

Nordea

Half-year financial report January-June 2021

Nordea Mortgage Bank Plc

Nordea Mortgage Bank Plc

Introduction

Nordea Mortgage Bank operates as an issuer of covered bonds in the Finnish market. Bonds issued by Nordea Mortgage Bank are covered by a pool of loans consisting mainly of Finnish housing loans.

Throughout this report, “Nordea Mortgage Bank” and “NMB” refer to Nordea Mortgage Bank Plc, business identity code 2743219-6. The registered office of the company is in Helsinki. Nordea Mortgage Bank Plc is a wholly owned subsidiary of Nordea Bank Abp, the listed parent company of the Nordea Group. The Nordea Group is referred to as “Group”.

This report is unaudited.

Result summary January-June 2021

Income in the first half of 2021 increased by 25% and amounted to EUR 135.8m (January-June 2020 108.3). Total expenses increased to EUR 77.8m (31.2). Net loan losses amounted to EUR 34.4m (12.9).

NMB’s operating profit was EUR 23.6m (64.2). Net profit decreased by 63% and totalled EUR 18.9m (51.4). Return on equity was 3.1% (8.8) and the cost/income ratio 57% (29).

Macroeconomic trend

Prospects for the global economy are improving, with vaccine roll-outs gaining speed and societies gradually opening. After a mixed first quarter with new containment measures introduced in many countries, the second quarter indicates a strong recovery, particularly in the advanced economies. Fiscal and monetary policy continue to support the recovery, and global growth is expected to be close to 6% in 2021 as a whole.

Suppliers’ delivery times in the manufacturing sector increased during the second quarter due to bottlenecks in various parts of the global value chain. At the same time, surging commodity prices and transportation costs led to sharp increases in producer and consumer prices. Ten-year government bond yields declined in the US and increased only slightly in the euro area amid dovish central bank rhetoric. Equity markets continued to perform strongly.

Market performance in Finland in January–June 2021

Finland has survived the coronavirus crisis with relatively moderate financial damage. The service sector is still having difficulties after the lockdown restrictions imposed early in the year, but the outlook for the rest of the year is positive in the home market. In manufacturing, production has already surpassed the pre-pandemic levels and the order books have started to fill up again.

Nordea Research forecasts Finland’s GDP to grow by 3% in 2021 after contracting by 2.8% in 2020. The risks affecting the economy have not disappeared and the forecasts include a considerable degree of uncertainty. The forecast assumes that no restrictions affecting the economy will have to be imposed anymore. If the pandemic surges in Finland or elsewhere, it will affect the economic outlook negatively.

Unemployment is declining steadily, despite the coronavirus restrictions still hitting employment in the restaurant, hotel and culture sectors in particular. In manufacturing, constructing and other services, employment is already at the levels seen before the pandemic. Employment is expected to rise rapidly starting from the summer when the demand in the service sectors will improve.

Mortgage business development in the first half of 2021

The Finnish mortgage market has performed strong despite the COVID-19 thus proving its well-established and solid basis. The sales of new mortgages have broken records during the spring especially in the growth centres where Nordea’s mortgage business is mainly concentrated, boosted by Nordea’s increased customer satisfaction, safe dealing and broad availability during the COVID-19 pandemic.

Polarisation of the housing market still continues with house prices increasing in the growth centres and decreasing in locations with declining population. COVID-19 pandemic has reduced the attractiveness of cities and the migration towards smaller towns has increased. In the whole country the housing prices of old apartments were up 4.9% in April compared to the previous year. In Greater Helsinki, prices went up 6.1%,

whereas in the rest of Finland the prices went up 3.6%. Prices of old single-family houses rose 14.2 percent in the region around Greater Helsinki in January to March compared to previous year and increased by 7.6% in the whole country as well. The number of home sales has increased by over 15% compared to the previous year. The number of homes for sale has decreased and the selling times become shorter in the whole country. Funds saved from other spending have, together with new mortgage loans, been used on the housing market for changing homes to meet the needs of more frequent remote working.

Thanks to the increased demand and rising prices, the number of permits and new housing construction starts has been rising in the growth centres. Prices are still expected to rise during the second half of the year, as the increased supply will only start reducing the price pressure from next year.

The buy-to-let-market has suffered from the corona due to the subdued rental demand in cities due to distance learning and weak employment in the service sector. Increased supply has resulted in slightly decreasing rent levels. Students are expected to return to the market in the autumn and this, together with the increasing demand in the service sector, is expected to improve the rental demand in cities. Increased supply may still result in more moderate rent level growth compared to the previous years.

Loan maturities are slowly lengthening, but Nordea caps maturity at origination at 35 years. The Board of the FIN-FSA has decided to lower the loan cap for residential mortgage loans from the standard level of 90% to pre-pandemic level of 85%, effective 1 October 2021. For the first-home loans the level will stay at 95% as today.

The Finnish tradition of steady amortisation has continued in spite of COVID-19, with relatively short and few interest-only periods during the lifetime of the loan. The demand for instalment-free periods has returned to pre COVID-19 levels after the initial peak in Q2 2020 and the volumes remain low compared to total lending. Also, there is no direct impact of COVID-19 visible in the development of loans in arrears and the movement has stayed within the range of normal fluctuation.

Comments on the income statement

(Comparison figures in brackets refer to the corresponding period in 2020)

Income

Net interest income in January-June 2020 increased to EUR 128.9m (113.5), supported by lowering interest expenses for covered bonds. Interest income was EUR

136.7m (140.9) and interest expenses were EUR 7.8m (27.4). The interest rates continued to stay on a very low level throughout the first half year, safeguarding low funding costs for NMB's operations. The previous pressure towards mortgage margins seem to have stalled and the margins have remained relatively stable during the period.

Net fee and commission income was EUR 1.7m (-2.8). Commission income relates mainly to lending and amounted to EUR 5.7m (4.9). Commission expenses relate mainly to the guarantee and liquidity facility provided by Nordea Bank Abp and were EUR 4.0m (7.7).

Net result from items at fair value was EUR 5.2m (-2.4) representing the hedging inefficiency of financial instruments.

Expenses

Total operating expenses were EUR 77.8m (31.2) of which staff costs amounted to EUR 0.8m (0.8). The number of employees was 13 (11) at the end of June 2021.

Other operating expenses increased to EUR 77.0m (30.4). From 1 January 2021, the transfer pricing method applied to the intra-group sales and distribution services procured by NMB, has been updated to be in line with the development of OECD guidelines on transfer pricing and local tax practice. The updated methodology has entailed pricing adjustments of sales and distribution fees, increasing the expenses.

Other operating expenses consist mostly of payments for the intra-group outsourced services as well as of the resolution fee of 7.8m (6.0) for the whole year 2021.

The cost/income ratio was 57% (29) in the first half of 2021.

Loan losses

Net loan losses totalled EUR 34.4m (12.9) corresponding to a loan loss ratio of 23.1 basis points (9.3). The increase is mainly driven by an update of the IFRS 9 model with more conservative loss data assumption. Realised loan losses were EUR 3.4m (1.1) during the first half of 2021. More information can be found in Note 6 "Net loan losses" and Note 7 "Loans and impairment".

Taxes

The effective tax rate for the first half of 2021 was 20% (20).

Net profit

Net profit amounted to EUR 18.9m (51.4), corresponding to a return on equity of 3.1% (8.8) in the first half of the year.

Comments on the balance sheet

(Comparison figures in brackets refer to year-end 2020 figures.)

NMB's total assets amounted to EUR 31.5bn (30.8).

Total loans to the public grew 4% compared to the end of 2020, amounting to EUR 29.8bn (28.8).

Positive market values of derivatives amounted to EUR 0.6bn (0.9). NMB's derivatives mainly pertain to interest rate swaps and forward currency exchange contracts.

Total liabilities amounted to EUR 30.3bn (29.6) and equity to EUR 1.2bn (1.2).

Deposits by credit institutions decreased slightly to EUR 8.3bn (8.4).

Debt securities in issue consist of covered bonds issued under the EUR 25bn Covered Bond Programme. Covered bond funding at the end of June 2021 was EUR 20.8bn (19.8).

During the first half year of 2021 NMB issued one new tap issue amounting to EUR 2.5bn. The size of the cover pool was EUR 23.3bn (22.9) and the overcollateralisation was 12.2% (16.7).

Capital position and capital management

At the end of June 2021, NMB's risk exposure amount (REA) was EUR 4.1bn, compared to EUR 4.9bn at year-end 2020.

Excluding profit, the Common Equity Tier 1 capital ratio stood at 28.2% and total capital ratio at 33.6% at the end of June 2021.

NMB has not included the interim profits net of any foreseeable charges or dividend in Common Equity Tier 1 capital.

Lending

Total lending was EUR 29.8bn (28.8) at the end of June 2021. Lending to households was 94% (94) of the total lending and totalled EUR 28.1bn (27.0). Corporate lending was EUR 1.7bn (1.8).

The level of impaired loans decreased to EUR 237.4m from EUR 240.7m at year-end 2020.

Allowances amounted to EUR 54.7m (23.4), representing 0.18% (0.09) of total loans before allowances.

Off-balance sheet commitments

NMB's off-balance sheet items mainly consist of credit commitments. The total amount of off-balance sheet commitments was EUR 488.3m compared to EUR 396.2m at year-end 2020.

Risks and uncertainties

Nordea Mortgage Bank's main risk exposure is credit risk. The company also assumes liquidity risk, market risk and operational risk. For further information on risk composition, see the Annual report.

NMB entered the COVID-19 crisis with a strong financial position which the company has managed to maintain. The underlying business have remained strong in spite of COVID-19. In this respect none of the above exposures and risks are expected to have a significant adverse effect on the company or its financial position in the next six months.

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

Summary of items included in own funds

EURm	30 Jun 2021 ²	31 Dec 2020 ³	30 Jun 2020 ²
Calculation of own funds			
Equity	1,192.0	1,255.0	1,139.6
Proposed/actual dividend	-	-57.8	-
Common Equity Tier 1 capital before regulatory adjustments	1,192.0	1,197.2	1,139.6
Deferred tax assets	-	-	-
Intangible assets	-	-	-
IRB provisions shortfall (-)	-33.2	-35.8	-40.0
Deduction for investments in credit institutions (50%)	-	-	-
Pension assets in excess of related liabilities ¹	-	-	-
Other items, net	-14.9	-20.4	-20.6
Total regulatory adjustments to Common Equity Tier 1 capital	-48.1	-56.2	-60.6
Common Equity Tier 1 capital (net after deduction)	1,143.8	1,140.9	1,079.0
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)	1,143.8	1,140.9	1,079.0
Tier 2 capital before regulatory adjustments	200.0	200.0	200.0
IRB provisions excess (+)	22.2	12.7	12.8
Deduction for investments in credit institutions (50%)	-	-	-
Deductions for investments in insurance companies	-	-	-
Pension assets in excess of related liabilities	-	-	-
Other items, net	-	-	-
Total regulatory adjustments to Tier 2 capital	22.2	12.7	12.8
Tier 2 capital	222.2	212.7	212.8
Own funds (net after deduction)	1,366.0	1,353.6	1,291.8

¹ Based on conditional FSA approval

² Excluding profit of the period

³ Including profit of the period

Capital ratios

Percentage	30 Jun 2021 ¹	31 Dec 2020 ²	30 Jun 2020 ¹
CRR/CRDIV			
Common Equity Tier 1 capital ratio	28.2	23.1	22.3
Tier 1 capital ratio	28.2	23.1	22.3
Total capital ratio	33.6	27.4	26.7

¹ Excluding profit of the period.

² Including profit of the period.

Leverage ratio

	30 Jun 2021 ¹	31 Dec 2020 ²	30 Jun 2020 ¹
Tier 1 capital, EURm	1,143.8	1,140.9	1,079.0
Leverage ratio exposure, EURm	31,621.3	30,847.6	29,887.2
Leverage ratio, percentage	3.6	3.7	3.6

¹ Excluding profit of the period.

² Including profit of the period.

Minimum capital requirement and risk exposure amount

	30 Jun 2021	30 Jun 2021	31 Dec 2020	31 Dec 2020	30 Jun 2020	30 Jun 2020
	Minimum Capital requirement	REA	Minimum Capital requirement	REA	Minimum Capital requirement	REA
Credit risk	297.9	3,723.9	313.2	3,915.4	315.6	3,944.9
IRB	296.1	3,701.8	311.7	3,896.8	314.1	3,926.1
- sovereign	-	-	-	-	-	-
- corporate	31.8	397.4	32.6	407.3	36.5	456.6
- <i>advanced</i>	31.8	397.4	32.6	407.3	36.5	456.6
- retail	263.8	3,296.9	278.8	3,485.2	275.8	3,447.9
- <i>secured by immovable property collateral</i>	190.9	2,385.7	209.3	2,616.1	204.9	2,561.0
- <i>other retail</i>	72.9	911.3	69.5	869.1	71.0	886.9
- other	0.6	7.4	0.3	4.4	1.7	21.6
Standardised	1.8	22.1	1.5	18.6	1.5	18.8
- sovereign	1.8	22.1	1.5	18.6	1.5	18.8
- other	0.0	0.0	0.0	0.0	0.0	0.0
Operational risk	26.2	327.4	24.0	299.4	24.0	299.4
Additional risk exposure amount related to Finnish RW floor due to Article 458 CRR	-	-	57.8	721.9	46.4	580.2
Additional risk exposure amount related to Swedish RW floor due to Article 458 CRR	0.8	9.6	0.6	7.8	0.4	4.7
Total	324.9	4,060.8	395.6	4,944.5	386.3	4,829.2

Minimum Capital Requirement & Capital Buffers

Percentage	Minimum Capital requirement	Capital Buffers				Capital Buffers total ¹	Total
		CCoB	CCyB	SII	SRB		
Common Equity Tier 1 capital	4.5	2.5	0.0	-	-	2.5	7.0
Tier 1 capital	6.0	2.5	0.0	-	-	2.5	8.5
Own funds	8.0	2.5	0.0	-	-	2.5	10.5
EURm							
Common Equity Tier 1 capital	182.7	101.5	0.0	-	-	101.6	284.3
Tier 1 capital	243.6	101.5	0.0	-	-	101.6	345.2
Own funds	324.9	101.5	0.0	-	-	101.6	426.4

¹Only the maximum of the SRB and SII is used in the calculation of the total capital buffers.

Changes in the management

The composition of the Board of Directors has changed during the year as follows:

As from 1 January 2021 until 19 February 2021

- Jani Eloranta, Chair
- Kaj Blomster
- Hanna-Maria Heikkinen
- Erja Ketko
- Marte Kopperstad, Deputy Chair
- Ola Littorin
- Timo Nyman

As from 19 February 2021 until 4 June 2021

- Jani Eloranta, Chair
- Kaj Blomster
- Hanna-Maria Heikkinen
- Marte Kopperstad, Deputy Chair

- Ola Littorin
- Timo Nyman

As from 4 June 2021 until 30 June 2021

- Jani Eloranta, Chair
- Kaj Blomster
- Hanna-Maria Heikkinen
- Marte Kopperstad, Deputy Chair
- Ola Littorin
- Minna Martikainen
- Timo Nyman

Kaj Blomster, Hanna-Maria Heikkinen and Minna Martikainen are independent of Nordea Mortgage Bank Plc.

Riina Virta was appointed as the Chief Risk Officer in January 2021. Heikki Jousi has acted as the Chief Financial Officer as from 21 June 2021.

Helsinki, 21 July 2021
Board of Directors

Income statement

EURm	Jan-Jun 2021	Jan-Jun 2020	Change %	Full year 2020
Net interest income	128.9	113.5	14	235.6
Net fee and commission income	1.7	-2.8	160	-0.2
Net result from items at fair value	5.2	-2.4	316	-9.4
Other operating income	0.0	0.0	..	0.1
Total operating income	135.8	108.3	25	226.1
Staff costs	-0.8	-0.8	5	-1.4
Other expenses	-77.0	-30.4	153	-64.7
Depreciation of tangible assets	0.0	0.0	..	0.0
Total operating expenses	-77.8	-31.2	150	-66.1
Profit before loan losses	58.0	77.1	-25	160.0
Net loan losses	-34.4	-12.9	166	-15.4
Operating profit	23.6	64.2	-63	144.6
Income tax expense	-4.7	-12.8	-63	-28.9
Net profit for the period	18.9	51.4	-63	115.7

Business volumes, key items¹

EURm	30 Jun 2021	30 Jun 2020	Change %	31 Dec 2020	Change %
Loans to the public	29,804.8	27,644.0	8	28,764.2	4
Debt securities in issue	20,814.6	19,860.8	5	19,750.8	5
Equity	1,210.8	1,191.0	2	1,197.2	1
Total assets	31,471.5	29,755.1	6	30,783.2	2

¹ End of period

Ratios and key figures¹

	Jan-Jun 2021	Jan-Jun 2020	Full year 2020
Return on equity ² %	3.1	8.8	9.9
Cost/income ratio ² , %	57	29	29
Loan loss ratio, basis points ²	23.1	9.3	5.4
Common Equity Tier 1 capital ratio ² , %	28.2	22.3	23.1
Tier 1 capital ratio ² , %	28.2	22.3	23.1
Total capital ratio ² , %	33.6	26.7	27.4
Tier 1 capital ² , EURm	1,143.8	1,079.0	1,140.9
Risk exposure amount, EURm	4,060.8	4,829.2	4,944.5
Number of employees (full-time equivalents) ²	13	11	12

¹ For more detailed information regarding ratios and key figures defined as Alternative performance measures, see www.nordea.com/en/investor-relations/.

² End of period.

Income statement

EURm	Note	Jan-Jun 2021	Jan-Jun 2020	Full year 2020
Operating income				
Interest income		136.7	140.9	279.1
Interest expense		-7.8	-27.4	-43.5
Net interest income	2	128.9	113.5	235.6
Fee and commission income		5.7	4.9	9.9
Fee and commission expense		-4.0	-7.7	-10.1
Net fee and commission income	3	1.7	-2.8	-0.2
Net result from items at fair value	4	5.2	-2.4	-9.4
Other operating income		0.0	0.0	0.1
Total operating income		135.8	108.3	226.1
Operating expenses				
General administrative expenses:				
- Staff costs		-0.8	-0.8	-1.4
- Other expenses	5	-77.0	-30.4	-64.7
Depreciation of tangible assets		0.0	0.0	0.0
Total operating expenses		-77.8	-31.2	-66.1
Profit before loan losses		58.0	77.1	160.0
Net loan losses	6	-34.4	-12.9	-15.4
Operating profit		23.6	64.2	144.6
Income tax expense		-4.7	-12.8	-28.9
Net profit for the period		18.9	51.4	115.7
Attributable to:				
Shareholders of Nordea Mortgage Bank Plc		18.9	51.4	115.7
Total		18.9	51.4	115.7

Statement of comprehensive income

EURm	Jan-Jun 2021	Jan-Jun 2020	Full year 2020
Net profit for the period	18.9	51.4	115.7
Items that may be reclassified subsequently to the income statement			
Cash flow hedges:			
-Valuation gains/losses during the period, net of recycling	-6.5	6.3	5.9
-Tax on valuation gains/losses during the period	1.3	-1.3	-1.2
Items that may not be reclassified subsequently to the income statement			
Defined benefit plans:			
-Remeasurement of defined benefit plans	0.0	0.0	0.0
-Tax on remeasurement of defined benefit plans	0.0	0.0	0.0
Other comprehensive income, net of tax	-5.2	5.0	4.7
Total comprehensive income	13.7	56.4	120.4
Attributable to:			
Shareholders of Nordea Mortgage Bank Plc	13.7	56.4	120.4
Total	13.7	56.4	120.4

Balance sheet

EURm	Note	30 Jun 2021	31 Dec 2020	30 Jun 2020
Assets				
Cash and balances with central banks		222.3	241.8	241.1
Loans to credit institutions	7	619.0	582.7	706.8
Loans to the public	7	29,804.8	28,764.2	27,644.0
Derivatives		561.0	858.2	862.1
Fair value changes of the hedged items in portfolio hedge of interest rate risk		141.3	230.3	203.5
Property and equipment		0.0	0.0	0.0
Deferred tax assets		8.8	7.4	7.5
Current tax assets		13.2	-	-
Other assets		87.5	90.2	86.9
Prepaid expenses and accrued income		13.6	8.4	3.2
Total assets		31,471.5	30,783.2	29,755.1
Liabilities				
Deposits by credit institutions		8,259.0	8,386.6	7,363.2
Debt securities in issue		20,814.6	19,750.8	19,860.8
Derivatives		261.3	331.3	293.4
Fair value changes of the hedged items in portfolio hedge of interest rate risk		479.2	716.8	740.5
Current tax liabilities		-	6.9	1.7
Other liabilities		107.3	59.4	3.8
Accrued expenses and prepaid income		138.6	133.4	99.9
Retirement benefit obligations		0.2	0.1	0.1
Provisions		0.1	0.2	0.2
Subordinated liabilities		200.4	200.5	200.5
Total liabilities		30,260.7	29,586.0	28,564.1
Equity				
Share capital		250.0	250.0	250.0
Other reserves		814.1	819.4	819.6
Retained earnings		146.7	127.8	121.4
Total equity		1,210.8	1,197.2	1,191.0
Total liabilities and equity		31,471.5	30,783.2	29,755.1
Assets pledged as security for own liabilities		23,348.8	22,934.8	22,330.1
Credit commitments		488.3	396.2	381.8

Statement of changes in equity

Attributable to the shareholders of Nordea Mortgage Bank Plc

EURm	Share capital ¹	Cash flow hedges	Other reserves:		Retained earnings	Total equity
			Invested unrestricted equity	Defined benefit plans		
Balance at 1 Jan 2021	250.0	19.4	800.0	0.0	127.8	1,197.2
Net profit for the period	-	-	-	-	18.9	18.9
Other comprehensive income, net of tax	-	-5.2	-	-	-	-5.2
Total comprehensive income	-	-5.2	-	-	18.9	13.6
Balance at 30 Jun 2021	250.0	14.1	800.0	0.0	146.7	1,210.8

Attributable to the shareholders of Nordea Mortgage Bank Plc

EURm	Share capital ¹	Cash flow hedges	Other reserves:		Retained earnings	Total equity
			Invested unrestricted equity	Defined benefit plans		
Balance at 1 Jan 2020	250.0	14.6	800.0	0.0	70.0	1,134.6
Net profit for the period	-	-	-	-	115.7	115.7
Other comprehensive income, net of tax	-	4.7	-	0.0	-	4.7
Total comprehensive income	-	4.7	-	0.0	115.7	120.4
Anticipated dividend	-	-	-	-	-57.8	-57.8
Balance at 31 Dec 2020	250.0	19.4	800.0	0.0	127.8	1,197.2

Attributable to the shareholders of Nordea Mortgage Bank Plc

EURm	Share capital ¹	Cash flow hedges	Other reserves:		Retained earnings	Total equity
			Invested unrestricted equity	Defined benefit plans		
Balance at 1 Jan 2020	250.0	14.6	800.0	0.0	70.0	1,134.6
Net profit for the period	-	-	-	-	51.4	51.4
Other comprehensive income, net of tax	-	5.0	-	-	-	5.0
Total comprehensive income	-	5.0	-	-	51.4	56.4
Balance at 30 Jun 2020	250.0	19.6	800.0	0.0	121.4	1,191.0

¹ Total shares registered were 257.7 million (31 Dec 2020 257.7 million).

Cash flow statement, condensed

EURm	Jan-Jun 2021	Jan-Jun 2020	Full year 2020
Operating activities			
Operating profit	23.6	64.2	144.6
Adjustments for items not included in cash flow	-121.8	141.8	126.8
Income taxes paid	-24.9	-20.1	-30.9
Tax refund	-	-	0.0
Cash flow from operating activities before changes in operating assets and liabilities	-123.1	185.9	240.5
Changes in operating assets and liabilities	203.0	-1,514.0	-1,686.9
Cash flow from operating activities	79.9	-1,328.1	-1,446.4
Financing activities			
Dividend paid	-57.8	-89.8	-89.8
Other changes	-5.2	5.0	0.0
Cash flow from financing activities	-63.0	-84.8	-89.8
Cash flow for the period	16.9	-1,412.9	-1,536.3

Cash and cash equivalents

EURm	30 Jun 2021	30 Jun 2020	31 Dec 2020
Cash and cash equivalents at beginning of the period	264.2	1,800.5	1,800.5
Cash and cash equivalents at end of the period	281.1	387.6	264.2
Change	16.9	-1,412.9	-1,536.3

The following items are included in cash and cash equivalents:

Cash and balances with central banks	222.3	241.1	241.8
Loans to credit institutions	58.8	146.5	22.4
Total cash and cash equivalents	281.1	387.6	264.2

Cash comprises legal tender and bank notes in foreign currencies. Balances with central banks consist of deposits in accounts with central banks and postal giro systems under government authority, where the following conditions are fulfilled:

- the central bank or the postal giro system is domiciled in the country where the institution is established
- the balance on the account is readily available at any time.

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

Notes to the financial statements

Note 1 Accounting policies

Nordea Mortgage Bank's (referred as to NMB) interim financial statements are presented in accordance with IAS 34 "Interim Financial Reporting". In addition, certain rules in the Finnish Accounting Act, the Finnish Credit Institutions Act, the Finnish Mortgage Credit Banks Act, the Financial Supervisory Authority's regulations and guidelines and the Decree of the Ministry of Finance on the financial statements and consolidated financial statements of credit institutions and investment firms, have also been applied.

This interim report is unaudited.

The accounting policies and methods of computation are unchanged in comparison with Note 1 in the Annual Report 2020, except for the items presented in the section "Changed accounting policies and presentation" below. For more information see Note 1 in the Annual Report 2020.

NMB follows the same accounting principles as Nordea Group, when applicable. Changes in IFRS standards are monitored on Group level and same changes in accounting principles are implemented throughout the Group, including Nordea Mortgage Bank.

Changed accounting policies and presentation

The following changes in accounting policies and presentation were implemented by NMB on 1 January 2021.

Interest Rate Benchmark Reform – Phase 2

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 NMB on 1 January 2021. Hedge relationships in NMB have been able to 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 that 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.

Critical judgements and estimation uncertainty

NMB applied significant critical judgements in the preparation of the interim financial statements due to significant uncertainty concerning the potential long-term impact of COVID-19 on its financial statements. More information on where critical judgements are generally applied and where estimation uncertainty exists can be found in Note 1 in the Annual Report 2020.

Note 2 Net interest income

EURm	Jan-Jun 2021	Jan-Jun 2020	Full year 2020
Interest income			
Loans to credit institutions	1.6	2.7	5.0
Loans to the public	121.1	124.6	250.6
Other interest income	12.6	12.5	22.5
<i>Other</i>			
Interest income from derivatives	1.4	1.1	1.0
Interest income	136.7	140.9	279.1
- Of which negative yield on liabilities	6.4	4.4	9.3
Interest expense			
Deposits by credit institutions	-5.3	-5.8	-10.8
Debt securities in issue	-33.0	-70.0	-129.4
Subordinated liabilities	-0.9	-1.1	-2.0
Other interest expenses	-1.5	-2.1	-12.0
<i>Other</i>			
Net interest income from derivatives	32.9	51.5	110.8
Interest expense	-7.8	-27.4	-43.5
- Of which negative yield on assets	-1.5	-2.1	-3.3
Net interest income	128.9	113.4	235.6

Note 3 Net fee and commission income

EURm	Jan-Jun 2021	Jan-Jun 2020	Full year 2020
Brokerage, securities issues and corporate finance	0.0	-0.2	-0.6
- of which expense	0.0	-0.2	-0.6
Lending products	5.7	4.9	10.1
- of which income	5.7	4.9	10.1
Guarantees and liquidity facility	-4.0	-7.5	-9.5
- of which expense	-4.0	-7.5	-9.5
Other	0.0	0.0	-0.3
- of which income	0.0	0.0	0.0
- of which expense	0.0	0.0	-0.3
Total	1.7	-2.8	-0.2

Note 4 Net result from items at fair value

EURm	Jan-Jun 2021	Jan-Jun 2020	Full year 2020
Interest related instruments and foreign exchange gains/losses	5.2	-2.4	-9.4
Total	5.2	-2.4	-9.4
Net result from categories of financial instruments			
EURm			
Financial assets and liabilities mandatorily at fair value through profit or loss	-144.5	164.4	107.1
Financial assets at amortised cost	-84.9	93.3	143.2
Financial liabilities at amortised cost	234.6	-260.1	-259.6
Foreign exchange gains/losses excluding currency hedges	0.0	0.0	-0.1
Total	5.2	-2.4	-9.4

Note 5 Other expenses

EURm	Jan-Jun 2021	Jan-Jun 2020	Full year 2020
Resolution fee	-7.8	-6.0	-6.0
Information technology	0.0	0.0	0.0
Marketing and representation	0.0	-0.1	0.0
Postage, transportation, telephone and office expenses	0.0	0.0	0.0
Rents, premises and real estate	0.0	0.0	0.0
Fees for the outsourced services provided by the parent company ¹	-68.3	-23.3	-56.5
Other	-0.9	-1.0	-2.2
Total	-77.0	-30.4	-66.4

¹ From 1 January 2021, the transfer pricing method applied to the intra-group sales and distribution services procured by NMB, has been updated to be in line with the development of OECD guidelines on transfer pricing and local tax practice. The updated methodology has entailed pricing adjustments of sales and distribution fees, increasing the expenses.

Note 6 Net loan losses

EURm	Jan-Jun 2021	Jan-Jun 2020	Full year 2020
Net loan losses, stage 1	-3.1	-1.5	-1.2
- of which off-balance sheet items	-0.0	-0.0	-0.0
Net loan losses, stage 2	-12.2	-2.4	-3.8
- of which off-balance sheet items	0.0	-0.0	-0.1
Net loan losses, non-defaulted	-15.3	-3.9	-5.0
Stage 3, defaulted			
Net loan losses, individually assessed, model-based	-15.1	-7.6	-7.4
Realised loan losses	-3.4	-1.1	-3.2
Decrease of provisions to cover realised loan losses	0.1	-	-
Recoveries on previous realised loan losses	0.0	0.0	-0.1
New/increase in provisions	-0.6	-0.3	0.0
Reversal of provisions	0.0	-	0.3
Net loan losses, defaulted	-19.1	-9.0	-10.4
Net loan losses	-34.4	-12.9	-15.4

Key ratios

	Jan-Jun 2021	Jan-Jun 2020	Full year 2020
Loan loss ratio, basis points ¹	23.1	9.3	5.4
- of which stage 1	2.1	1.1	0.4
- of which stage 2	8.2	1.7	1.3
- of which stage 3	12.8	6.5	3.6

¹ Net loan losses (annualised) divided by closing balance of loans to the public (lending) measured at amortised cost.

The increase in net loan losses for the first half of 2021 compared to the same period in 2020 is mainly driven by a model update with more conservative loss data assumptions.

Note 7 Loans and impairment

Despite COVID-19, the credit quality of NMB's loan book was stable and strong throughout the first half of 2021. The Nordea Group level method for impairment is applied in NMB. Macro-economic scenarios have been updated, including longer-term view of the expected impact of the economic downturn. Furthermore, a thorough review of NMB's loan book has been concluded.

EURm	30 Jun 2021	31 Dec 2020	30 Jun 2020
Loans measured at amortised cost, not impaired (stage 1 and 2)	30,241.1	29,129.9	28,124.2
Impaired loans (stage 3)	237.4	240.7	250.0
- of which servicing	24.1	24.6	38.3
- of which non-servicing	213.3	216.1	211.7
Loans before allowances	30,478.5	29,370.6	28,374.2
- of which credit institutions	619.0	582.7	706.5
Allowances for impaired loans (stage 3)	-28.2	-12.5	-13.2
- of which servicing	-2.3	-1.2	-2.1
- of which non-servicing	-25.9	-11.3	-11.1
Allowances for impaired loans (stage 1 and 2)	-26.5	-11.2	-10.2
Allowances	-54.7	-23.7	-23.4
- of which credit institutions	-	-	-
Loans, carrying amount	30,423.8	29,346.9	28,350.8

Movements of allowance accounts for loans measured at amortised cost

EURm	Stage 1	Stage 2	Stage 3	Total
Balance at 1 Jan 2021	-3.3	-7.9	-12.5	-23.7
Changes due to origination and acquisition	-1.3	-	-	-1.3
Transfers from stage 1 to stage 2	0.3	-9.8	-	-9.5
Transfers from stage 1 to stage 3	0.0	0.0	-1.3	-1.3
Transfers from stage 2 to stage 1	-0.5	2.8	-	2.3
Transfers from stage 2 to stage 3	-	0.3	-3.2	-2.9
Transfers from stage 3 to stage 1	0.0	-	0.3	0.3
Transfers from stage 3 to stage 2	-	-0.4	1.0	0.6
Changes due to change in credit risk (net)	-1.7	-5.4	-14.2	-21.3
Changes due to repayments and disposals	0.1	0.4	1.6	2.1
Balance at 30 Jun 2021	-6.4	-20.1	-28.2	-54.7

EURm	Stage 1	Stage 2	Stage 3	Total
Balance at 1 Jan 2020	-2.1	-4.3	-5.3	-11.7
Changes due to origination and acquisition	-1.5	-	-	-1.5
Transfers from stage 1 to stage 2	0.2	-3.6	-	-3.4
Transfers from stage 1 to stage 3	0.0	0.0	-1.7	-1.7
Transfers from stage 2 to stage 1	-0.2	1.5	-	1.4
Transfers from stage 2 to stage 3	-	0.2	-2.3	-2.1
Transfers from stage 3 to stage 1	0.0	-	0.3	0.3
Transfers from stage 3 to stage 2	-	-0.1	0.3	0.2
Changes due to change in credit risk (net)	-0.2	-0.6	-4.9	-5.6
Changes due to repayments and disposals	0.1	0.2	0.4	0.7
Balance at 30 Jun 2020	-3.6	-6.6	-13.2	-23.4

Key ratios ¹	30 Jun 2021	31 Dec 2020	30 Jun 2020
Impairment rate (stage 3), gross, basis points	78	82	88
Impairment rate (stage 3), net, basis points	69	78	83
Total allowance rate (stage 1, 2 and 3), basis points	18	8	8
Allowances in relation to impaired loans (stage 3), %	12	5	5
Allowances in relation to loans in stage 1 and 2, basis points	9	4	4

¹ For definitions, see Glossary

Note 8 Classification of financial instruments

EURm	Amortised cost	Mandatorily at fair value through profit or loss	Non-financial assets	Total
Assets				
Cash and balances with central banks	222.3	-	-	222.3
Loans to credit institutions	619.0	-	-	619.0
Loans to the public	29,804.8	-	-	29,804.8
Derivatives	-	561.0	-	561.0
Fair value changes of the hedged items in portfolio hedge of interest rate risk	141.3	-	-	203.5
Deferred tax assets	-	-	8.8	8.8
Current tax assets	-	-	13.2	13.2
Other assets	81.3	-	6.2	87.5
Prepaid expenses and accrued income	13.6	-	-	13.6
Total 30 Jun 2021	30,882.3	561.0	28.2	31,471.5
Total 31 Dec 2020	29,907.3	858.2	17.7	30,783.2

EURm	Amortised cost	Mandatorily at fair value through profit or loss	Non-financial assets	Total
Liabilities				
Deposits by credit institutions	8,259.0	-	-	8,259.0
Debt securities in issue	20,814.6	-	-	20,814.6
Derivatives	-	261.3	-	261.3
Fair value changes of the hedged items in portfolio hedge of interest rate risk	479.2	-	-	479.2
Other liabilities	0.3	-	107.0	107.3
Accrued expenses and prepaid income	49.6	-	89.0	138.6
Provisions	-	-	0.1	0.1
Retirement benefit liabilities	-	-	0.2	0.2
Subordinated liabilities	200.4	-	-	200.4
Total 30 Jun 2021	29,803.1	261.3	196.3	30,260.7
Total 31 Dec 2020	29,107.3	331.3	147.4	29,586.0

Note 9 Assets and liabilities at fair value

Fair value of financial assets and liabilities

EURm	30 Jun 2021		31 Dec 2020	
	Carrying amount	Fair value	Carrying Amount	Fair value
Financial assets				
Cash and balances with central banks	222.3	222.3	241.8	241.8
Loans	30,565.2	31,153.7	29,577.2	30,465.5
Derivatives	561.0	561.0	858.2	858.2
Other assets	81.3	81.3	88.3	88.3
Total financial assets	31,429.8	32,018.3	30,765.5	31,653.8
Financial liabilities				
Deposits and debt instruments	29,753.2	29,894.7	29,054.7	29,249.5
Derivatives	261.3	261.3	331.3	331.3
Other liabilities	0.3	0.3	-2.4	-2.4
Accrued expenses and prepaid income	49.7	49.7	55.0	55.0
Total financial liabilities	30,064.5	30,206.0	29,438.6	29,633.4

The determination of fair value is described in the Annual Report 2020, Note 23 "Assets and liabilities at fair value". The fair value for loans has 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.

Assets and liabilities held at fair value

Derivatives are measured at fair value on a recurring basis at the end of each reporting period through valuation technique using observable data (IFRS fair value hierarchy level 2). 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 rates prevailing at the balance sheet date and where any unobservable inputs have had an insignificant impact on the fair values.

Glossary

Cost/income ratio

Total operating expenses divided by total operating income.

Cover pool

Loans with mortgage collateral that serve as collateral for covered bonds and that are entered in a bond register.

Loan loss ratio

Net loan losses (annualised) divided by the closing balance of loans to the public (lending) measured at amortised cost, basis points.

Impairment rate (stage 3) gross, basis points

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

Impairment rate (stage 3) net, basis points

Impaired loans (stage 3) after allowances divided by total loans measured at amortised cost before allowances

Total allowance rate (stage 1, 2 and 3), basis points

Total allowances divided by total loans measured at amortised cost before allowances

Allowances in relation to credit impaired loans (stage 3), %

Allowances for impaired loans (stage 3) divided by impaired loans measured at amortised cost (stage 3) before allowances

Allowances in relation to loans in stage 1 and 2, basis points

Allowances for not impaired loans (stage 1 and 2) divided by not impaired loans measured at amortised cost (stage 1 and 2) before allowances.

Return on equity (ROE)

Net profit for the year as a percentage of average equity for the year. Average equity including net profit for the year and dividend until paid.

Risk exposure amount

Total assets and off-balance-sheet items valued on the basis of the credit and market risks, as well as the operational risks in accordance with regulations governing capital adequacy, excluding carrying amount of shares which have been deducted from the capital base and intangible assets.

Tier 1 capital

The Tier 1 capital of an institution consists of the sum of the Common Equity Tier 1 capital and Additional Tier 1 capital of the institution. Common Equity Tier 1 capital includes shareholders' equity excluding proposed dividend, deferred tax assets, intangible assets, the full expected shortfall deduction (the negative difference between expected losses and provisions) and finally other deductions such as cash flow hedges.

Tier 1 capital ratio

Tier 1 capital as a percentage of risk exposure amount. The Common Equity Tier 1 capital ratio is calculated as Common Equity Tier 1 capital as a percentage of risk exposure amount.

Total capital ratio

Own funds as a percentage of risk exposure amount.