

Nordea

Half-year financial report January-June 2019

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 whole Nordea Group. The Nordea Group is referred to as “Group”.

This report is unaudited.

Result summary January-June 2019

Income in the first half of 2019 amounted to EUR 94.7m (January-June 2018 107.4). Total expenses increased to EUR 36.9m (29.6). Net loan losses amounted to EUR 1.7m (7.3m).

NMB’s operating profit was EUR 56.1m (70.5). Return on equity was 7.8% (9.6) and the cost/income ratio 39% (28). Net profit totalled EUR 44.9m (55.3).

Macroeconomic trend

The world economy remained fragile during the first half of 2019 amid uncertainty about Brexit and the trade dispute between the US and the rest of the world, not least China. The manufacturing sector has been hit hard, while the service sector to a greater extent has been able to keep up production.

However, inflation in Europe remains tame and recent statements from the major central banks point towards new monetary policy easing and low – even negative – rates for a long time.

It is now widely expected among market participants that the Fed will cut rates, and the ECB has signaled that in the absence of improvement, such that the sustained return of inflation to the target is threatened, additional stimulus will be required. This has led to new lows for interest rates globally and helped stock markets rally.

Market performance in Finland in January–June 2019

The Finnish economy grew at a decent pace in the beginning of this year. The GDP numbers for Q1 2019 stated growth of 0.6% from the previous quarter. These numbers paint a fairly positive picture for the start of this year, but however, the growth momentum is slowing.

Somewhat surprisingly, the export sector was the growth driver in the start of 2019. Finnish export increased by 2.4% from the previous quarter despite global weakness and ongoing US-China trade war. Strong export numbers were partly due to temporary factors, but still, the development in export sector has been surprisingly strong this year.

Both private consumption and investments declined from the end of last year. Especially the sluggish consumption was a disappointment, since the positive employment development and increasing earnings were expected to support it. Investments were weak in all categories and also construction growth turned to a negative side. Research and development investments are still far below the pre-crisis level in volume terms, which is worrying for the growth prospect.

In overall picture the Finnish economy is still growing, but the pace is slowing and the growth outlook is gloomier.

Consumer and manufacturing confidence have been on a declining trend for a while now, which can influence the short-term growth prospect too. Uncertainty and increasing worries over outlook can weaken households’ and companies’ willingness to consume and invest. In addition, global slowdown is expected to hurt Finnish export sector more than it already has.

The division of the housing market continues with prices increasing in growth centres and decreasing in other areas. The sales of existing homes were sluggish during the first months of the year, but they have recently picked up. New mortgages also increased by 1.5% during January – May 2019 compared to 2018.

Nordea Mortgage Bank business development in the first half of 2019

The mortgage business picked up during 2019 with overall demand. Construction of new apartments in the capital region as well as in growth centres has been higher than in the past – supported by the gradual movement of population to growth centres from other parts of the country.

The division of the housing market continues with house prices increasing in the capital area and decreasing outside the capital area. In the whole country the housing prices of old apartments went down 1.0% in January to May compared to previous year. In Greater Helsinki, prices went up 0.5%, whereas in the rest of Finland the prices went down 2.5%.

Despite the recent declining trend in the customer confidence, the sales of new mortgages have been strong especially in the growth centres. Nordea Bank Abp, being the originator for the loans in the balance sheet of NMB, has been able to capture a fair share of this positive development, totalling to 8% increase in new mortgages, in the first part of 2019 compared to previous year.

The buy-to-let-market has been growing since 2018, driven by new capacity in small apartments as well as high rent levels.

Comments on the income statement

(Comparison figures in brackets refer to the corresponding period in 2018)

Income

Net interest income in January-June 2019 was EUR 104.7m (113.6). Interest rates continued to stay on a very low level throughout the first half year and the pressure towards housing loan margins continued during the period. Interest expenses remained stable.

Net fee and commission income was EUR -5.0m (-4.7). Commission income relates mainly to lending and amounted to EUR 4.0m (3.8) while commission expenses were EUR 9.0m (8.5). Commission expenses relate mainly to the guarantee and liquidity facility provided by Nordea Bank Abp.

Net result from items at fair value was EUR -5.0m (-1.5) representing the hedging inefficiency of financial instruments.

Expenses

Total operating expenses totalled to EUR 36.9m (29.6).

Staff costs amounted to EUR 1.2m (1.0). The number of employees was 18 at the end of June 2019.

Other operating expenses increased to EUR 35.7m (28.6). Other operating expenses consist mostly of payments for the intra-group outsourced services as well as of the resolution fee of 4.2m (5.2) for the whole year 2019.

Increase in other operating expenses is mainly explained by the additional service fees related to the purchase of EUR 2.2bn loan portfolio from Nordea Bank Abp in June 2019.

The cost/income ratio was 39% (28) in the first half of 2019.

Loan losses

Net loan losses totalled EUR 1.7m (7.3) corresponding to a loan loss ratio of 1.3 (6.2) basis points.

Taxes

The effective tax rate for the first half of 2019 was 20% (21).

Net profit

Net profit amounted to EUR 44.9m (55.3), corresponding to a return on equity of 7.8% (9.6) in the first half of the year.

Comments on the balance sheet

(Comparison figures in brackets refer to year-end 2018 figures.)

NMB's total assets amounted to EUR 28.2bn (26.4).

Total loans to the public increased 12% compared to the end of 2018, amounting to EUR 25.9bn (23.1). The increase was mainly driven by the purchase of 2.2bn loan portfolio from Nordea Bank Abp in June 2019.

Lending to households was 92% (91) of the total lending and totalled EUR 23.9bn (21.3). Corporate lending totalled EUR 2.0bn (2.1).

Positive market values of derivatives were higher than at year-end 2018 and amounted to EUR 0.8bn (0.5). NMB's derivatives mainly pertain to interest rate swaps and forward currency exchange contracts.

Total liabilities amounted to EUR 27.1bn (25.2) and equity to EUR 1.1bn (1.2).

Deposits by credit institutions and central banks increased to EUR 9.3bn (7.7).

Debt securities in issue consist of covered bonds issued under the EUR 25bn Covered Bond Programme. Covered bond funding at the end of June 2019 was EUR 16.2bn (16.8).

NMB issued two new covered bonds during the first half year of 2019, amounting to EUR 2.5bn in total. The size of the cover pool was EUR 21.8bn (19.8) and the overcollateralisation was 34.8% (18.5).

Capital position and capital management

At the end of June 2019, NMB's risk exposure amount (REA) was EUR 4.5bn, compared to 4.3bn at year-end 2018.

Excluding profit, the Common Equity Tier 1 capital ratio stood at 23.4% and total capital ratio at 28.2% at the end of June 2019.

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

Credit portfolio

Total lending was EUR 25.9bn (23.1) at the end of June 2019, showing an increase of 2.8bn from December 2018 mainly driven by the purchase of 2.2bn loan portfolio from Nordea Bank Abp in June 2019.

Impaired loans gross increased to EUR 224.6m from EUR 193.6m at the end of December 2018 but are still on a low level.

Allowances for impaired loans amounted to EUR 49.3m (47.8), representing 0.18% of total loans before allowances. At year-end 2018 the allowance ratio was 0.20%.

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 267.6m compared to EUR 196.8m at year-end 2018.

Risks and uncertainties

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

None of the above exposures and risks is expected to have any 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 2019	31 Dec 2018	30 Jun 2018
Calculation of own funds			
Equity	1,082.6	1,064.4	1,060.7
Proposed/actual dividend	-	-	-
Common Equity Tier 1 capital before regulatory adjustments	1,082.6	1,064.4	1,060.7
Deferred tax assets	-	-	-
Intangible assets	-	-	-
IRB provisions shortfall (-)	-12.4	-9.4	-9.9
Deduction for investments in credit institutions (50%)	-	-	-
Pension assets in excess of related liabilities ¹	-	-	-
Other items, net	-20.2	-5.4	-1.9
Total regulatory adjustments to Common Equity Tier 1 capital	-32.6	-14.8	-11.8
Common Equity Tier 1 capital (net after deduction)	1,050.0	1,049.6	1,048.9
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)	1,050.0	1,049.6	1,048.9
Tier 2 capital before regulatory adjustments	200.0	200.0	200.0
IRB provisions excess (+)	19.2	16.8	13.5
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	19.2	16.8	13.5
Tier 2 capital	219.2	216.8	213.5
Own funds (net after deduction)²	1,269.2	1,266.4	1,262.4

¹ Based on conditional FSA approval

² Excluding profit of the period

Capital ratios¹

Percentage	30 Jun 2019	31 Dec 2018	30 Jun 2018
CRR/CRDIV			
Common Equity Tier 1 capital ratio	23.4	24.1	25.4
Tier 1 capital ratio	23.4	24.1	25.4
Total capital ratio	28.2	29.1	30.6

¹ Excluding profit of the period.

Leverage ratio¹

	30 Jun 2019	31 Dec 2018	30 Jun 2018
Tier 1 capital, EURm	1,050.0	1,049.6	1,048.9
Leverage ratio exposure, EURm	28,337.2	26,568.4	25,252.8
Leverage ratio, percentage	3.7	4.0	4.2

¹ Excluding profit of the period.

Minimum capital requirement and risk exposure amount

EURm	30 Jun	30 Jun	31 Dec	31 Dec	30 Jun	30 Jun
	2019	2019	2018	2018	2018	2018
	Minimum Capital requirement	REA	Minimum Capital requirement	REA	Minimum Capital requirement	REA
Credit risk	274.0	3,424.6	272.6	3,407.9	253.0	3,162.6
IRB	272.2	3,403.1	247.3	3,091.0	229.3	2,866.3
- sovereign	-	-	-	-	0.7	8.4
- corporate	38.5	481.1	34.6	433.1	19.5	243.8
- <i>advanced</i>	38.5	481.1	34.6	433.1	19.5	243.8
- retail	233.8	2,922.0	209.6	2,620.2	208.0	2,600.1
- <i>secured by immovable property collateral</i>	178.4	2,230.6	160.4	2,004.8	158.7	1,983.8
- <i>other retail</i>	55.3	691.3	49.2	615.4	49.3	616.3
- other	0.0	0.0	3.0	37.7	1.1	14.0
Standardised	1.7	21.5	25.3	316.8	23.7	296.3
- sovereign	1.7	21.5	1.0	11.9	1.1	13.2
- other	-	-	24.4	304.9	22.7	283.2
Operational risk	23.0	287.4	21.8	273.0	21.8	273.0
Additional risk exposure amount related to Finnish RW floor due to Article 458 CRR	62.3	778.2	52.8	659.6	55.3	691.7
Additional risk exposure amount related to Swedish RW floor due to Article 458 CRR	0.4	4.9	0.6	7.2	-	-
Total	359.6	4,495.1	347.8	4,347.6	330.2	4,127.3

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	202.3	112.4	0.3	-	-	112.7	315.0
Tier 1 capital	269.7	112.4	0.3	-	-	112.7	382.4
Own funds	359.6	112.4	0.3	-	-	112.7	472.3

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

Changes in the management

Kaj Blomster, Erja Ketko and Timo Nyman were appointed as members of the Board of Directors in the Annual General Meeting held on 7 March 2019. The term of Petri Nikkilä ended upon the conclusion of the Annual General Meeting and Sara Mella was appointed as the Chairman of the Board on 7 March 2019.

The extraordinary general meeting held on 5 April 2019 appointed Marte Kopperstad as a member of the Board of Directors. Nicklas Ilebrand resigned from the Board on 5 April 2019 and Marte Kopperstad was appointed as the Deputy Chairman of the Board.

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

As from 5 April 2019 the composition of the Board is as follows:

- Sara Mella, Chairman
- Marte Kopperstad, Deputy Chairman
- Kaj Blomster
- Hanna-Maria Heikkinen
- Erja Ketko
- Ola Littorin
- Timo Nyman

Satu Vartiainen acted as Chief Financial Officer until 31 December 2018. Vesa Ruokokoski was appointed as Chief Financial Officer as from 1 January 2019.

Niko Nordlund acted as Chief Risk Officer until 31 January 2019. Ville Pylkkänen was appointed as Chief Risk Officer as from 1 February 2019.

Helsinki, 17 July 2019
Board of Directors

Income statement

EURm	Jan-Jun 2019	Jan-Jun 2018	Change %	Full year 2018
Net interest income	104.7	113.6	-8	219.8
Net fee and commission income	-5.0	-4.7	6	-9.5
Net result from items at fair value	-5.0	-1.5		-1.8
Other operating income	0.0	0.0		0.0
Total operating income	94.7	107.4	-12	208.5
Staff costs	-1.2	-1.0	20	-1.9
Other expenses	-35.7	-28.6	25	-52.2
Total operating expenses	-36.9	-29.6	25	-54.1
Profit before loan losses	57.8	77.8	-26	154.4
Net loan losses	-1.7	-7.3		-11.4
Operating profit	56.1	70.5	-20	143.0
Income tax expense	-11.2	-15.2	-26	-29.6
Net profit for the period	44.9	55.3	-19	113.4

Business volumes, key items¹

EURm	30 Jun 2019	30 Jun 2018	Change %	31 Dec 2018	Change %
Loans to the public	25,913.2	23,403.6	11	23,106.7	12
Debt securities in issue	16,160.7	18,366.6	-12	16,760.5	-4
Equity	1,127.4	1,116.1	1	1,177.8	-4
Total assets	28,199.8	25,108.3	12	26,391.7	7

¹ End of period

Ratios and key figures¹

	Jan-Jun 2019	Jan-Jun 2018	Full year 2018
Return on equity ² %	7.8	9.6	9.6
Cost/income ratio ² , %	39	28	26
Loan loss ratio, basis points ²	1.3	6.2	4.9
Common Equity Tier 1 capital ratio ^{2,3} , %	23.4	25.4	24.1
Tier 1 capital ratio ^{2,3} , %	23.4	25.4	24.1
Total capital ratio ^{2,3} , %	28.2	30.6	29.1
Tier 1 capital ^{2,3} , EURm	1,050.0	1,048.9	1,049.6
Risk exposure amount, EURm	4,495.1	4,127.3	4,347.6
Number of employees (full-time equivalents) ²	18	18	17

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

³ Excluding profit

Income statement

EURm	Note	Jan-Jun 2019	Jan-Jun 2018	Full year 2018
Operating income				
Interest income		129.4	138.7	269.3
Interest expense		-24.7	-25.1	-49.5
			3.8	7.8
Fee and commission expense		-9.0	-8.5	-17.3
			-1.5	-1.8
Other operating income		0.0	0.0	0.0
Total operating income		94.7	107.4	208.5
Operating expenses				
General administrative expenses:				
- Staff costs		-1.2	-1.0	-1.9
- Other expenses		-35.7	-28.6	-52.2
Total operating expenses		-36.9	-29.6	
Profit before loan losses		57.8	77.8	
Net loan losses	6	-1.7	-7.3	-11.4
Operating profit		56.1	70.5	143.0
Income tax expense		-11.2	-15.2	-29.6
Net profit for the period		44.9	55.3	113.4
Attributable to:				
Shareholders of Nordea Mortgage Bank Plc		44.9	55.3	113.4
Non-controlling interests		-	-	-
Total		44.9	55.3	113.4

Statement of comprehensive income

EURm	Jan-Jun 2019	Jan-Jun 2018	Full year 2018
Net profit for the period	44.9	55.3	113.4
Items that may be reclassified subsequently to the income statement			
Cash flow hedges:			
-Valuation gains/losses during the period, net of recycling	18.6	3.4	7.8
-Tax on valuation gains/losses during the period	-3.7	-0.7	-1.5
Items that may not be reclassified subsequently to the income statement			
Defined benefit plans:			
-Remeasurement of defined benefit plans	-0.1	0.0	0.0
-Tax on remeasurement of defined benefit plans	0.0	0.0	0.0
Other comprehensive income, net of tax	14.8	2.7	6.3
Total comprehensive income	59.7	58.0	119.7
Attributable to:			
Shareholders of Nordea Mortgage Bank Plc	59.7	58.0	119.7
Non-controlling interests	-	-	-
Total	59.7	58.0	119.7

Balance sheet

EURm	Note	30 Jun 2019	31 Dec 2018	30 Jun 2018
Assets				
Cash and balances with central banks		294.9	1,696.4	197.7
Loans to credit institutions	7	950.6	899.5	873.4
Loans to the public	7	25,913.2	23,106.7	23,403.6
Derivatives		793.2	509.9	476.5
Fair value changes of the hedged items in portfolio hedge of interest rate risk		190.5	93.2	93.8
Property and equipment		0.0	-	-
Deferred tax assets		8.6	11.9	13.2
Current tax assets		6.1	4.3	5.0
Other assets		0.1	37.8	13.9
Prepaid expenses and accrued income		42.6	32.0	31.2
Total assets		28,199.8	26,391.7	25,108.3
Liabilities				
Deposits by credit institutions		9,271.3	7,667.6	4,834.8
Debt securities in issue		16,160.7	16,760.5	18,366.6
Derivatives		204.7	125.6	143.6
Fair value changes of the hedged items in portfolio hedge of interest rate risk		686.3	320.7	326.4
Other liabilities		413.7	4.4	2.5
Accrued expenses and prepaid income		134.7	134.2	117.7
Retirement benefit obligations		0.2	0.2	0.1
Provisions		0.2	0.1	0.0
Subordinated liabilities		200.6	200.6	200.5
Total liabilities		27,072.4	25,213.9	23,992.2
Equity				
Share capital		250.0	250.0	250.0
Other reserves		818.0	803.2	799.6
Retained earnings		59.4	124.6	66.5
Total equity		1,127.4	1,177.8	1,116.1
Total liabilities and equity		28,199.8	26,391.7	25,108.3
Assets pledged as security for own liabilities		21,789.5	19,759.8	20,083.8
Credit commitments		267.6	196.8	211.9

Statement of changes in equity

Attributable to the shareholders of Nordea Mortgage Bank Plc

EURm	Other reserves:					Retained earnings	Total equity
	Share capital ¹	Cash flow hedges	Other reserves	Defined benefit plans			
Balance at 1 Jan 2019	250.0	3.2	800.0	0.0	124.6	1,177.8	
Net profit for the period	-	-	-	-	44.9	44.9	
Other comprehensive income, net of tax	-	14.9	-	-0.1	-	14.8	
Total comprehensive income	-	14.9	-	-0.1	44.9	59.7	
Dividend 2018	-	-	-	-	-110.0	-110.0	
Other changes	-	-	-	-	-0.1	-0.1	
Balance at 30 Jun 2019	250.0	18.1	800.0	-0.1	59.4	1,127.4	

Attributable to the shareholders of Nordea Mortgage Bank Plc

EURm	Other reserves:					Retained earnings	Total equity
	Share capital ¹	Cash flow hedges	Other reserves	Defined benefit plans			
Balance at 1 Jan 2018	250.0	-3.1	800.0	0.0	133.6	1,180.5	
Restatement due to changed accounting policy, net of tax	-	-	-	-	-20.4	-20.4	
Restated opening balance 1 Jan 2018	250.0	-3.1	800.0	0.0	113.2	1,160.1	
Net profit for the period	-	-	-	-	113.4	113.4	
Other comprehensive income, net of tax	-	6.3	-	0.0	-	6.3	
Total comprehensive income	-	6.3	-	0.0	113.4	119.7	
Dividend 2017	-	-	-	-	-102.0	-102.0	
Balance at 31 Dec 2018	250.0	3.2	800.0	0.0	124.6	1,177.8	

Attributable to the shareholders of Nordea Mortgage Bank Plc

EURm	Other reserves:					Retained earnings	Total equity
	Share capital ¹	Cash flow hedges	Other reserves	Defined benefit plans			
Balance at 1 Jan 2018	250.0	-3.1	800.0	0.0	133.6	1,180.5	
Restatement due to changed accounting policy, net of tax	-	-	-	-	-20.4	-20.4	
Restated opening balance 1 Jan 2018	250.0	-3.1	800.0	0.0	113.2	1,160.1	
Net profit for the period	-	-	-	-	55.3	55.3	
Other comprehensive income, net of tax	-	2.7	-	0.0	-	2.7	
Total comprehensive income	-	2.7	0.0	0.0	55.3	58.0	
Dividend 2017	-	-	-	-	-102.0	-102.0	
Balance at 30 Jun 2018	250.0	-0.4	800.0	0.0	66.5	1,116.1	

¹ Total shares registered were 257.7 million (31 Dec 2018: 257.7 million).

² Related to the implementation of IFRS. See Annual Report 2018, Note 1.

Cash flow statement, condensed

EURm	Jan-Jun 2019	Jan-Jun 2018	Full year 2018
Operating activities			
Operating profit	56.1	70.5	143.0
Adjustments for items not included in cash flow	267.7	52.1	57.7
Income taxes paid	-13.4	-19.4	-32.8
Cash flow from operating activities before changes in operating assets and liabilities	310.4	103.2	167.9
Changes in operating assets and liabilities	-1,565.6	241.9	1,698.3
Cash flow from operating activities	-1,255.2	345.1	1,866.2
Financing activities			
Dividend paid	-95.2	-102.0	-102.0
Other changes	-	-17.8	-14.1
Cash flow from financing activities	-95.2	-119.8	-116.1
Cash flow for the period	-1,350.4	225.3	1,750.1

Cash and cash equivalents

EURm	30 Jun 2019	30 Jun 2018	31 Dec 2018
Cash and cash equivalents at beginning of the period	2,035.9	285.8	285.8
Cash and cash equivalents at end of the period	685.5	511.1	2,035.9
Change	-1,350.4	225.3	1,750.1

The following items are included in cash and cash equivalents:

Cash and balances with central banks	294.9	197.7	1,696.4
Loans to credit institutions	390.6	313.4	339.5
Total cash and cash equivalents	685.5	511.1	2,035.9

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, have also been applied.

The interim report is unaudited.

The accounting policies and methods of computation are unchanged in comparison with the Note 1 in Annual Report 2018, except for the items presented in the section "Changed accounting policies and presentation" below. For more information see Note 1 in the Annual Report 2018.

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

Changed accounting policies and presentation

The following changes in accounting principles and presentation were implemented by Nordea 1 January 2019:

IFRS 16 "Leases"

The new standard IFRS 16 "Leases" changes the accounting requirements for lessees. All leases (except for short term- and small ticket leases) should be accounted for on the balance sheet of the lessee as a right to use the asset and a corresponding liability, and the lease payments should be recognised as amortisation and interest expense. The accounting requirements for lessors are unchanged. Additional disclosures are also required. The new standard was implemented by Nordea as from 1 January 2019.

In NMB the new standard had an impact on vehicle leases only, amounting to EUR 0.02m. Leasing contracts are under IFRS 16 accounted for on the balance sheet to a larger extent than under the earlier requirements. The right of use asset, presented as "Properties and equipment" on the balance sheet, is insignificant. Respectively, the increase in total assets was minor considering also the reclassification of already prepaid leasing expenses.

More information about the transition to IFRS can be found in the Note 29 in the Annual Report 2018.

Change in presentation of resolution fees

As from 1 January 2019 NMB presents resolution fees at the beginning of the year, when the legal obligation to pay arises, and presents the expense as "Other expenses". The earlier policy was to present the expense as "Interest expense".

Comparative figures have been restated accordingly and the impact, together with the impact on H1 2019, can be found in the table below.

Other amendments

The following new and amended standards issued by IASB were implemented by Nordea 1 January 2019 but have not had any significant impact on the financial statements of Nordea:

- Amendment to IFRS 9: Prepayment Features with Negative Compensation
- Amendments to IAS 19: Plan Amendments, Curtailment or Settlement
- Amendments to IAS 28: Long-term Interest in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015-2017 Cycle.

EURm	Jan-Jun 2019			Jan-Jun 2018			Full year 2018		
	Old policy	Change	New policy	Old policy	Change	New policy	Old policy	Change	New policy
Interest expense	-28.9	4.2	-24.7	-30.3	5.2	-25.1	-55.2	5.7	-49.5
Other expenses	-31.5	-4.2	-35.7	-23.4	-5.2	-28.6	-46.5	-5.7	-52.2

Note 2 Segment reporting

Operating segments

The financial results of Nordea Mortgage Bank are presented as a single entity. All the operations of Nordea Mortgage Bank relate to the issuance of covered bonds. All the material operative decisions of Nordea Mortgage Bank are prepared by the Chief Executive Officer and decided by the Board of Directors. Due to the business model of Nordea Mortgage Bank, the nature of its operations and its governance structure, the entity as a whole is the relevant operating segment to be reported.

Income statement	Mortgage Banking		
	Jan-Jun	Jan-Jun	Full year
EURm	2019	2018	2018
Total operating income	94.7	107.4	208.5
Operating profit	56.1	70.5	143.0

Balance sheet	30 Jun	30 Jun	31 Dec
	2019	2018	2018
Loans to the public	25,913.2	23,403.6	23,106.7
Debt securities in issue	16,160.7	18,366.6	16,760.5

Measurement of operating segments' performance

The measurement principles and allocation between operating segments follow the information reported to the Chief Operating Decision Maker (CODM) as required by IFRS 8. In NMB the CODM has been defined as Group Executive Management.

Note 3 Net fee and commission income

EURm	Jan-Jun	Jan-Jun	Full year
	2019	2018	2018
Brokerage, securities issues and corporate finance	-0.1	-0.2	-0.3
Lending products	4.0	3.8	7.8
Guarantees	-8.9	-8.4	-17.0
Other	0.0	0.1	0.0
Total	-5.0	-4.7	-9.5

Note 4 Net result from items at fair value

EURm	Jan-Jun	Jan-Jun	Full year
	2019	2018	2018
Interest related instruments and foreign exchange gains/losses	-5.0	-1.5	-1.8
Total	-5.0	-1.5	-1.8

Note 5 Other expenses

EURm	Jan-Jun 2019	Jan-Jun 2018	Full year 2018
Information technology	-	0.0	0.0
Marketing and representation	0.0	0.0	0.0
Postage, transportation, telephone and office expenses	0.0	0.0	-0.1
Rents, premises and real estate	0.0	0.0	0.0
Resolution fee	-4.2	-5.2	-5.7
Other	-31.5	-23.4	-46.4
Total	-35.7	-28.6	-52.2

Note 6 Net loan losses

EURm	Jan-Jun 2019	Jan-Jun 2018	Full year 2018
Net loan losses, stage 1	-0.3	-0.3	0.3
Net loan losses, stage 2	1.4	-3.7	-5.5
Net loan losses, non-defaulted	1.1	-4.0	-5.2
Stage 3, defaulted			
Net loan losses, individually assessed, collectively calculated	-2.7	-3.1	-6.0
Realised loan losses	-0.1	-0.1	-0.1
Decrease of provisions to cover realised loan losses	-	-	0.0
Recoveries on previous realised loan losses	0.0	-	-
New/increase in provisions	-	-0.1	-0.1
Reversal of previous provisions	-	0.0	0.0
Net loan losses, defaulted	-2.8	-3.3	-6.2
Net loan losses	-1.7	-7.3	-11.4

Key ratios

	Jan-Jun 2019	Jan-Jun 2018	Full year 2018
Loan loss ratio, basis points ¹	1.3	6.2	4.9
- of which stage 1	0.2	0.3	-0.1
- of which stage 2	-1.1	3.2	2.4
- of which stage 3	2.2	2.8	2.7

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

Note 7 Loans and impairment

EURm	Total		
	30 Jun 2019	31 Dec 2018	30 Jun 2018
Loans measured at amortised cost, not impaired (stage 1 and 2)	26,688.5	23,860.4	24,161.0
Impaired loans (stage 3)	224.6	193.6	159.7
- of which servicing	24.3	24.9	20.3
- of which non-servicing	200.3	168.7	139.4
Loans before allowances	26,913.1	24,054.0	24,320.7
- of which central banks and credit institution	950.6	899.5	873.4
Allowances for individually assessed impaired loans (stage 3)	-18.9	-16.2	-13.2
- of which servicing	-2.1	-2.3	-1.8
- of which non-servicing	-16.8	-13.9	-11.4
Allowances for collectively assessed impaired loans (stage 1 and 2)	-30.4	-31.6	-30.5
Allowances	-49.3	-47.8	-43.7
Loans, carrying amount	26,863.8	24,006.2	24,277.0

Exposures measured at amortised cost and fair value through OCI, before allowances

EURm	30 Jun 2019		
	Stage 1	Stage 2	Stage 3
Loans to central banks, credit institutions and the public	24,094.7	2,593.8	224.6
Interest-bearing securities	-	-	-
Total³	24,094.7	2,593.8	224.6

EURm	30 Jun 2018		
	Stage 1	Stage 2	Stage 3
Loans to central banks, credit institutions and the public	22,219.9	1,941.1	159.7
Interest-bearing securities	-	-	-
Total³	22,219.9	1,941.1	159.7

Allowances and provisions

EURm	30 Jun 2019		
	Stage 1	Stage 2	Stage 3
Loans to central banks, credit institutions and the public	-5.8	-24.6	-18.9
Interest-bearing securities	-	-	-
Provisions for off balance sheet items	0.0	-0.2	-
Total allowances and provisions³	-5.8	-24.8	-18.9

EURm	30 Jun 2018		
	Stage 1	Stage 2	Stage 3
Loans to central banks, credit institutions and the public	-6.2	-24.2	-13.2
Interest-bearing securities	-	-	-
Provisions for off balance sheet items	0.0	-0.1	-
Total allowances and provisions	-6.2	-24.3	-13.2

Note 7 Loans and impairment, cont.

Movements of allowance accounts for loans measured at amortised cost

EURm	Stage 1	Stage 2	Stage 3	Total
Changes due to origination and acquisition				
Transfers from stage 1 to stage 2	0.6	-10.5	-	-9.9
Transfers from stage 1 to stage 3	0.1	-	-2.1	-2.0
Transfers from stage 2 to stage 1	-0.9	7.3	-	6.4
Transfers from stage 2 to stage 3	-	1.4	-4.5	-3.1
Transfers from stage 3 to stage 1	-0.1	-	0.9	0.8
Transfers from stage 3 to stage 2	-	-0.5	2.0	1.5
Changes due to change in credit risk (net)	0.7	3.2	0.4	4.3
Changes due to repayments and disposals	0.3	1.2	1.0	2.5

EURm	Stage 1	Stage 2	Stage 3	Total
Balance at 1 Jan 2018	-5.8	-20.6	-10.0	-36.5
Changes due to origination and acquisition	-0.7	-0.1	-0.3	-1.2
Changes due to change in credit risk (net)	0.2	-4.3	-3.3	-7.3
Changes due to repayments and disposals	0.2	0.7	0.4	1.3
Balance at 30 Jun 2018	-6.2	-24.3	-13.2	-43.7

Key ratios ¹	30 Jun	31 Dec	30 Jun
	2019	2018	2018
Impairment rate (stage 3), gross, basis points	83	80	66
Impairment rate (stage 3), net, basis points	76	74	60
Total allowance rate (stage 1, 2 and 3), basis points	18	20	18
Allowances in relation to impaired loans (stage 3), %	8	8	8
Allowances in relation to loans in stage 1 and 2, % basis points	11	13	13

¹ For definitions, see Glossary

Note 8 Classification of financial instruments

EURm	Amortised cost (AC)	Fair value through profit or loss (FVPL)		Total
		Mandatorily	Derivatives used for hedging	
Financial assets				
Cash and balances with central banks	294.9	-	-	294.9
Loans to credit institutions	950.6	-	-	950.6
Loans to the public	25,913.2	-	-	25,913.2
Derivatives	-	-	793.2	793.2
Fair value changes of the hedged items in portfolio hedge of interest rate risk	190.5	-	-	190.5
Prepaid expenses and accrued income	18.3	-	-	18.3
Total 30 Jun 2019	27,367.5	-	793.2	28,160.7
Total 31 Dec 2018	25,809.0	17.3	492.6	26,318.9

EURm	Amortised cost (AC)	Fair value through profit or loss (FVPL)		Total
		Mandatorily	Derivatives used for hedging	
Financial liabilities				
Deposits by credit institutions	9,271.3	-	-	9,271.3
Debt securities in issue	16,160.7	-	-	16,160.7
Derivatives	-	7.0	197.7	204.7
Fair value changes of the hedged items in portfolio hedge of interest rate risk	686.3	-	-	686.3
Other liabilities	0.0	-	-	0.0
Accrued expenses and prepaid income	75.4	-	-	75.4
Subordinated liabilities	200.6	-	-	200.6
Total 30 Jun 2019	26,394.3	7.0	197.7	26,599.0
Total 31 2018	25,013.1	18.4	107.2	25,138.7

Note 9 Fair value of financial assets and liabilities

EURm	30 Jun 2019		31 Dec 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and balances with central banks	294.9	294.9	1,696.4	1,696.4
Loans	27,054.3	28,103.6	24,099.4	24,635.8
Derivatives	793.2	793.2	509.9	509.9
Prepaid expenses and accrued income	18.3	18.3	13.2	13.2
Total	28,160.7	29,210.0	26,318.9	26,855.3
Financial liabilities				
Deposits and debt instruments	26,318.9	26,492.7	24,949.4	25,087.4
Derivatives	204.7	204.7	125.6	125.6
Other liabilities	0.0	0.0	0.0	0.0
Accrued expenses and prepaid income	75.4	75.4	63.8	63.8
Total	26,599.0	26,772.8	25,138.8	25,276.8

The determination of fair value is described in the Annual Report 2018, Note 24 "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.

Note 10 Financial assets and liabilities held at fair value on the balance sheet

Categorisation into the fair value hierarchy

EURm	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				
Derivatives	-	793.2	-	793.2
Total 30 Jun 2019	-	793.2	-	793.2
Total 31 Dec 2018	-	509.9	-	509.9
Liabilities at fair value on the balance sheet¹				
Derivatives	-	204.7	-	204.7
Total 30 Jun 2019	-	204.7	-	204.7
Total 31 Dec 2018	-	125.6	-	125.6

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

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

For more information about valuation techniques and inputs in the fair value measurement, see the Annual Report 2018 Note 24 "Assets and liabilities at fair value".

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.