-829	0	-	-560	-542	-560	-4,371	-4,202	-	-4,761	-4,371
Total operating expenses	0	-3,000	0	-829	0	-	-560	-542	-560	-4,371	-4,202	-	-4,761	-4,371
Net loan losses	-55	-21	-64	0	0	-	-1	11	-120	-10	0	0	-120	-10
Operating profit	9,617	4,730	1,976	598	-4,613	-1,800	-489	-535	6,491	2,993	-4,141	34	2,349	3,027
Balance sheet, SEKm														
Loans to the public	525,134	499,416	145,588	138,432	0	-	29,561	26,766	700,282	664,614	0	0	700,282	664,614
Other assets	0	-	0	-	30,078	31,465	15	379	30,094	31,844	5	-	30,099	31,844
Total assets	525,134	499,416	145,588	138,432	30,078	31,465	29,576	27,145	730,376	696,458	5	0	730,381	696,458
Total liabilities	0	0	0	-	694,888	664,542	360	264	695,248	664,806	2,744¹	3,402¹	697,992	668,208
Equity	525,134	499,416	145,588	138,432	-664,809	-633,077	29,216	26,881	35,128	31,652	-2,739	-3,402	32,390	28,250
Total liabilities and equity	525,134	499,416	145,588	138,432	30,078	31,465	29,576	27,145	730,376	696,458	5	0	730,381	696,458

1) The amount refers to Group Contribution from Nordea Hypotek AB to Nordea Bank Abp Filial in Sweden and Nordea Finans AB (2022). During 2021 Nordea Hypotek only provided group contribution to Nordea Bank Abp Filial in Sweden.

Reconciliation between total operating segments and financial statements

SEKm	2022		2021	
	Operating profit	Total assets	Operating profit	Total assets
Total operating segments	6,491	730,376	2,993	696,458
Group functions and unallocated items	-4,141	5	34	0
Total	2,349	730,381	3,027	696,458

Note 3. Other expenses

SEK (000s)	Jul–Dec 2022	Jan–Jun 2022	Jul–Dec 2021	Full year 2022	Full year 2021
Postage, telephone and office expenses	-113	-128	-71	-241	-167
Distribution costs to Nordea	-2,160,204	-2,084,842	-2,090,090	-4,244,811	-4,035,032
Professional services ¹	-1,060	-3,087	-283	-4,147	-4,061
Market data services	-13,143	-12,548	-13,901	-25,691	-27,008
Other	-12,343	-11,632	-12,689	-24,209	-22,630

1) Including fees and remuneration to auditors.

Note 4. Regulatory fees

SEK (000s)	Jul–Dec 2022	Jan–Jun 2022	Jul–Dec 2021	Full year 2022	Full year 2021
Resolution fee	–	-239,486	–	-239,486	-245,832
Bank tax	-92,838	-92,838	–	-185,676	–
Total	-292,838	-332,324	–	-425,162	-245,832

Note 5. Net loan losses

SEKm	Jul–Dec 2022	Jan–Jun 2022	Jul–Dec 2021	Full year 2022	Full year 2021
Net loan losses, stage 1	-33,029	-816	-470	-33,846	15,437
Net loan losses, stage 2	-44,800	-9,577	1,935	-54,377	-8,919
Net loan losses, non-defaulted	-77,829	-10,393	1,465	-88,223	6,518
Stage 3, defaulted					
Net loan losses, individually assessed, collectively calculated	-8,363	-17,691	-751	-26,055	-5,622
Realised loan losses	-5,020	-1,050	-3,401	-6,070	-14,374
Decrease of provisions to cover realised loan losses	–	–	–	–	–
Recoveries on previously realised loan losses	102	238	2,116	341	3,153
Reversals of provisions	–	–	–	–	–
Net loan losses, defaulted	-13,281	-18,503	-2,036	-31,784	-16,843
Net loan losses	-91,111	-28,896	-571	-120,007	-10,325

Nyckeltal

	Jul–Dec 2022	Jan–Jun 2022	Jul–Dec 2021	Full year 2022	Full year 2021
Loan loss ratio, basis points ¹	1.2	0.8	0.2	1.7	0.2
- of which stage 1	0.5	0.0	-0.2	0.5	-0.2
- of which stage 2	0.6	0.3	0.1	0.8	0.1
- of which stage 3	0.1	0.5	0.3	0.5	0.3

1) Based on IFRS 9.

Note 6. Loans and impairment

SEKm	31 Dec 2022	30 Jun 2022	31 Dec 2021
Loans measured to amortised cost, not impaired (stage 1 and 2)	704,426	697,212	670,862
Impaired loans (stage 3)	410	494	438
- of which servicing	33	68	33
- of which non-servicing	405	426	405
Loans before allowances	704,836	697,706	671,300
- of which credit institutions	4,304	9,946	6,554
Allowances for individually assessed loans (stage 3)	-68	-60	-42
- of which servicing	-11	-8	-3
- of which non-servicing	-57	-52	-39
Allowances for collectively assessed loans (stage 1 and 2)	-181	-101	-90
Allowances	-249	-161	-132
- of which credit institutions	-	-	-
Loans carrying amount	704,587	697,545	671,168

Carrying amount of loans measured at amortised cost, before allowances

SEKm	31 Dec 2022			30 Jun 2022			31 Dec 2021		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Loans to the public	693,855	10,571	410	686,186	11,026	494	660,864	9,999	438
Interest-bearing securities	9,496	-	-	9,545	-	-	9,972	-	-
Total	703,351	10,571	410	695,731	11,026	494	670,836	9,999	438

Allowances and provisions

SEKm	31 Dec 2022			30 Jun 2022			31 Dec 2021		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Loans to the public	-69	-113	-68	-34	-68	-60	-32	-58	-42
Interest-bearing securities	0	-	0	0	0	0	0	-	0
Provisions for off-balance sheet items	-8	0	0	-10	0	0	-11	0	0
Total	-77	-113	-68	-44	-68	-60	-43	-58	-42

Note 6. 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 2022	-31	-58	-42	-131
Changes due to origination and acquisition	-31	-18	-1	-50
Changes due to transfers from stage 1 to stage 2	1	-59	0	-58
Changes due to transfers from stage 1 to stage 3	0	0	-14	-14
Changes due to transfers from stage 2 to stage 1	-2	29	0	27
Changes due to transfers from stage 2 to stage 3	0	1	-13	-12
Changes due to transfers from stage 3 to stage 1	0	0	2	2
Changes due to transfers from stage 3 to stage 2	0	-2	9	7
Changes due to credit risk without stage transfer	-12	-15	-21	-48
Changes due to repayments and disposals	6	10	12	28
Closing balance at 31 Dec 2022	-69	-112	-68	-249

SEKm	Stage 1	Stage 2	Stage 3	Total
Balance at 1 Jan 2022	-31	-58	-43	-132
Changes due to origination and acquisition	-23	-8	-1	-32
Changes due to transfers from stage 1 to stage 2	3	-70	0	-67
Changes due to transfers from stage 1 to stage 3	0	0	-13	-13
Changes due to transfers from stage 2 to stage 1	-2	45	0	43
Changes due to transfers from stage 2 to stage 3	0	3	-22	-19
Changes due to transfers from stage 3 to stage 1	0	0	2	2
Changes due to transfers from stage 3 to stage 2	0	-1	10	9
Changes due to credit risk without stage transfer	16	10	-5	21
Changes due to repayments and disposals	5	11	11	27
Closing balance at 30 Jun 2022	-32	-68	-61	-161

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

Key ratios

	31 Dec 2022	30 Jun 2022	31 Dec 2021
Impairment rate, (stage 3) ¹ , gross, basis points	5.8	7.1	6.5
Impairment rate, (stage 3) ² , net, basis points	4.8	6.2	5.9
Total allowance rate (stage 1, 2 and 3) ³ , basis points	3.5	2.3	2.0
Allowances in relation to impaired loans (stage 3) ⁴ , %	16.6	12.1	9.6
Allowances in relation to loans stage 1 and 2 ⁵ , basis points	2.6	1.5	1.3

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 7. Classification of financial instruments

		Financial assets at fair value through profit or loss (FVPL)		Fair value through other comprehensive income (FVOCI)	Non-financial assets	Total
31 Dec 2022, SEKm	Amortised cost (AC)	Mandatorily				
Assets						
Loans to credit institutions	4,304	–		–	–	4,304
Loans to the public	700,283	–		–	–	700,283
Interest-bearing securities	–	10,506		9,496	–	20,002
Derivatives	–	15,185		–	–	15,185
Fair value changes of hedged items in hedges of interest rate risk	-10,852	–		–		-10,852
Deferred tax assets	–	–		–	–	–
Current tax assets	–	–		–	16	16
Other assets	1,380	–		–	–	1,380
Prepaid expenses and accrued income	63	–		–	–	63
Total	695,178	25,691		9,496	16	730,381

	Amortised cost (AC)	Financial assets at fair value through profit or loss (FVPL)	Non-financial assets	Total
31 Dec 2022, SEKm		Mandatorily		
Liabilities				
Deposits by credit institutions	294,980	–	–	294,980
Debt securities in issue	382,085	–	–	382,085
Derivatives	–	14,792	–	14,792
Fair value changes of hedged items in hedges of interest rate risk	–	–	–	–
Current tax assets	–	–	-1	-1
Other liabilities	3,737	–	3	3,740
Accrued expenses and prepaid income	336	–	398	734
Deferred tax liabilities	-	–	3	3
Provisions	8	–	–	8
Subordinated liabilities	1,650	–	–	1,650
Total	682,796	14,792	403	697,991

Note 7. Classification of financial instruments, cont.

		Financial assets at fair value through profit or loss (FVPL)			
	Amortised cost (AC)	Mandatorily	Fair value through other comprehensive income (FVOCI)	Non-financial assets	Total
31 Dec 2021, SEKm					
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	–	–	–	739
Prepaid expenses and accrued income	106	–	–	–	106
Total	670,857	15,208	9,971	422	696,458

31 Dec 2021, 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	386,134	–	–	–	386,134
Derivatives	–	1,481	–	–	1,481
Fair value changes of hedged items in hedges of interest rate risk	4,006	–	1	–	4,007
Other liabilities	245	–	–	374	619
Accrued expenses and prepaid income	–	–	–	–	–
Deferred tax liabilities	–	–	–	–	–
Provisions	11	–	–	–	11
Subordinated liabilities	1,650	–	–	–	1,650
Total	666,352	1,481	–	375	668,208

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 8. Assets and liabilities at fair value

Fair value of financial assets and liabilities

SEKm	31 Dec 2022		31 Dec 2021	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans	693,735	697,928	670,012	681,001
Interest-bearing securities	20,002	20,002	21,053	21,053
Derivatives	15,185	15,185	4,126	4,126
Other assets	1,380	1,380	739	739
Prepaid expenses and accrued income	63	63	106	106
Financial liabilities				
Deposits and debt instruments	678,715	694,026	662,091	664,856
Derivatives	14,792	14,792	1,481	1,481
Other liabilities	3,737	3,737	4,006	4,006
Provisions	8	8	11	11
Accrued expenses and prepaid income	336	336	244	244

For information about valuation of items measured at fair value on the balance sheet, see Note 1 and the section "Determination of fair value on the balance sheet". For information about valuation of items not measured at fair value on the balance sheet, see the section "Financial assets and liabilities not held at fair value on the balance sheet".

Assets and liabilities held at fair value on the balance sheet

31 Dec 2022, 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	273	19,729	–	20,002
Derivatives	15,172	–	13	15,185
Total	15,445	19,729	13	35,187
Liabilities at fair value on the balance sheet¹				
Derivatives	–	14,722	70	14,792
Total	–	14,722	70	14,792

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

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.

Note 8. Assets and liabilities at fair value, cont.

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

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

Level 1 in the fair value hierarchy consists of assets and liabilities valued using unadjusted quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an on-going basis.

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

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

All valuation models, both complex and simple models, make use of market prices and inputs. These market prices and inputs comprise interest rates, volatilities, correlations etc. Some of these prices and inputs are observable while others are not. For most non-exotic currencies the interest rates are all observable, and implied volatilities and the correlations of the interest rates and FX rates may be observable through option prices up to a certain maturity.

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

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

The valuation processes for fair value measurements Financial instruments

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

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

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

Loans

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

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

Interest bearing-securities

The fair value is SEK 19 729m (SEK 20 795m) categorised in Level 2 and SEK 273m (258) is categorised in Level 1 in the fair value hierarchy.

Other assets and prepaid expenses and accrued income

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

Note 8. Assets and liabilities at fair value, cont.

Deposits and debt instruments

The fair value of "Deposits by credit institutions", "Debt securities in issue" and "Subordinated liabilities" has been calculated as the carrying amount adjusted for fair value changes in interest rate risk and in own credit risk. The fair value is categorised into Level 3 in the fair value hierarchy. The fair value changes related to interest rate risk is based on changes in relevant interest rates compared with corresponding nominal interest rate in the portfolios. The fair value changes in the credit risk is calculated as the difference between the credit spread in the nominal interest rate compared with the current spread that is observed in the market. This calculation is performed on an aggregated level for all long term issuances recognised in the balance sheet items "Debt securities in issue" and "Subordinated liabilities". As the contractual maturity

is short for "Deposits by credit institutions" and "Deposits and borrowing from the public" the changes in Nordea Hypotek's own credit risk related to these items is assumed not to be significant. This is also the case for short term issuances recognised in the balance sheet items "Debt securities in issue" and "Subordinated liabilities".

Other liabilities and accrued expenses and prepaid income

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

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

SEKm	31 Dec 2022			31 Dec 2021		
	Carrying amount	Fair value	Level in fair value hierarchy	Carrying amount	Fair value	Level in fair value hierarchy
Assets not held at fair value on the balance sheet						
Loans	693,735	697,928	3	670,012	681,001	3
Prepaid expenses and accrued income	63	63	3	106	106	3
Liabilities not held at fair value on the balance sheet						
Deposits and debt instruments	678,715	694,026	3	662,091	664,856	3
Other liabilities	3,737	3,737	3	4,006	4,006	3
Accrued expenses and prepaid income	336	336	3	244	244	3

Note 9. Commitments

SEK (000s) (nom. Amount)	31 Dec 2022	30 Jun 2022	31 Dec 2021
Credit commitments ¹	48,129,347	71,824,643	68,197,317
Other commitments ²	2,196,467	3,916,803	4,043,821
Total	50,325,814	75,741,446	72,241,138

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 10. Capital adequacy

New regulations on capital requirements

The Capital Requirement Directive (CRD) and Capital Requirement Regulation (CRR) entered into force in January 2014 followed by the Bank Recovery and Resolution Directive (BRRD) in May 2014. The CRR became applicable in all EU countries in January 2014 while the directives 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 Swedish National Debt Office, in June 2022, communicated MREL requirements for Nordea Hypotek AB (publ). The MREL requirements for Nordea Hypotek AB (publ) are 17% of the risk exposure amount (REA) and in parallel 4.98% of leverage ratio exposure (LRE) from 1 July 2022, 18.67% of REA and in parallel 5.32% of LRE from 1 January 2023 and 22% of REA and in parallel 6% of LRE from 1 January 2024. Also, the capital used to meet the combined buffer requirement cannot be used to meet the MREL requirements expressed as percentage of REA. The requirements will be assessed and updated annually by the Swedish National Debt Office.

The Swedish FSA, in July 2022, communicated that Nordea Hypotek AB (publ) will be required to maintain a buffer for other systemically important institutions (O-SII) of 1% to be met with CET1 capital from 30 December 2022.

In March 2021, the Swedish FSA published the new approach for the setting of the CCyB rate. 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. The Swedish FSA has earlier decided to increase the CCyB requirement to 1% from 0%, to be applicable from 29 September 2022. In June 2022, the Swedish FSA decided to further increase the CCyB to 2%. The increase to 2% applies from Q2 2023.

Finalisation of Basel III framework ("Basel IV")

Basel III is a global regulatory framework for bank capital adequacy, stress testing and liquidity risk. In December 2017 the finalised Basel III framework, often called Basel IV, was published. Basel IV enters into force from 2023 and includes revisions to credit risk, market risk, operational risk, credit valuation adjustment (CVA) risk and the leverage ratio and also introduces a new output floor.

Before being applicable to Nordea, Basel IV needs to be implemented into EU regulation. In October 2021 the proposal for the implementation into EU regulations was published by the European Commission by amendments to the CRD and the CRR. The proposal from the Commission is to set the start date to 1 January 2025. In November 2022 the Council of the European Union agreed on their counterproposal to the Commission's proposal. The next step is for the European Parliament to agree on a counterproposal after which negotiations will start in the so-called trilogue to agree on the final set of rules implementing Basel IV into EU regulation.

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 using the standardised approaches for credit, market and operational risk. The floor will be phased in, starting with 50% from 1 January 2025 to be fully implemented at 72.5% from 1 January 2030. For the calculation of the REA for the output floor, there are transitional rules until end 2032.

Note 10. 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 metrics

Available own funds (amounts), SEKm	31 Dec 2022	31 Dec 2021
Common Equity Tier 1 (CET1) capital, including profit	32,345	28,280
Tier 1 capital, including profit	32,345	28,280
Total capital, including profit	34,063	29,962
Risk-weighted exposures amounts (REA), SEKm		
Total risk-weighted exposure amount	182,295	180,554
Capital ratios (as a percentage of risk-weighted exposure amount)		
Common Equity Tier 1 ratio (%)	17.7	15.7
Tier 1 ratio (%)	17.7	15.7
Total capital ratio (%)	18.7	16.6
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 (%)	1.6	1.8
of which: to be made up of CET1 capital (percentage points)	0.9	1.8
of which: to be made up of Tier 1 capital (percentage points)	1.2	1.8
Total SREP own funds requirements (%)	9.2	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 (%)	1.0	0.0
Systemic risk buffer (%)	0.0	0.0
Global Systemically Important Institution buffer (%)	0.0	0.0
Other Systemically Important Institution buffer (%)	1.0	0.0
Combined buffer requirement (%)	4.5	2.5
Overall capital requirements (%)	14.1	12.3
CET1 available after meeting the total SREP own funds requirements (%)	9.5	6.8
Leverage ratio		
Leverage ratio total exposure measure	730,101	713,835
Leverage ratio	4.4	4.0
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 (%)	–	–
of which: to be made up of CET1 capital (percentage points)	–	–
Total SREP leverage ratio requirements (%)	3.0	3.0
Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)		
Leverage ratio buffer requirement (%)	0.0	0.0
Overall leverage ratio requirements (%)	3.0	3.0
Liquidity Coverage Ratio		
Total high-quality liquid assets (HQLA) (Weighted value – average)	19,434	18,391
Cash outflows – Total weighted value	6,313	14,253
Cash inflows – Total weighted value	4,735	9,352
Total net cash outflows (adjusted value)	1,578	4,901
Liquidity coverage ratio (%)	1,231	375
Net Stable Funding Ratio		
Total available stable funding	588,736	541,364
Total required stable funding	514,054	494,072
NSFR ratio (%)	115	110

Note 10. Capital adequacy, cont.

Summary of items included in own funds

SEKm	31 Dec 2021 ²	31 Dec 2021 ²
Calculation of own funds		
Equity in the consolidated situation	34,249	30,646
Group contribution, after tax	-1,859	-2,396
Common Equity Tier 1 capital before regulatory adjustments	32,389	28,250
Deferred tax assets	–	–
Intangible assets	–	–
IRB provisions shortfall (-)	-11	-111
Pension assets in excess of related liabilities ¹	-11	-9
Other items, net	-22	150
Total regulatory adjustments to Common Equity Tier 1 capital	-44	30
Common Equity Tier 1 capital (net after deduction)	32,345	28,280
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)	32,345	28,280
Tier 2 capital before regulatory adjustments	1,650	1,650
IRB provisions excess (+)	68	32
Pension assets in excess of related liabilities	–	–
Other items, net	–	–
Total regulatory adjustments to Tier 2 capital	68	32
Tier 2 capital	1,718	1,682
Own funds (net after deduction)¹	34,063	29,962

1) Based on conditional FSA approval.

2) Including profit of the period.

Own Funds, excluding profit

SEKm	31 Dec 2021	31 Dec 2021
Common Equity Tier 1 capital, excluding profit	32 345	28 284
Total Own Funds, excluding profit	34 063	29 966

Note 10. Capital adequacy, cont.

Minimum capital requirement and REA

SEKm	31 Dec 2022		31 Dec 2021	
	Minimum Capital requirement	REA	Minimum Capital requirement	REA
Credit risk	3,391	42,380	3,466	43,322
- of which counterparty credit risk	83	1,033	130	1,630
IRB	3,216	40,198	3,208	40,092
- sovereign	—	—	—	—
- corporate	1,501	18,758	1,360	16,996
- advanced	1,501	18,758	1,360	16,996
- foundation	—	—	—	—
- institutions	41	516	44	549
- retail	1,674	20,922	1,804	22,547
- secured by immovable property collateral	1,597	19,967	1,725	21,559
- other retail	77	955	79	988
- other	0	2	—	—
Standardised	175	2,182	258	3,230
- central governments or central banks	—	—	9	120
- regional governments or local authorities	—	—	—	—
- public sector entities	—	—	—	—
- multilateral development banks	—	—	—	—
- international organisations	—	—	—	—
- institutions	175	2,182	249	3,110
- 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	851	10,638	854	10,677
Standardised	851	10,638	854	10,677
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	10,342	129,277	10,124	126,555
Additional risk exposure amount due to Article 3 CRR	—	—	—	—
Total	14,584	182,295	14,444	180,554

Note 10. Capital adequacy, cont.

Minimum Capital Requirement & Capital Buffers

Percentage	Minimum Capital requirement	Pillar II require- ments ¹	Capital buffers			Capital Buffers total ²	Total requirement
			CCoB	CCyB	O-SII		
Common Equity Tier 1 capital	4.5	0.9	2.5	1.0	1.0	4.5	9.9
Tier 1 capital	6.0	1.2	2.5	1.0	1.0	4.5	11.7
Own funds	8.0	1.6	2.5	1.0	1.0	4.5	14.1
SEKm							
Common Equity Tier 1 capital	8,203	1,641	4,557	1,823	1,823	8,203	18,047
Tier 1 capital	10,938	2,188	4,557	1,823	1,823	8,203	21,328
Own funds	14,584	2,917	4,557	1,823	1,823	8,203	25,703

- 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 10. 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:	–	–	–	–	–
- of which rating grades 6	–	–	–	–	–
- of which rating grades 5	–	–	–	–	–
- of which rating grades 4	–	–	–	–	–
- of which rating grades 3	–	–	–	–	–
- of which rating grades 2	–	–	–	–	–
- of which rating grades 1	–	–	–	–	–
- of which unrated	–	–	–	–	–
- of which defaulted	–	–	–	–	–
Corporate, advanced IRB:	119,622		117,347		16.0
- of which rating grades 6	76,071.2		74,595.9		5.7
- of which rating grades 5	9,299.4		8,703.0		23.0
- of which rating grades 4	31,385.6		31,261.3		36.9
- of which rating grades 3	2,557.5		2,499.8		34.0
- of which rating grades 2	105.0		106.2		40.6
- of which rating grades 1	100.1		90.1		52.7
- of which unrated	79.0		66.4		68.1
- of which defaulted	24.6		24.6		35.1
Institutions, foundation IRB:	8,198		8,198		6.3
- of which rating grades 6	7,786		7,786		6.2
- of which rating grades 5	412		412		8.6
- of which rating grades 4	–	–	–	–	–
- of which rating grades 3	–	–	–	–	–
- of which rating grades 2	–	–	–	–	–
- of which rating grades 1	–	–	–	–	–
- of which unrated	–	–	–	–	–
- of which defaulted	–	–	–	–	–
Retail, of which secured by real estate:	557,676	50,326	608,001	50,326	3.3
- of which scoring grades A	495,142	44,649	539,790	44,649	2.2
- of which scoring grades B	36,143	3,295	39,437	3,295	5.6
- of which scoring grades C	19,165	1,782	20,947	1,782	12.4
- of which scoring grades D	4,084	375	4,460	375	23.3
- of which scoring grades E	1,280	118	1,398	118	38.2
- of which scoring grades F	1,186	107	1,293	107	59.9
- of which not scored	164	–	164	–	61.4
- of which defaulted	512	–	512	–	126.6
Retail, of which other retail:	14,388		14,382	–	6.6
- of which scoring grades A	11,764		11,764	–	4.3
- of which scoring grades B	1,263		1,260	–	9.6
- of which scoring grades C	1,063		1,062	–	19.2
- of which scoring grades D	175		175	–	23.7
- of which scoring grades E	60		59	–	26.9
- of which scoring grades F	33		33	–	44.2
- of which not scored	11		10	–	45.3
- of which defaulted	19		19	–	244.9
Other non credit-obligation assets	2		2	–	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 11. 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 2022	30 Jun 2022	31 Dec 2021
Assets			
Loans to credit institutions	4,304,109	9,946,134	6,553,597
Loans to the public	–	–	–
Derivatives	15,193,926	12,908,127	4,148,663
Other assets	1,380,319	296,853	739,405
Prepaid expenses and accrued income	60,883	88,419	106,182
Liabilities			
Deposits by credit institutions	294,979,551	334,479,749	274,305,909
Debt securities in issue	61,007,961	54,889,569	58,041,306
Derivatives	14,792,329	12,541,616	1,478,303
Other liabilities	3,737,303	541,429	4,006,066
Prepaid income and accrued expenses	702,344	481,425	587,865
Subordinated liabilities	1,650,373	1,650,101	1,650,120

Income statement

SEK (000s)	Nordea Group companies		
	2022 Full year	2022 Jan–Jun	2021 Full year
Interest income	1,031,422	-275,938	-336,603
Interest expense	-3,301,217	344,394	791,470
Net fee and commission income	-58,640	-30,621	-73,561
Net result from items at fair value	-5,488,950	-3,987,577	-1,677,623
General administrative expenses:			
- Other expenses	-4,244,811	-2,084,607	-4,034,987

Note 12. 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 25 August 2022.

The world economy experienced a significant and broad downturn in 2022 with price increases for food and energy, rising interest rates and falling house prices. The company's capital

position however, is still very strong and they realized credit losses have not changed compared to levels before the crisis. In step with the increased uncertainty and the weaker macro-economic figures, the company has chosen to increase the collective reserves. However, the risk of potential adverse impacts on income due to lower net interest income, higher market volatility and reduced business activity remains.

The high inflation, the falling housing prices and what effect this will have on credit losses is currently uncertain and something the company will carefully monitor ahead.

Upcoming publications

Nordea Hypotek's Annual Report for the financial year 2022, which includes the Audited Financial Statements, the Board of Directors' Report and the Corporate Governance Statement, will be published on 13 March 2023 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 2023 will be published on 28 August 2023 by way of a stock exchange release and will also be available at www.nordea.com

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