Nordea

Annual Report 2021
Nordea Mortgage Bank Plc

Contents

Nordea Mortgage Bank Plc

Directors' Report

Nordea Mortgage Bank Plc is domiciled in Helsinki and its business identity code is 2743219-6. The company is a wholly owned subsidiary of Nordea Bank Abp.

Nordea Mortgage Bank Plc (NMB) operates as an issuer of covered bonds in the Finnish market. Bonds issued by NMB are covered by a pool of loans consisting mainly of Finnish housing loans. NMB does not act as an originator of housing loans, but instead purchases loans from Nordea Bank Abp. Loans in NMB's balance sheet are generally long-term loans, mainly to Finnish households, with residential real estate as collateral.

Macroeconomic environment

The Finnish economy recovered swiftly in 2021 from the economic downturn initiated by the coronavirus in 2020. For the full year of 2021, Finnish GDP is estimated to have increased by 3.8%. Manufacturing, construction and retail are above the pre-pandemic levels, but parts of the service sector are still in the midst of recovery. The economic recovery has been slowing slightly towards the end of the year due to the fourth wave of COVID-19 and the spread of the Omicron variant.

During 2021, private consumption increased by about 3% compared to 2020, but still remains below the pre COVID-19 levels. Consumer spending on services has not yet reached the previous trend despite the positive development during 2021. Consumption of goods has already passed the pre COVID-19 level, which has also resulted in increasing prices. The employment rate has returned to the record-high levels seen before the pandemic, and the unemployment rate has fallen below 7%.

Order books in the manufacturing sector filled up with global economic recovery in 2021. Growth of the export volumes levelled off slightly towards the end of 2021, partly due to the shipping problems and component shortage. Finland's current account balance has turned into surplus for the first time in many years. The increase in self-sufficient electricity supply will further improve Finland's current account balance in the future.

Mortgage business development in 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 especially in the growth centres where Nordea's mortgage business is mainly concentrated. Sales are also boosted by Nordea's increased customer satisfaction, safe dealing and broad availability during the COVID-19 pandemic.

The mortgage lending volumes in the whole Finnish market have increased by 4.3% compared to previous year. 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 10% increase in new mortgages in 2021 compared to previous year.

Polarisation of the housing market still continues despite some migration to the satellite municipalities, with house prices increasing in the capital area and other growth centres and decreasing in rural areas with declining population, especially in the eastern parts of Finland. The pandemic has created a demand for larger and adjustable homes in particular, with many people working from and spending more time at home. Smaller homes have seen a more moderate price increase, as the low employment in the service sector and remote studying mean there is less demand for rental housing. This has pushed the prices of small homes lower especially in the Greater Helsinki area. In the whole country housing prices of old apartments increased by 3.9% compared to 2020. In Greater Helsinki prices went up by 5.3% whereas in the rest of Finland the prices went up 3.4%.

Construction of some 48,000 new homes were started in 2021, which is over 20% more than the year earlier. The rise of construction costs with higher prices of timber and metals curbed the rise of new housing starts towards the end of 2021. In 2022, residential construction is likely to slow down a bit. Housing prices are expected to rise more moderately in 2022 due to increase in supply and the return of other consumption to normal, leaving people with less money to spend on their homes. On the other hand, higher employment and the low interest rates will continue to support the housing market. Average loan maturities have been gradually lengthening but have now peaked at 21.5 years. Nordea caps maturity at origination at 35 years.

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 stayed at pre COVID-19 levels after the initial peak during 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.

Income statement

EURm	2021	2020	2019
Net interest income	262.6	235.6	219.7
Net fee and commission income	3.7	-0.2	-7.6
Net result from items at fair value	9.8	-9.4	0.6
Other operating income	0.1	0.1	0.1
Total operating income	**276.2**	**226.1**	**212.8**
General administrative expenses:			
Staff costs	-1.4	-1.4	-1.9
Other expenses	-146.5	-64.7	-66.4
Depreciation of tangible assets	0.0	0.0	0.0
Total operating expenses	**-147.9**	**-66.1**	**-68.3**
Profit before loan losses	**128.3**	**160.0**	**144.5**
Net loan losses	-40.2	-15.4	10.3
Operating profit	**88.1**	**144.6**	**154.8**
Income tax expense	-17.6	-28.9	-35.1
Net profit for the year	**70.5**	**115.7**	**119.7**

Balance sheet

EURm	31 Dec 2021	31 Dec 2020	31 Dec 2019
Cash and balances with central banks	1,821.3	241.8	1,694.4
Loans to central banks and credit institutions	923.1	582.7	666.4
Loans to the public	30,903.4	28,764.2	26,733.4
Derivatives	453.9	858.2	711.5
Other assets	146.3	336.3	215.9
Total assets	**34,248.0**	**30,783.2**	**30,021.6**
Deposits by credit institutions	10,669.4	8,386.6	11,560.4
Debt securities in issue	21,479.2	19,750.8	16,111.7
Derivatives	211.0	331.3	199.0
Subordinated liabilities	-	200.5	200.5
Other liabilities	601.7	916.8	815.4
Equity	1,286.7	1,197.2	1,134.6
Total liabilities and equity	**34,248.0**	**30,783.2**	**30,021.6**

Ratios and key figures

	2021	2020	2019
Return on equity, %	5.7	9.9	10.4
Return on total assets, %	0.2	0.4	0.4
Cost/income ratio, %	54	29	32
Loan loss ratio, basis points	13.0	5.4	-3.9
Common Equity Tier 1 capital ratio, excl. Basel I floor[1], %	31.3	23.1	23.5
Tier 1 capital ratio, excl. Basel I floor[1], %	31.3	23.1	23.5
Total capital ratio, excl. Basel I floor[1], %	31.9	27.4	27.9
Common Equity Tier 1 capital, incl. Basel I floor[1], EURm	1,257.6	1,140.9	1,083.2
Tier 1 capital[1], EURm	1,257.6	1,140.9	1,083.2
Risk exposure amount, excl. Basel I floor[1], EURm	4,014.2	4,944.5	4,613.1
Number of employees (full-time equivalents)[1]	13	12	18
Average number of employees	13	12	20
Salaries and remuneration, EURm	-1.2	-1.1	-1.5
Equity to total assets, %	3.8	3.9	3.8

[1] End of the year

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

Business definitions

The definitions apply to the descriptions in the Annual Report

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.

Equity to total assets
Total shareholders' equity as a percentage of total assets at year-end.

Own funds
Own funds include the sum of the Tier 1 capital and the supplementary capital consisting of subordinated loans, after the potential deduction for expected shortfall.

Loan loss ratio
Net loan losses (annualised) divided by the closing balance of loans to the public (lending), basis points.

Return on equity (ROE)
Net profit for the year as a percentage of average equity for the year. Average equity includes net profit for the year and dividend until paid.

Return on total assets (ROA)
Operating profit less taxes as a percentage of average total assets. Average total assets are calculated as the mean of total assets at the beginning and end of the year.

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.

Comments on the income statement

The income statement figures refer to the period January-December 2021 and the figures in brackets to January-December 2020.

Operating profit was EUR 88.1m (144.6) and net profit EUR 70.5m (115.7), corresponding to a return on equity of 5.7% (9.9).

Income

Net interest income amounted to EUR 262.6m (235.6). Interest rates remained negative throughout the year and the pressure towards housing loan margins continued. On the positive side, lending volumes have steadily grown and funding costs decreased, securing NMB's income despite the decreasing average mortgage stock margins.

Net fee and commission income totalled EUR 3.7m (-0.2). Commission income relates mainly to lending, totalling to EUR 11.4m (9.9). Commission expenses amounting to EUR -7.7m (-10.1) relate mainly to the guarantee and the liquidity facility provided by Nordea Bank Abp.

Net result from items at fair value amounted to EUR 9.8m (-9.4), driven by challenging market conditions causing volatility in the interest rates, as well as hedging inefficiency.

Expenses

Total operating expenses amounted to EUR -147.9m (-66.1).

Staff costs were EUR -1.4m (-1.4). The number of employees was 13 (12) at the end of 2021.

Other operating expenses increased to EUR -146.5m (-64.7). 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 the 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 and of the resolution fee of -7.8m (-6.0).

The cost/income ratio was 54% (29) in 2021.

Loan losses

Net loan losses totalled EUR -40.2m (-15.4), of which the realised loan losses were EUR -6.9m (-3.2) in 2021.

The increase in net loan losses is mainly driven by an update of the IFRS 9 model with more conservative loss data assumption.

Management judgements of EUR 9.6m (7.1) have been booked in addition to the model based provisions. The management judgement covers projected loan losses not yet covered by the IFRS 9 model and identified issues in the IFRS 9 model to be later covered in model updates.

More information can be found in Note 9 "Net loan losses" and Note 11 "Loans and impairment".

Comments on the balance sheet

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

NMB's total assets amounted to EUR 34.2bn (30.8).

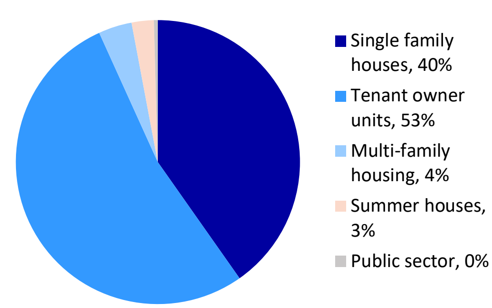
Lending

Lending to the public increased by 7% compared to previous year, amounting to EUR 30.9bn (28.8).

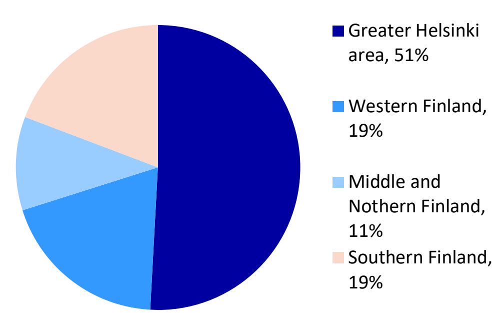
Lending to households was 95% (94) of the total lending and totalled EUR 29.2bn (27.0). Corporate lending amounted to EUR 1.7bn (1.8).

The level of impaired loans decreased by 3% to EUR 233.4m (240.7).

Breakdown of lending in cover pool

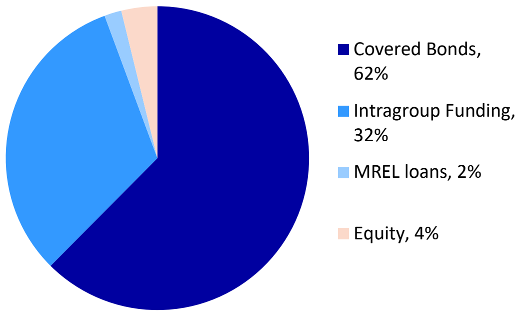


Geographical distribution of loans in cover pool



Funding

Nordea Mortgage Bank's funding structure



Covered bond funding at the end of 2021 was EUR 20.8bn (19.8). NMB issued one new covered bond in 2021, amounting to EUR 2.5bn and the bond redemptions totalled EUR -1.4bn. The size of the cover pool was EUR 23.6bn (22.9) and the overcollateralization 13.3% (16.7).

To meet the interim Minimum Requirement for own funds and Eligible Liabilities (MREL), set by the Single Resolution Board (SRB) and to be applied from 1 January 2022, NMB has received an internal MREL loan of EUR 0.6bn in December 2021 from Nordea Bank Abp. The internal MREL loan is a senior non-preferred instrument meeting regulatory requirements for internal MREL.

Besides long-term funding, NMB regularly arranged short-term funding from the parent company Nordea Bank Abp. Intra-group funding at the end of 2021 amounted to EUR 10.7bn (8.4). The company does not have any outstanding subordinated debenture loans.

Distribution of earnings

NMB's distributable funds before anticipated dividend were EUR 985.7m at the end of 2020, and EUR 927.8m after anticipated dividend payment of EUR 57.8m.

In 2021, anticipated dividend of EUR 70.5m were booked. NMB's distributable funds were EUR 1027.8m at the end of 2021.

The anticipated dividends reflect the solid capital position in NMB.

Commitments

NMB's off-balance sheet items consist of credit commitments amounting to EUR 522.9m (396.2).

Derivatives

NMB's derivatives mainly pertain to interest rate swaps. The nominal values and positive/negative market values of derivative contracts are provided in Note 12.

Capital adequacy

Capital management section provides information and numerical data for assessing the company's capital adequacy.

Rating

Moody's rating for NMB's covered bonds was Aaa at year-end 2021.

Human resources

Nordea Mortgage Bank Plc follows Nordea Group's People policies. More information can be found in Nordea Group's Annual Report, which will be published in week 9, 2022, at the latest.

Sustainability

At Nordea, we make sustainability concrete and real to our customers. Through our size and engagement, we can make a real difference by contributing in business and society. We want to lead the way by taking actions for a greater good by integrating sustainability throughout the bank. Nordea have decided on a sustainability strategy with progressive targets for 2030, further strengthening our leading position in sustainable banking, with the ambition being to become a bank with net zero emissions across our lending and investment portfolios and internal operations by 2050.

Service and product offerings are continuously developed to enable our customers and investors to make conscious sustainable choices. In NMB we are fully committed to the sustainability targets of Nordea. This includes developing sustainable product offering to the customers and bond investors.

We create positive impact by engaging with society through our core competencies within financial skills and entrepreneurship. We encourage all employees to spend two days per year doing voluntary work – for instance to help young people to increase their knowledge in financial skills and senior citizens to learn mobile banking services.

Further information on our sustainability can be found on Nordea's sustainability reports (https://www.nordea.com/en/sustainability/).

Legal proceedings

By the end of 2021, Nordea Mortgage Bank Plc has not faced any claims in civil lawsuits or disputes.

Subsequent events

No events have occurred after the balance sheet date that might affect the assessment of the annual financial statements.

Outlook 2022

The COVID-19 virus continued to spread across the globe during 2021 and will still impact the global economy in 2022. Information on the financial and operational impacts of the COVID-19 outbreak on NMB have been provided elsewhere in this report. See "Macroeconomic environment", "Mortgage business development in 2021", "Net loan losses", Note 1 "Accounting policies", Note 9 "Net loan losses" and Note 11 "Loans and impairments".

While the economic recovery has been slowing slightly towards the end of the year due to the fourth wave of COVID-19, the impact is expected to be temporary and economic growth to continue for the rest of 2022. Inflation accelerated during 2021, mostly due to higher energy prices. Inflation is forecast to rise to 2.7% in 2022, but there are significant uncertainties in the forecasts. The ECB has been turning more hawkish and the possibility of more rapid interest rate hikes cannot be dismissed.

COVID-19 uncertainties in relation to new virus mutations still remain, but the baseline is that the pandemic will not have any major impact on the growth in 2022. Labour shortage and insufficient production capacity are replacing the coronavirus as the biggest restraining factors to economic growth.

Nordea Mortgage Bank's organisational structure

Definitions

NMB = Nordea Mortgage Bank Plc

Nordea Group/Group = Nordea Bank Abp including all subsidiaries.

Part of the Nordea Group

Nordea Mortgage Bank Plc (NMB) is a wholly owned subsidiary of Nordea Bank Abp and does not have its own subsidiaries or ownership in other companies. NMB's business is conducted in close integration with the Nordea Group and Nordea Bank Abp's business in Finland.

NMB does not act as an originator of housing loans, but instead purchases loans from Nordea Bank Abp. Loans in NMB's balance sheet are generally long-term loans, mainly to Finnish households, with residential real estate as collateral.

Different units within Nordea handle, according to outsourcing agreements, on NMB's behalf, e.g. accounting and reporting, liquidity management, risk management, IT systems, internal credit and quality control, credit administration and vault management.

Furthermore, NMB is a product-responsible unit (PRU), which entails responsibility for, and ownership of, the mortgage process and the products related.

Through the close cooperation with other Nordea units, it has been possible to limit the workforce of NMB to comprise only requisite staff for product and system development, management and risk management. As at year-end 2021, NMB had 13 employees.

Funding Nordea Mortgage Bank's business

NMB funds its business mainly by issuing covered bonds under its EUR 25bn Covered Bond Programme. The European Central Bank has granted NMB an authorisation as a credit institution in accordance with the Finnish Credit Institutions Act (610/2014) and the Finnish Act on Mortgage Credit Bank Operations (688/2010). All NMB's bonds outstanding at the end of 2021 have the status of covered bonds.

NMB also obtains funding from Nordea Bank Abp for the residual required to fund its business.

Nordea Mortgage Bank's administrative and management bodies

The Board of Directors

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 31 December 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.

Management Group at 31 December 2021

- Chief Executive Officer – Jussi Pajala (born 1968)
- Chief Operating Officer and Deputy CEO – Tarja Ikonen (born 1959)
- Chief Risk Officer – Riina Virta (born 1974)
- Chief Financial Officer – Heikki Jousi (born 1979)
- Head of Mortgage Products – Markus Joas (born 1986)
- Head of Data Analytics & Insight – Jussi-Petteri Lehtonen (born 1982)

The registered address of the company is:
Nordea Mortgage Bank Plc
Satamaradankatu 5, Helsinki
FI-00020 NORDEA.

Conflicts of interest

The aforementioned persons are or may become customers and be granted mortgage loans that are purchased by NMB. As far as the company is aware, there are no conflicts between the company's interests and the private interests of the afore mentioned persons. In order to avoid conflicts of interest and demonstrate how an individual shall act in the event of a conflict of interest, several guidelines established by the Nordea Group apply at NMB, such as ethical guidelines, guidelines for employee engagements beyond their position with the bank, and rules for employees' securities and foreign exchange dealings. In addition, board members are subject to the rules regarding conflict of interests stipulated by the Finnish Limited Liability Companies Act.

Auditors

PricewaterhouseCoopers Oy (re-elected by the Annual General Meeting 2021)

Auditor with main responsibility
Jukka Paunonen
Authorised Public Accountant.

Capital management

General information about the capital assessment

NMB strives to be efficient in its use of capital and therefore actively manages its balance sheet with respect to different asset, liability and risk categories. The goal is to enhance returns to shareholder while maintaining a prudent capital structure. The Board of Directors of NMB decides ultimately on the targets for capital ratios, capital policy and the overall framework of capital management.

Minimum targets for Common Equity Tier 1 (CET1) capital ratio, Tier 1 capital ratio, total capital ratio and leverage ratio, that exceed the capital requirements set by the Finnish Financial Supervisory Authority, have been set by the Board of Directors of NMB.

NMB uses internal rating based (IRB) approach for the majority of its exposures. At the end of 2021, 99.6% (99.5) of the company's total credit risk exposures were covered by the IRB approach.

NMB bases the internal capital requirements under the Internal Capital Adequacy Assessment Process (ICAAP) on the minimum capital requirements and on internally identified risks. The following major risk types are included in the assessment of the internal capital requirement for the company: credit risk, operational risk, concentration risk and Pillar II risks, such as Interest Rate in the Banking Book and a stress test add-on.

Subordinated loans

At the end of 2021 NMB had no subordinated debenture loans.

Own funds

Own funds are the sum of Tier 1 and Tier 2 capital. Tier 1 capital consists of both Common Equity Tier 1 (CET1) and additional Tier 1 capital. CET1 capital is considered to be capital of the highest quality with ultimate loss-absorbance characteristics and consists predominately of paid-in capital and retained earnings. Profit may only be included after permission from the financial supervisory authority and after deducting proposed dividend. Additional Tier 2 capital consists of the IRB provisioning excess.

Further information regarding capital management and capital adequacy is available in the information provided in accordance with the disclosure requirements in Capital Requirement Regulation (CRR) and published on www.nordea.com.

Capital adequacy ratios[1]

	31 Dec 2021	31 Dec 2020
Excl. Basel I floor		
CET 1 capital ratio, %	31.3	23.1
Tier 1 capital ratio, %	31.3	23.1
Total capital ratio, %	31.9	27.4
Capital adequacy quotient (own funds/capital requirement)	4.0	3.4

[1] Including profit for the period

Leverage ratio

	31 Dec 2021	31 Dec 2020
Tier 1 capital, transitional definition, EURm	1,257.6	1,140.9
Leverage ratio exposure, EURm	34,590.7	30,847.6
Leverage ratio, percentage	3.6	3.7

Summary of items included in own funds[1]

EURm	31 Dec 2021	31 Dec 2020
Calculation of own funds		
Equity in the consolidated situation	1,357.2	1,255.0
Anticipated dividend	-70.5	-57.8
Common Equity Tier 1 capital before regulatory adjustments	1,286.7	1,197.2
Deferred tax assets	-	-
Intangible assets	-	-
IRB provisions shortfall (-)	-19.4	-35.8
Deduction for investments in credit institutions (50%)	-	-
Pension assets in excess of related liabilities	-	-
Other items, net	-9.6	-20.4
Total regulatory adjustments to Common Equity Tier 1 capital	-29.1	-56.2
Common Equity Tier 1 capital (net after deduction)	**1,257.6**	**1,140.9**
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)	**1,257.6**	**1,140.9**
Tier 2 capital before regulatory adjustments	0.0	200.0
IRB provisions excess (+)	21.9	12.7
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	21.9	12.7
Tier 2 capital	21.9	212.7
Own funds (net after deduction)[2]	**1,279.5**	**1,353.6**

[1] Including profit for the period

[2] Own funds adjusted for IRB provision. Own funds excluding IRB adjustments equal EUR 1,277.0m by 31 Dec 2021

Minimum capital requirement and REA

	31 Dec 2021		31 Dec 2020	
EURm	Minimum capital requirement	REA	Minimum capital requirement	REA
Credit risk	**294.1**	**3,676.7**	**313.2**	**3,915.4**
- of which counterparty credit risk	-	-	-	-
IRB	292.0	3,650.5	311.7	3,896.8
- sovereign	-	-	-	-
- corporate	31.3	390.8	32.6	407.3
- advanced	31.3	390.8	32.6	407.3
- institutions	0.4	4.5	0.2	2.4
- retail	260.3	3,253.6	278.8	3,485.2
- secured by immovable property collateral	188.2	2,352.5	209.3	2,616.1
- other retail	72.1	901.1	69.5	869.1
- other	0.1	1.6	0.2	1.9
Standardised	2.1	26.2	1.5	18.6
- central governments or central banks	2.1	26.2	1.5	18.6
- institutions	0.0	0.0	0.0	0.0
Operational risk	**26.2**	**327.4**	**24.0**	**299.4**
Standardised	26.2	327.4	24.0	299.4
Additional risk exposure amount related to Finnish RW floor due to Article 458 CRR	**-**	**-**	**57.8**	**721.9**
Additional risk exposure amount related to Swedish RW floor due to Article 458 CRR	**0.8**	**10.2**	**0.6**	**7.8**
Additional risk exposure amount, Article 3 CRR	**-**	**-**	**-**	**-**
Total	**321.1**	**4,014.2**	**395.6**	**4,944.5**

New regulations on capital requirements
In June 2019 the 'banking package' containing revisions to the BRRD, the CRD and the CRR was adopted. The package includes a review of the minimum requirement for own funds and eligible liabilities (MREL), a review of the market risk requirements (Fundamental Review of the Trading Book, FRTB), the introduction of a binding net stable funding ratio (NSFR), the introduction of a strict leverage ratio requirement of 3% to be met by Tier 1 capital and amendments to the Pillar 2 and macroprudential framework. The revised CRD (CRD V) and BRRD (BRRD II) apply from 28 December 2020 and entered into force in Finnish law from 1 April 2021, while the majority of the changes in the CRR (CRR II) apply from 28 June 2021.

In May 2021 Nordea Mortgage Bank Plc received the Single Resolution Board's decision on minimum requirements for own funds and eligible liabilities (MREL). According to the decision, Nordea Mortgage Bank Plc should meet an interim MREL requirement of 15.87% of REA and 4.81% of LRE (Leverage Ratio Exposure) from 1 January 2022, and a final requirement of 15.87% of REA and 5.91% of LRE from 1 January 2024. The own funds used by Nordea Mortgage Bank Plc to comply with its combined buffer requirement are not eligible to meet the MREL requirements expressed as a percentage of the REA. In addition, Nordea Mortgage Bank Plc should ensure a linear MREL build-up towards those requirements.

In Finland the countercyclical buffer rate remained at 0%.The maximum loan-to-value ratio for residential mortgage loans decreased by 5% and ended at 85% in October 2021. The new European Covered Bond Directive has not been implemented into the legislation but together with the EU Regulation will be valid from 8 July 2022.

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 the Basel IV package, was published. The Basel IV package was supposed to be implemented in 2022, but was postponed until 2023 due to COVID-19. It includes revisions to credit risk, market risk, operational risk, credit valuation adjustment (CVA) risk and the leverage ratio and introduces a new output floor.

Before being applicable to Nordea, the Basel IV package needs to be implemented into EU regulations. On 27 October the proposal for the implementation into EU regulations was published by the European Commission by amendments to the CRD and CRR. The proposal from the Commission is to set the start date to 1 January 2025. The proposal is now subject to negotiations between the Commission, the Council and the Parliament before the final set of regulations is decided.

On credit risk, the proposal includes revisions to both the IRB approach, where restrictions on the use of IRB for certain exposures are implemented, as well as on the standardised approach. Also, for market risk the internal model approach and the standardised approach have been revised. For operational risk, the three existing approaches will be removed and replaced by one standardised approach to be used by all banks. On CVA risk, the internally modelled approach is removed and the standardised approach is revised.

The output floor is to be set at 72.5% of the standardised approaches on an aggregate level, meaning that the capital requirement under the floor will be 72.5% of the total Pillar 1 REA calculated with the standardised approaches for credit, market and operational risk. The floor will be phased in, starting with 50% from 1 January 2025 to be fully implemented at 72.5% from 1 January 2030 and with transitional rules for the calculation of the REA for the output floor extending to end-2032.

Nordea Mortgage Bank Plc
Financial statements

Income statement

EURm	Note	2021	2020
Operating income			
Interest income	4	280.5	279.3
Interest expense	4	-17.9	-43.7
Net interest income	4	**262.6**	**235.6**
Fee and commission income		11.4	9.9
Fee and commission expense		-7.7	-10.1
Net fee and commission income	5	**3.7**	**-0.2**
Net result from items at fair value	6	9.8	-9.4
Other operating income		0.1	0.1
Total operating income		**276.2**	**226.1**
Operating expenses			
General administrative expenses:			
Staff costs	7	-1.4	-1.4
Other expenses	8	-146.5	-64.7
Depreciation of tangible assets		0.0	0.0
Total operating expenses		**-147.9**	**-66.1**
Profit before loan losses		**128.3**	**160.0**
Net loan losses	9	-40.2	-15.4
Operating profit		**88.1**	**144.6**
Income tax expense	10	-17.6	-28.9
Net profit for the year		**70.5**	**115.7**
Attributable to:			
Shareholders of NMB		70.5	115.7

Statement of comprehensive income

EURm	2021	2020
Net profit for the year	**70.5**	**115.7**
Items that may be reclassified subsequently to the income statement		
Cash flow hedges:		
- Valuation gains/losses during the year	-16.0	6.4
- Tax on valuation gains/losses during the year	3.2	-1.3
- Transferred to the Income statement during the year	2.9	-0.5
- Tax on transfers to the income statement during the year	-0.6	0.1
Items that may not be reclassified subsequently to the income statement		
Defined benefit plans:		
- Remeasurement of defined benefit plans during the year	0.0	0.0
- Tax on remeasurement of defined benefit plans during the year	0.0	0.0
Other comprehensive income, net of tax	**-10.5**	**4.7**
Total comprehensive income	**60.0**	**120.4**
Attributable to:		
Shareholders of NMB	60.0	120.4

Balance sheet

EURm	Note	31 Dec 2021	31 Dec 2020
Assets			
Cash and balances with central banks		1,821.3	241.8
Loans to credit institutions	11	923.1	582.7
Loans to the public	11	30,903.4	28,764.2
Derivatives	12	453.9	858.2
Fair value changes of the hedged items in hedges of interest rate risk		55.8	230.3
Property and equipment		0.0	0.0
Deferred tax assets	10	10.5	7.4
Other assets	13	76.1	90.2
Prepaid expenses and accrued income	14	3.9	8.4
Total assets		**34,248.0**	**30,783.2**
Liabilities			
Deposits by credit institutions		10,669.4	8,386.6
Debt securities in issue		21,479.2	19,750.8
Derivatives	12	211.0	331.3
Fair value changes of the hedged items in hedges of interest rate risk		367.6	716.8
Current tax liabilities		3.5	6.9
Other liabilities	15	72.2	59.4
Accrued expenses and prepaid income	16	158.1	133.4
Provisions	17	0.2	0.1
Retirement benefit liabilities	18	0.1	0.2
Subordinated liabilities	19	0.0	200.5
Total liabilities		**32,961.3**	**29,586.0**
Equity			
Share capital		250.0	250.0
Other reserves		908.9	819.4
Retained earnings		127.8	127.8
Total equity		**1,286.7**	**1,197.2**
Total liabilities and equity		**34,248.0**	**30,783.2**
Off balance sheet commitments			
Assets pledged as security for own liabilities	21	23,644.1	22,934.8
Loan commitments		522.9	396.2

Statement of changes in equity

EURm	Share capital	Cash flow hedges	Invested unrestricted equity	Defined benefit plans	Retained earnings	Total equity
	Attributable to the shareholders of NMB					
		Other reserves				
Balance at 1 Jan 2021	**250.0**	**19.4**	**800.0**	**0.0**	**127.8**	**1,197.2**
Net profit for the year	-	-	-	-	70.5	70.5
Items that may be reclassified subsequently to the income statement						
Cash flow hedges:						
- Valuation gains/losses during the year	-	-16.0	-	-	-	-16.0
- Tax on valuation gains/losses during the year	-	3.2	-	-	-	3.2
- Transferred to the income statement during the year	-	2.9	-	-	-	2.9
- Tax on transfers to the income statement during the year	-	-0.6	-	-	-	-0.6
Items that may not be reclassified subsequently to the income statement						
Defined benefit plans:						
- Remeasurement of defined benefit plans during the year	-	-	-	0.1	-	0.1
- Tax on remeasurement of defined benefit plans during the year	-	-	-	0.0	-	0.0
Other comprehensive income, net of tax	-	-10.5	-	0.1	-	-10.4
Total comprehensive income	-	-10.5	-	0.1	70.5	60.0
Anticipated dividend	-	-	-	-	-70.5	-70.5
Other changes	-	-	100.0	-	0.0	100.0
Balance at 31 Dec 2021	**250.0**	**8.8**	**900.0**	**0.0**	**127.8**	**1,286.7**

EURm	Share capital	Cash flow hedges	Invested unrestricted equity	Defined benefit plans	Retained earnings	Total equity
	Attributable to the shareholders of NMB					
		Other reserves				
Balance at 1 Jan 2020	**250.0**	**14.6**	**800.0**	**0.0**	**70.0**	**1,134.6**
Net profit for the year	-	-	-	-	115.7	115.7
Items that may be reclassified subsequently to the income statement						
Cash flow hedges:						
- Valuation gains/losses during the year	-	6.4	-	-	-	6.4
- Tax on valuation gains/losses during the year	-	-1.3	-	-	-	-1.3
- Transferred to the income statement during the year	-	-0.5	-	-	-	-0.5
- Tax on transfers to the income statement during the year	-	0.1	-	-	-	0.1
Items that may not be reclassified subsequently to the income statement						
Defined benefit plans:						
- Remeasurement of defined benefit plans during the year	-	-	-	0.0	-	0.0
- Tax on remeasurement of defined benefit plans during the year	-	-	-	0.0	-	0.0
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
Other changes	-	-	-	-	0.0	0.0
Balance at 31 Dec 2020	**250.0**	**19.4**	**800.0**	**0.0**	**127.8**	**1,197.2**

Cash flow statement

EURm	2021	2020
Operating activities		
Operating profit	88.1	144.6
Adjustments for items not included in cash flow	-112.5	126.8
Income taxes paid	-21.4	-30.9
Tax refund	0.0	0.0
Cash flow from operating activities before changes in operating assets and liabilities	**-45.8**	**240.5**
Changes in operating assets		
Change in loans to credit institutions	0.0	0.1
Change in loans to the public	-2,179.4	-2,046.1
Change in derivatives, net	288.5	-22.6
Change in other assets	14.1	-87.4
Changes in operating liabilities		
Change in deposits by credit institutions	2,282.8	-3,173.8
Change in debt securities in issue	1,728.4	3,639.2
Change in other liabilities	0.1	3.8
Cash flow from operating activities	**2,088.7**	**-1,446.4**
Financing activities		
Issued subordinated liabilities	-200.5	0.0
Dividend paid	-57.8	-89.8
Other changes	89.5	0.0
Cash flow from financing activities	**-168.8**	**-89.8**
Cash flow for the year	**1,919.9**	**-1,536.3**
Cash and cash equivalents at the beginning of year	264.2	1,800.5
Cash and cash equivalents at the end of year	2,184.2	264.2
Change	**1,919.9**	**-1,536.3**

Comments on the cash flow statement
The cash flow statement shows inflows and outflows of cash and cash equivalents during the year for total operations. Nordea Mortgage Bank's cash flow has been prepared in accordance with the indirect method, whereby operating profit is adjusted for effects of non-cash transactions such as depreciation and loan losses. The cash flows are classified by operating and financing activities.

Operating activities
Operating activities are the principal revenue-producing activities and cash flows are mainly derived from the operating profit for the year with adjustment for items not included in cash flow and income taxes paid. Adjustment for items not included in cash flow includes:

EURm	2021	2020
Loan losses	40.2	15.4
Unrealised gains/losses	-4.6	8.1
Change in accruals and provisions	26.7	-12.9
Change in fair value of the hedged items under fair value hedges	-174.8	116.2
Total	**-112.5**	**126.8**

Changes in operating assets and liabilities consist of assets and liabilities that are part of normal business activities, such as loans, deposits and debt securities in issue. Changes in derivatives are reported net.

Cash flow from operating activities includes interest payments received and interest expenses paid with the following amounts:

EURm	2021	2020
Interest payments received	280.5	279.3
Interest expenses paid	-17.9	-43.7

Cash flow statement, cont.

Financing activities
Financing activities are activities that result in changes in equity and subordinated liabilities, such as new issues of shares, dividends and issued/amortised subordinated liabilities.

Cash and cash equivalents

The following items are included in Cash and cash equivalents:

EURm	31 Dec 2021	31 Dec 2020
Cash and balances with central banks	1,821.3	241.8
Loans to credit institutions, payable on demand	362.8	22.4
Total	**2,184.2**	**264.2**

Cash comprises legal tender and bank notes . 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

1. Basis for preparation

Nordea Mortgage Bank's ("NMB") financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU Commission. In addition, certain complementary rules in the Finnish Accounting Act, the Finnish Act on Credit Institutions, the Finnish Mortgage Bank Act, the Finnish Financial Supervisory Authority's regulations and guidelines and the Decree of the Finnish Ministry of Finance on the financial statements and consolidated statements of credit institutions and investment firms have also been applied.

The disclosures, required in the standards, recommendations and legislation above, have been included in the notes, the Capital management section or in other parts of the financial statements.

On 21 February 2022 the Board of Directors approved the financial statements, subject to final adoption by the Annual General Meeting on 21 February 2022.

The accounting policies, methods of computation and presentations are unchanged in comparison with the Annual Report 2020, except for the items presented in "Changed accounting policies and presentation" below.

All amounts are in euro million unless otherwise stated.

2. Changed accounting policies and presentation

The new accounting requirements implemented during 2021 and their impact on NMB's financial statements are described below.

Changed presentation of interest from derivatives used in economic hedges

As from 1 January 2021 the interest components of derivatives hedging assets in economic hedges are classified as "Interest income" and the interest components of derivatives hedging liabilities in economic hedges as "Interest expense" in the income statement. Earlier the interest components of derivatives used for hedging assets and liabilities in economic hedges were classified as "Interest expense". The new principle better reflects the economic substance of hedging transactions. Comparative figures have been restated accordingly and the impact on 2021 and 2020, can be found in the table below:

	Full year 2021		
EURm	Old policy	Change	New policy
Interest income	277.5	3.0	280.5
Interest expense	-14.9	-3.0	-17.9
Net interest income	262.6	-	262.6

	Full year 2020		
EURm	Old policy	Change	New policy
Interest income	279.1	0.2	279.3
Interest expense	-43.4	-0.2	-43.7
Net interest income	235.6	-	235.6

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 can continue as before and no material modification gains or losses have been recognised.

The amendments clarify that hedge accounting does not have to be discontinued in the event 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. For more information, see note 12 "Derivatives and hedge accounting".

3. Changes to IFRSs not yet applied

Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

In 2021 the IASB published amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction.

The amendments require companies to recognise deferred tax on particular transactions that, on initial recognition, give rise to taxable and deductible temporary differences of equal amounts. Such a requirement may apply on the initial recognition of a lease liability and the corresponding right of use asset at the commencement of a lease. The requirement also applies in the context of decommissioning, restoration and similar liabilities where the corresponding amounts are recognised as part of the cost of the related asset.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted. The standard is not yet endorsed by the EU and NMB does not currently intend to adopt it early. The gross deferred tax assets and liabilities will be disclosed, but will be set off on the balance sheet if such requirements are met. Consequently, NMB's current assessment is that the amendments will not have any significant impact on the financial statements or on NMB's capital adequacy in the period of initial application.

Other amendments to IFRS

The IASB has published the following new or amended standards that are assessed not to have any significant impact on NMB's financial statements or capital adequacy in the period of initial application:

- Amendments to IAS 1 Presentation of Financial Statements
- Amendments to IAS 16 Property, Plant and Equipment
- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets
- Annual improvements 2018-2020
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting estimates
- Proposed amendments to IFRS 16 Leases: COVID-19-Related Rent Concessions
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies

4. Critical judgements and estimation uncertainty

The preparation of financial statements in accordance with generally accepted accounting principles requires, in some cases, the use of judgements and estimates by management. The actual outcome can later, to some extent, differ from the estimates and the assumptions made. In this section a description is made of:

- the sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year, and
- the judgements made when applying accounting policies (apart from those involving estimations) that have the most significant impact on the amounts recognised in the financial statements.

Critical judgements and estimates are in particular associated with:

- the fair value measurement of certain financial instruments
- the derecognition of financial assets
- the impairment testing of loans to the public/credit institutions
- the effectiveness testing of cash flow hedges..

Fair value measurement of certain financial instruments

NMB's accounting policy for determining the fair value of financial instruments is described in section 9 "Determination of fair value of financial instruments" and Note 23 "Assets and liabilities at fair value". Critical judgements that have a significant impact on the recognised amounts for financial instruments are exercised when determining the fair value of OTC derivatives and other financial instruments that lack quoted prices or where recently observed market prices are not available, such as unlisted equities. The judgements relate to the following areas:

- The choice of valuation techniques.
- The determination of when quoted prices fail to represent fair value (including the judgement of whether markets are active).
- The calculation of fair value adjustments in order to incorporate relevant risk factors such as credit risk, model risk and liquidity risk.
- The judgement of which market parameters are observable.

The critical judgements required when determining the fair value of financial instruments that lack quoted prices or where recently observed market prices are not available also introduce a high degree of estimation uncertainty.

In all of these instances, decisions are based on professional judgement in accordance with NMB's accounting and valuation policies. The fair value of financial assets and liabilities measured at fair value using a valuation technique, level 2 in the fair value hierarchy, was EUR 405.0m (718.7) and EUR 211.0m (331.3), respectively, at the end of the year. The fair value of financial assets measured at fair value using non-observable data (level 3) was EUR 48.9m (139.5). Valuation adjustments (CVA and DVA) made when determining the value of financial instruments amounted to EUR 0.3m (0.3m).

Sensitivity analysis disclosures covering the fair value of financial instruments with significant unobservable inputs can be found in Note 23 “Assets and liabilities at fair value”.

Derecognition of financial assets
Loans and other financial assets where cash flows are modified, or part of a restructuring, are derecognised, and a new loan recognised, if the terms and conditions of the new loan are substantially different from the old loan. NMB applies judgements to determine if the terms and conditions of the new loan are substantially different from the old loan.

NMB considers the terms and conditions to be substantially different if the present value of the cash flows for the new loan discounted by the original interest rate differs by more than 10% from the present value of the remaining expected cash flows of the old loan or if the modified cash flows are SPPI, but the original cash flows were not SPPI and vice versa.

The carrying amount of loans on the asset side of the balance sheet amounts to EUR 31,826.5m (EUR 29,346.9m).

Impairment testing of loans to the public/credit institutions
NMB’s accounting policy for impairment testing of loans is described in section 12 “Loans to the public/credit institutions”.

Management is required to exercise critical judgements and estimates when calculating loan impairment allowances. NMB’s total lending before impairment allowances was EUR 31,883.4m (EUR 29,370.6m) at the end of the year. For more information, see Note 11 “Loans and impairment”.

When calculating allowances for individually significant impaired loans, judgement is exercised to estimate the amount and timing of the expected cash flows to be received from the customers under different scenarios, including the valuation of any collateral received. Judgement is also applied when assigning the likelihood of the different scenarios occurring.

Judgement is exercised to assess when an exposure has experienced a significant increase in credit risk. If this is the case, the provision should reflect the lifetime expected losses, as opposed to a 12-month expected loss for exposures not having increased significantly in credit risk. Judgement is also exercised in the choice of modelling approaches covering other parameters used when calculating the expected losses, such as the expected lifetime used in stage 2, as well as in the assessment of whether the parameters based on historical experience are relevant for estimating future losses.

The statistical models used to calculate provisions are based on macroeconomic scenarios, which requires management to exercise judgement when identifying such scenarios and when assigning the likelihood of the different scenarios occurring. Judgement is also exercised in the assessment of to what extent the parameters for the different scenarios, based on historical experience, are relevant for estimating future losses. Adjustments are made to the collectively calculated provisions if the historical data does not adequately reflect management’s view on the expected credit losses. The estimation of post-model adjustments requires management to exercise critical judgements.

Effectiveness testing of cash flow hedges
NMB’s accounting policy for cash flow hedges is described in section 8 “Hedge accounting”.

One important judgement in connection with cash flow hedge accounting is the choice of method used for effectiveness testing.

Where NMB applies cash flow hedge accounting the hedging instruments used are predominantly cross-currency interest rate swaps, which are always held at fair value. The currency component is designated as a cash flow hedge of the currency risk and the interest component as a fair value hedge of the interest rate risk. The hypothetical derivative method is used when measuring the effectiveness of these cash flow hedges, meaning that the change in a perfect hypothetical swap is used as proxy for the present value of the cumulative change in expected future cash flows on the hedged transaction (the currency component). Critical judgement has to be exercised when defining the characteristics of the perfect hypothetical swap.

Critical judgements emphasized by COVID-19
NMB’s assessment is that there are no significant critical judgements applied in the preparation of this annual report due to COVID-19 in addition to the critical judgements described above.

5. Recognition of operating income and impairment

Net interest income
Interest income and expense are calculated and recognised using the effective interest rate method or, if considered appropriate, a method that provides a reasonable approximation in line with the effective interest rate method as the basis for the calculation. The effective interest includes fees considered to be an integral part of the effective interest rate of a financial instrument (generally fees received as compensation for risk). The effective interest rate equals the rate that discounts the estimated future cash flows to the net carrying amount of the financial asset or financial liability.

Interest income and expense from financial instruments are, with the exceptions described below, classified as “Net interest income”.

The interest component of derivatives is classified as “Net result from items at fair value”, except for derivatives used for hedging purposes. In accounting hedges the interest component of derivatives is classified as “Interest income calculated using the effective interest rate method” if the derivative is used to hedge an asset and as “Interest expense” if the derivative is used to hedge a liability. In economic hedges the interest component of derivatives is classified as “Other interest income” if the derivative is used to hedge an asset and as “Interest expense” if the derivative is used to hedge a liability.

Other interest income includes the negative yield on liabilities and, respectively, other interest expense the negative yield on assets.

Net fee and commission income
NMB earns commission income mainly from lending services provided to its customers. Usually lending related commission income consists of fees received in connection to services performed to the customer after the loan has been entered into. Fee income is recognised either when or as performance obligations are satisfied.

Lending fees that are not part of the effective interest rate of a financial instrument are recognised at a point of time.

Commission expenses are normally transaction based and recognised in the period when the services are received. Expenses for bought financial guarantees, are amortised over the duration of the instruments and presented in “Fee and commission expense”.

Initial contract costs for obtaining contracts are recognised as an asset and amortised if the costs are expected to be recovered.

Net result from items at fair value
Realised and unrealised gains and losses on financial instruments measured at fair value through profit or loss are recognised in the line item “Net result from items at fair value”. Realised and unrealised gains and losses derive from:

- Interest-bearing securities and other interest-related instruments,
- Foreign exchange gains/losses.

The ineffective portion of cash flow hedges is recognised in “Net result from items at fair value”.

This line item also includes realised gains and losses from financial instruments measured at amortised cost, such as interest compensation received and realised gains/losses on buy-backs of issued own debt.

“Net result from items at fair value” also includes fair value changes of hedged assets and liabilities at amortised cost in hedges of interest rate risk.

Other operating income and other expenses
Other operating income, not related to any other income line, is generally recognised when it is probable that the benefits associated with the transaction will flow to NMB and if the significant risks and rewards have been transferred to the buyer (generally when the transaction is finalised).

Resolution fees are presented as “Other expenses” in the income statement.

Net loan losses
Impairment losses on financial assets classified into the category Amortised cost (see section 11 “Financial instruments”), in the items “Loans to credit institutions” and “Loans to the public” on the balance sheet, are reported as “Net loan losses” together with losses from financial guarantees. Losses are reported net of any collateral and other credit enhancements. NMB’s accounting policies for the calculation of impairment losses on loans can be found in section 12 “Loans to the public/credit institutions”.

6. Recognition and derecognition of financial instruments on the balance sheet

Derivative instruments, quoted securities and foreign exchange spot transactions are recognised on and derecognised from (and an asset or a liability is recognised as “Other assets” or “Other liabilities” on the balance sheet between the trade date and the settlement date) the balance sheet on the trade date. Other financial instruments are recognised on the balance sheet on the settlement date.

Financial assets, other than those for which trade date accounting is applied, are derecognised from the balance sheet when the contractual rights to the cash flows from the financial assets expire or are transferred to another party. The rights to the cash flows normally expire or are transferred when the counterparty has performed by e.g. repaying a loan to NMB, i.e. on the settlement date.

Loans and other financial assets where cash flows are modified or part of a restructuring are derecognised, and a new loan recognised, if the terms and conditions of the new loan are substantially different from the old loan. This is normally the case if the present value of the cash flows for the new loan discounted by the original interest rate differs by more than 10% from the present value of the remaining expected cash flows for the old loan. The same principles apply to financial liabilities. The terms and conditions are also considered to be significantly different for financial assets where the modified cash flows are SPPI, but the original cash flows were not SPPI and vice versa.

Financial liabilities are derecognised from the balance sheet when the liability is extinguished.

7. Translation of assets and liabilities denominated in foreign currencies

The functional currency of NMB is euro (EUR). Foreign currency is defined as any currency other than the functional currency of the entity. Foreign currency transactions are recorded at the exchange rate on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate on the balance sheet date.

Exchange differences arising on the settlement of transactions at rates different from those on the date of the transactions, and unrealised translation differences on unsettled foreign currency monetary assets and liabilities, are recognised in the income statement in the line item “Net result from items at fair value”.

8. Hedge accounting

As part of NMB’s risk management policy, NMB has identified a series of risk categories with corresponding hedging strategies using derivative instruments, as set out in section “Market risk” in Note 2 “Risk and liquidity management” and Note 12 “Derivatives and hedge accounting”.

When a hedging relationship meets the specified hedge accounting criteria set out in IAS 39, NMB applies one of two types of hedge accounting:

- Fair value hedge accounting
- Cash flow hedge accounting

NMB has elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with the carve out version of IAS 39.

Under the EU carve-out version of IAS 39, fair value macro hedge accounting may for instance, in comparison with IAS 39 as issued by the IASB, be applied to on-demand (core) deposits, and hedge ineffectiveness in a hedge of assets with prepayment options is only recognised when the revised estimate of the amount of cash flows falls below the designated bottom-layer. At inception, NMB formally documents how the hedging relationship meets the hedge accounting criteria, including the economic relationship between the hedged item and the hedging instrument, the nature of the risk, the risk management objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship on an ongoing basis.

The application of hedge accounting requires the hedge to be highly effective. A hedge is regarded as highly effective if at inception and throughout its life it can be expected that changes in the fair value of the hedged item, as regards the hedged risk can be essentially offset by changes in the fair value of the hedging instrument. The result should be within a range of 80–125 %.

Transactions that are entered into in accordance with NMB’s hedging objectives but do not qualify for hedge accounting, are economic hedge relationships.

Fair value hedge accounting

Fair value hedge accounting is applied when derivatives are hedging changes in the fair value of a recognised asset or liability attributable to a specific risk in accordance with NMB’s risk management policies set out in in section “Market risk” in Note 2 “Risk and liquidity management” and Note 12 “Derivatives and hedge accounting”. The risk of changes in the fair value of assets and liabilities in NMB’s financial statements originates mainly from loans, securities and deposits with a fixed interest rate, causing interest rate risk. Changes in the fair value of derivatives as well as changes in the fair value of the hedged item attributable to the risks being hedged are recognised separately in the income statement in the line item “Net result from items at fair value”. Given that the hedge is effective, the change in the fair value of the hedged item will be offset by the change in fair value of the hedging instrument.

The changes in the fair value of the hedged item attributable to the risks being hedged with the derivative instrument are reflected in an adjustment to the carrying amount of the hedged item, which is also recognised in the income statement. The fair value changes of the hedged items held at amortised cost in hedges of interest rate risks are reported separately in the balance sheet item “Fair value changes of hedged items in hedges of interest rate risk” on the balance sheet.

Fair value hedge accounting at NMB is performed both at a micro level and on a portfolio basis. Any ineffectiveness is recognised in the income statement under the item “Net result from items at fair value”.

Hedged items

A hedged item in a fair value hedge can be a recognised single asset or liability, an unrecognised firm commitment, or a portion thereof. The hedged item can also be a group of assets, liabilities or firm commitments with similar risk characteristics. Hedged items at NMB consist of both individual assets or liabilities and portfolios of assets and/or liabilities.

Hedging instruments

The hedging instruments used at NMB are predominantly interest rate swaps, which are always held at fair value.

Hedge effectiveness

When assessing hedge effectiveness retrospectively NMB measures the fair value of a hedging instrument and compares the change in the fair value of the hedging instrument to the change in the fair value of the hedged item. The effectiveness measurement is made on a cumulative basis.

If the hedging relationship does not meet the hedge accounting requirements, hedge accounting is discontinued. For fair value hedges the hedging instrument is measured at fair value through profit or loss and the change in the fair value of the hedged item, up to the point when the hedge relationship is terminated, is amortised to the income statement on a straight-line basis over the remaining maturity of the hedged item.

Hedge ineffectiveness can arise from:

- differences in timing of cash flows of hedged items and hedging instruments
- different interest rate curves applied to discount the hedged items and hedging instruments
- the effect of changes in NMB’s or a counterparty’s credit risk on the fair value of the hedging instrument or hedged items
- disparity between expected and actual prepayments of the loan portfolio

Cash flow hedge accounting
In accordance with NMB's risk management policies set out in section "Market risk" in Note 2 "Risk and liquidity management" and Note 12 "Derivatives and hedge accounting", cash flow hedge accounting is applied when hedging the exposure to variability in future interest payments on instruments with variable interest rates as well as currency exposures. The portion of the gain or loss on the hedging instrument determined to be an effective hedge, is recognised in other comprehensive income and accumulated in the cash flow hedge reserve in equity. The ineffective portion of the gain or loss on the hedging instrument is recycled to the item "Net result from items at fair value" in the income statement.

Gains or losses on hedging instruments recognised in the cash flow hedge reserve in equity through other comprehensive income are recycled and recognised in the income statement in the same period as the hedged item affects profit or loss, normally in the period that interest income or interest expense is recognised.

Hedged items
A hedged item in a cash flow hedge can be highly probable floating interest rate cash flows from recognised assets or liabilities or from future assets or liabilities. NMB uses cash flow hedges when hedging interest rate risk on lending with floating interest rates.

Hedging instruments
When hedging the interest rate risk on lending with floating interest rates NMB uses interest rate derivatives as hedging instruments, which are always held at fair value.

Hedge effectiveness
The hypothetical derivative method is used when measuring the effectiveness retrospectively of cash flow hedges, meaning that the change in a perfect hypothetical swap is used as proxy for the present value of the cumulative change in expected future cash flows from the hedged transaction (the currency component).

If the hedging relationship does not meet the hedge accounting requirements, hedge accounting is discontinued. Changes in the unrealised value of the hedging instrument will prospectively from the last time it was proven effective be accounted for in the income statement. The cumulative gain or loss on the hedging instrument that has been recognised in the cash flow hedge reserve in equity through other comprehensive income from the period when the hedge was effective is reclassified from equity to "Net result from items at fair value" in the income statement if the expected transaction is no longer expected to occur.

If the expected transaction is no longer highly probable, but is still expected to occur, the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income from the period when the hedge was effective will remain in other comprehensive income until the transaction occurs or is no longer expected to occur.

The possible sources of ineffectiveness for cash flow hedges are generally the same as for those for fair value hedges described above. However, for cash flow hedges, prepayment risk is less relevant, and the causes of hedging ineffectiveness arise from the changes in the timing and the amount of forecast future cash flows.

9. Determination of fair value of financial instruments

Fair value is defined as the price that at the measurement date would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants under current market conditions in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability.

The existence of published price quotations in an active market is the best evidence of fair value and when they exist they are used to measure financial assets and financial 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 ongoing basis. The absolute level of liquidity and volume required for a market to be considered active varies depending on the class of instruments. For some classes low price volatility is seen, also for those instruments within the class where the trade frequency is high. For instruments in such a class the liquidity requirements are lower and, correspondingly, the age limit for the prices used to establish fair value is higher.

The trade frequency and volume are monitored regularly in order to assess if markets are active or not active. NMB predominantly uses published price quotations to establish fair value for items disclosed under the following balance sheet items:

- Derivatives (listed).

If quoted prices for a financial instrument fail to represent actual and regularly occurring market transactions or if quoted prices are not available, fair value is established by using an appropriate valuation technique. The adequacy of the valuation technique, including an assessment of whether to use quoted prices or theoretical prices, is monitored on a regular basis.

Valuation techniques can range from a simple discounted cash flow analysis to complex option pricing models. Valuation models are designed to apply observable market prices and rates as input whenever possible but can also make use of unobservable model parameters. The adequacy of the valuation model is assessed by measuring its ability to match market prices. This is done by comparing calculated prices with relevant benchmark data, e.g. quoted prices from exchanges, the counterparty's valuations, price data from consensus services etc.

NMB predominantly uses valuation techniques to establish fair value for items disclosed under the following balance sheet items:

- Derivatives (OTC-derivatives).

For financial instruments, whose fair value is estimated by a valuation technique, it is investigated whether the variables used in the valuation model are predominantly based on data from observable markets. NMB considers data from observable markets to be data that can be collected from generally available external sources and which is deemed to represent realistic market prices. If unobservable data has a significant impact on the valuation, the instrument cannot be recognised initially at the fair value estimated by the valuation technique and any upfront gains are thereby deferred and amortised through the income statement over the contractual life of the instrument. The deferred upfront gains are subsequently released to income if the unobservable data becomes observable.

Note 23 “Assets and liabilities at fair value” provides a breakdown of the fair values of financial instruments measured on the basis of:

- quoted prices in active markets for the same instrument (Level 1),
- a valuation technique using observable data (Level 2), and
- a valuation technique using non-observable data (Level 3).

The valuation models applied by NMB are consistent with accepted economic methodologies for pricing financial instruments and incorporate the factors that market participants consider when setting a price.

New valuation models are subject to approval by the Model Risk Committee of Nordea Bank Abp and all models are reviewed on a regular basis.

For further information, see Note 23 “Assets and liabilities at fair value”.

10. Cash and balances with central banks

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

- The central bank or the postal giro system is domiciled in Finland
- The balance is readily available at any time.

11. Financial instruments

Classification of financial instruments

Each financial instrument has been classified into one of the following categories:

Financial assets:

- Amortised cost
- Financial assets at fair value through profit or loss:
    - Mandatorily measured at fair value through profit or loss

Financial liabilities:

- Amortised cost
- Financial liabilities at fair value through profit or loss:
    - Mandatorily measured at fair value through profit or loss

The classification of a financial asset is dependent on the business model for the portfolio in which the instrument is included and on whether the cash flows are solely payments of principal and interest (SPPI).

Financial assets with cash flows that are not solely payments of principal and interest (SPPI) are measured at fair value through profit or loss. All other assets are classified based on the business model. Instruments included in a portfolio with a business model where the intention is to keep the instruments and collect contractual cash flows are measured at amortised cost. Financial assets included in any other business model are measured at fair value through profit or loss.

In order to determine the business model, NMB has divided its financial assets into portfolios and/or sub-portfolios based on how groups of financial assets are managed together to achieve a particular business objective. When determining the right level for the portfolios, NMB has taken the current business area structure into account. When determining the business model for each portfolio, NMB has analysed the objective for the financial assets, as well as, for instance past sales behaviour and management compensation.

All financial assets and liabilities are initially measured at fair value. The classification of financial instruments into different categories forms the basis for how each instrument is subsequently measured on the balance sheet and how changes in its value are recognised. In the table in Note 22 “Classification of financial instruments”, the classification of the financial instruments on NMB’s balance sheet into the different categories under IFRS 9 is presented.

Amortised cost

Financial assets and liabilities measured at amortised cost are initially recognised on the balance sheet at fair value, including transaction costs. Subsequent to initial recognition, the instruments within this category are measured at amortised cost. In an amortised cost measurement, the difference between acquisition cost and redemption value is amortised in the income statement over the remaining term using the effective interest rate method. Amortised cost is defined as the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments plus or minus the cumulative amortisation using the effective interest rate method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance. For more information about the effective interest rate method see Note 1 section 5, “Net interest income”. For information about impairment under IFRS 9, see section 12 below.

Interest on assets and liabilities classified at amortised cost is recognised in the items “Interest income” and “Interest expense” in the income statement.

This category mainly consists of loans to credit institutions and public.

Financial assets and financial liabilities at fair value through profit or loss
Financial assets and financial liabilities at fair value through profit or loss are measured at fair value, excluding transaction costs. All changes in fair value are recognised directly in the income statement in the line item “Net result from items at fair value”.

The category consists of two sub-categories: “Mandatorily measured at fair value through profit or loss” and “Designated at fair value through profit or loss (fair value option)”.

The sub-category mandatorily measured at fair value through profit or loss contains derivative instruments.

Derivatives
All derivatives are recognised on the balance sheet and measured at fair value. Derivatives with a positive fair value, including any accrued interest, are recognised as assets in the item “Derivatives” on the asset side. Derivatives with a negative fair value, including any accrued interest, are recognised as liabilities in the item “Derivatives” on the liability side.

Realised and unrealised gains and losses from derivatives are recognised in the income statement in the item “Net result from items at fair value”.

Offsetting of financial assets and liabilities
NMB offsets financial assets and liabilities on the balance sheet if there is a legal right to offset, in the ordinary course of business and in case of default, bankruptcy and insolvency of NMB and the counterparties, and if the intent is to settle the items net or realise the asset and settle the liability simultaneously.

Exchange traded derivatives are generally accounted for as settled on a daily basis when cash is paid or received and the instrument is reset to market terms.

Issued debt and equity instruments
A financial instrument issued by NMB is either classified as a financial liability or equity. Issued financial instruments are classified as a financial liability if the contractual arrangement results in NMB having a present obligation to either deliver cash or another financial asset, or a variable number of equity instruments to the holder of the instrument. If this is not the case, the instrument is generally an equity instrument and classified as equity, net of transaction costs. Where issued financial instruments contain both liability and equity components, these are accounted for separately.

Covered bonds issued by NMB are presented in the line item “Debt securities in issue” on the balance sheet.

12. Loans to the public/credit institutions

Scope
Financial instruments classified as Amortised cost or Fair value through other comprehensive income are in scope for recognising impairment due to credit risk. This includes assets recognised on the balance sheet as “Loans to credit institutions” and “Loans to the public”. These balance sheet lines also include assets classified as Fair value through profit or loss, which are not in scope for impairment calculations. See section 11 above and Note 22 on “Classification of financial instruments”.

Off-balance sheet commitments, contingent liabilities and loan commitments are also subject to impairment testing.

Recognition and presentation
Amortised cost assets are recognised gross with an offsetting allowance for the expected credit losses if the loss is not regarded as final. The allowance account is disclosed net on the face of the balance sheet, but the allowance account is disclosed separately in the notes. Changes in the allowance account are recognised in the income statement and classified as “Net loan losses”.

If the impairment loss is regarded as final, it is reported as a realised loss and the carrying amount of the loan and the related allowance for impairment loss are derecognised. An impairment loss is regarded as final when the obligor has filed for bankruptcy and the administrator has declared the economic outcome of the bankruptcy procedure, or when NMB waives its claims either through a legally based or voluntary reconstruction, or when NMB, for other reasons, deems it unlikely that the claim will be recovered. See also section “Write-offs” below.

Provisions for off-balance sheet exposures are classified as “Provisions” on the balance sheet, with changes in provisions classified as “Net loan losses”.

Impairment testing
NMB classifies all exposures into stages on an individual basis. Stage 1 includes assets where there has been no significant increase in credit risk since initial recognition, stage 2 includes assets where there has been a significant increase in credit risk and stage 3 (impaired loans) includes defaulted assets. NMB monitors whether there are indicators of exposures being credit impaired (stage 3) by identifying events that have a detrimental impact on the estimated future cash flows (loss event). NMB applies the same definition of default as the Capital Requirements Regulation. More information on the identification of loss events can be found in Note 2 “Risk and liquidity management”. Exposures without individually calculated allowances will be covered by the model-based impairment calculation.

For significant exposures where a credit event has been identified the exposure is tested for impairment on an individual basis. If the exposure is found impaired, an individual provision is recognised. The carrying amount of the exposure is compared with the sum of the net present value of expected future cash flows. If the carrying amount is higher, the difference is recognised as an impairment loss. The expected cash flows are discounted with the original effective interest rate and include the fair value of the collateral and other credit enhancements. The estimate is based on three different forward-looking scenarios that are probability weighted to derive the net present value.

For insignificant exposures that have been individually identified as credit impaired, the impairment loss is measured using the model described below but based on the fact that the exposures are already in default.

Model-based allowance calculation
For exposures not impaired on an individual basis, a statistical model is used for calculating impairment losses. The provisions are calculated as the exposure at default times the probability of default (PD) times the loss given default. For assets in stage 1 this calculation is only based on the coming 12 months, while for assets in stages 2 and 3 it is based on the expected lifetime of the asset.

The provisions for exposures for which there has been no significant increase in credit risk since initial recognition are based on the 12-month expected loss (stage 1). Provisions for exposures for which there has been a significant increase in credit risk since initial recognition, but that are not credit impaired, are based on the lifetime expected losses (stage 2). This is also the case for the insignificant credit impaired exposures in stage 3.

NMB uses two different models to identify whether there has been a significant increase in credit risk or not. For assets held at transition on 1 January 2018, the change in internal rating and scoring data is used to determine whether there has been a significant increase in credit risk or not. Internal rating/scoring information is used to assess the risk of the customers and a deterioration in rating/scoring indicates an increase in the credit risk of the customer. NMB has concluded that it is not possible to calculate the lifetime PD at origination without the use of hindsight for assets already recognised on the balance sheet at transition. Changes to the lifetime PD are used as the trigger for assets recognised after transition.

For assets evaluated based on lifetime PD, NMB uses a mix of absolute and relative changes in PD as the transfer criterion:

- retail customers with an initial 12-month PD below 1%:

  Exposures with a relative increase in lifetime PD above 100% and an absolute increase in 12-month PD above 45bp are transferred to stage 2
- retail customers with an initial 12-month PD above or equal to 1%:

  Exposures with a relative increase in lifetime PD above 100% or an absolute increase in 12-month PD above 300bp are transferred to stage 2
- non-retail customers with an initial 12-month PD below 0.5%:

  Exposures with a relative increase in lifetime PD above 150% and an absolute increase in 12-month PD above 20bp are transferred to stage 2
- non-retail customers with an initial 12-month PD above or equal to 0.5%:

  Exposures with a relative increase in lifetime PD above 150% or an absolute increase in 12-month PD above 400bp are transferred to stage 2.

For assets for which rating and scoring models are used, the change in rating/scoring notches is calibrated to match the significant increase in credit risk based on lifetime PD. In addition, customers with forbearance measures and customers with payments more than thirty days past due are also transferred to stage 2, unless already identified as credit impaired (stage 3). Exposures with forbearance measures will stay in stage 2 for a probation period of 24 months from when the measures were introduced. Once transferred back to stage 1, after the probation period, the exposures are treated as any other stage 1 exposure when assessing significant increase in credit risk. Exposures more than 90 days past due will normally be classified as stage 3, but this classification will be rebutted if there is evidence that the customer is not in default. Such exposures will be classified as stage 2. Rated exposures classified as "high risk", i.e. with a rating grade of 2 or below will also be transferred to stage 2.

When calculating provisions, including the staging assessment, the calculation is based on probability weighted forward looking information. NMB applies three macroeconomic scenarios to address the non-linearity in expected credit losses. The different scenarios are used to adjust the relevant parameters for calculating expected losses and a probability weighted average of the expected losses under each scenario is recognised as provisions. The model is based on data collected before the reporting date requiring NMB to identify events that should affect the provisions after the data is sourced to the model calculation. Management evaluates these events and adjusts the provisions if deemed necessary.

Write-offs
A write-off is a derecognition of a loan or receivable from the balance sheet and a final realisation of a credit loss provision. When assets are considered as uncollectable they should be written off as soon as possible, regardless of whether the legal claim remains or not. A write-off can take place before legal actions against the borrower to recover the debt have been concluded in full. Although an uncollectable asset is removed or written-off from the balance sheet, the customer remains legally obligated to pay the outstanding debt. When assessing the recoverability of non-performing loans and determining if write-offs are

required, exposures with the following characteristics are in particular focus (the list is not exhaustive):

- Exposures past due more than 90 days. If, following this assessment, an exposure or part of an exposure is deemed as unrecoverable, it is written-off.
- Exposures under insolvency procedure where the collateralisation of the exposure is low.
- Exposures where legal expenses are expected to absorb proceeds from the bankruptcy procedure and estimated recoveries are therefore expected to be low.
- A partial write-off may be warranted where there is reasonable financial evidence to demonstrate an inability of the borrower to repay the full amount, i.e. a significant level of debt which cannot be reasonably demonstrated to be recoverable following forbearance treatment and/or the execution of collateral.
- Restructuring cases.

Discount rate
The discount rate used to measure impairment is the original effective interest rate for loans attached to an individual customer or, if applicable, to a group of loans. If considered appropriate, the discount rate can be based on a method that results in an impairment that is a reasonable approximation of using the effective interest rate method as basis for the calculation.

Restructured loans and modifications
In this context a restructured loan is defined as a loan where NMB has granted concessions to the obligor due to their financial difficulties and where this concession has resulted in an impairment loss for NMB. After a reconstruction the loan is normally regarded as not impaired if it performs according to the new conditions. In the event of a recovery the payment is reported as a recovery of loan losses.

Modifications of the contractual cash flows for loans to customers in financial difficulties (forbearance) reduce the gross carrying amount of the loan. Normally this reduction is less than the existing provision and no loss is recognised in the income statement due to modifications. If significant, the gross amounts (loan and allowance) are reduced.

13. Leasing

NMB as lessee
At inception NMB assesses whether a contract is or contains a lease. A lease is a contract that conveys the user the right to control the use of an asset for a period of time in exchange for consideration.

The right to use an asset in a lease contract is recognised on the commencement date as a right-of-use (ROU) asset and the obligation to pay lease payments is recognised as a lease liability

In NMB leases are related to company cars. The leased company cars are presented in the line item, “Properties and equipment”. The lease payments generally include fixed payments. The lease term is the expected lease term. This comprises the non-cancellable period of lease contracts.

14. Taxes

The item “Income tax expense” in the income statement comprises current and deferred income tax. The income tax expense is recognised in the income statement, unless the tax effect relates to items recognised in other comprehensive income or directly in equity, in which case the tax effect is recognised in other comprehensive income or in equity respectively.

Current tax is the expected tax expense on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognised, using the balance sheet method, for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences arising on initial recognition of assets or liabilities in a transaction.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences and tax losses carried forward can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Current tax assets and current tax liabilities are offset when the legal right to offset exists and NMB intends to either settle the tax asset and the tax liability net or recover the asset and settle the liability simultaneously. Deferred tax assets and deferred tax liabilities are generally offset if there is a legally enforceable right to offset current tax assets and current tax liabilities.

15. Provisions

Provisions (which are presented as a liability) are recognised when NMB has a present obligation (legal or constructive) as a result of a past event if it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

16. Employee benefits

All forms of consideration given by NMB to its employees as compensation for services performed are employee benefits. Short-term benefits are to be settled within twelve months after the reporting period when the services have been performed. Post-employment benefits are benefits payable after termination of the employment. Post-employment benefits in NMB consist only of pensions. Termination benefits normally arise if employment is terminated before the normal retirement date, or if an employee accepts an offer of voluntary redundancy.

Short-term benefits
Short term benefits consist mainly of fixed and variable salary. Both fixed and variable salaries are expensed in the period when the employees performed their services to NMB.

More information can be found in Note 7 “Staff costs”.

Post-employment benefits
Pension plans
For defined contribution plans, NMB pays annual contributions that have been determined by a fixed method and has no legal or constructive obligation to pay any further contributions. Contributions are recognised directly in the income statement in the year to which they relate.

NMB operates one defined benefit plan which is closed for new employees. The defined benefit pension plan is non-funded pension plan and is recognised as “Retirement benefit obligation“.

Actuarial calculations including the projected unit credit method are applied to assess the present value of defined benefit obligations and related costs, based on several actuarial and financial assumptions.

When establishing the present value of the obligation and the fair value of any plan assets, remeasurement effects may arise as a result of changes in actuarial assumptions and experience effects (actual outcome compared to assumptions). The remeasurement effects are recognised immediately in equity through other comprehensive income.

In Finland the discount rate is determined with reference to corporate bonds.

17. Equity

Other reserves
Other reserves comprise of invested unrestricted reserve, fair value reserve for cash flow hedges and accumulated remeasurements of defined benefit pension plans.

Retained earnings
Retained earnings include the undistributed profit from previous years.

18. Credit commitments

The contractual amount of irrevocable credit commitments is recognised in the off-balance item “Commitments”.

19. Related party transactions

NMB defines related parties as:

- shareholders with control over NMB
- group undertakings
- key management personnel
- other related parties.

All transactions with related parties are made on an arm’s length basis, apart from loans granted to employees, see Note 7 “Staff costs”.

Shareholders with control over NMB

Nordea Bank Abp is the sole shareholder, having 100% ownership and control over NMB.

Nordea Group undertakings
Nordea Group undertakings means the subsidiaries of the parent company, Nordea Bank Abp.

Group internal transactions between legal entities are performed according to arm’s length principles in conformity with OECD requirements on transfer pricing. These transactions are eliminated in the consolidated accounts.

Key management personnel
Key management personnel include the following positions in NMB:

- The Board of Directors
- The Chief Executive Officer (CEO) and the deputy to the CEO
- Management Group.

For information about compensation, pensions and other transactions with key management personnel, see Note 7 “Staff costs”.

Other related parties
Other related parties comprise close family members to individuals in key management personnel as well as individuals in key management personnel of Nordea Bank Abp and their close family members. Other related parties also include companies controlled by key management personnel of NMB or Nordea Bank Abp or close family members to these key management personnel.

Information concerning transactions between NMB and other related parties is found in Note 26 “Related party transactions”.

Note 2 Risk and liquidity management

Maintaining risk awareness in the organisation is engrained in the business strategies. NMB has defined clear risk and liquidity management frameworks including policies and instructions for different risk types, capital adequacy and capital structure.

Risks associated with NMB's business

All companies that conduct business are exposed to various risks. In this business, a number of material risks have been identified, and must be managed efficiently. Several risks cannot be eliminated; they are inherent in the business and are fundamental to the ability to conduct the business operations. For NMB, the most significant financial risks are credit, market and liquidity risks, while the most significant non-financial risks are operational and compliance risks.

In 2021, COVID-19 continued to have a considerable impact on society at large. Market volatility has persisted due to the pandemic. Termination of instalment-free schemes and downscaling of governmental support measures have not had practical implications on the household portfolio quality and the Finnish housing market has continued performing strongly.

Risk management

The majority of NMB's business is conducted by the parent company so, respectively, the majority of NMB's risk management is integrated with that of the Nordea Group.

The Group Board has the ultimate responsibility for limiting and monitoring Nordea Group's risk exposure as well as for setting the targets for the capital ratios. Risk is measured and reported according to common principles and policies approved by the Group Board. Further, the Group Board decides on Nordea Internal Rules for credit risk, model risk, market risk, liquidity risk, compliance risk, operational risk, as well as the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP). All Nordea Internal Rules are reviewed at least annually.

To protect its balance sheet, NMB continued to increase its loan loss provisions during the year. With its strong financial position NMB is able to continue to actively support its customers despite the prolonged COVID-19. In order to continuously monitor potential adverse outcomes, NMB has executed a number of internal stress tests during 2021 with focus on the COVID-19 situation. In these stress tests, NMB's capital and liquidity situation has shown stable resilience even in the most severe scenarios.

The risks to which NMB is exposed shall reflect the business strategy and NMB's long-term financial interests. They shall be consistent with NMB's capacity for risk-taking and remain within the risk profile established by the Board of Directors of NMB ("NMB Board") through its risk appetite.

The objective of the risk management in NMB is the efficient monitoring of risk exposure and verifying that the exposure is kept within the limits set by the risk appetite. Risk appetite and risk exposure shall be kept at a level that takes account of NMB's ability to absorb losses and is therefore closely linked to the capital structure management of NMB.

The Chief Executive Officer (CEO) of Nordea Mortgage Bank is responsible for the daily operations. NMB's Chief Risk Officer (CRO) and Management Group have the task of ensuring that the proposed risk exposures and the risk appetite proposed in the Group are neither harmful nor inappropriate for NMB's specific business, and of taking sufficient measures if they are assessed as being harmful or inappropriate. Group Board Directives / Group CEO Instructions / Other Group Internal Rules when applicable to NMB are adjusted to NMB level in order to comply with all applicable requirements under EU and national regulations and proportionality considerations.

NMB Board has the ultimate and overall responsibility for the company and defines, oversees and is accountable for the implementation of the governance arrangements within NMB that ensure effective and prudent management of the institution. Furthermore, NMB Board approve capital injections, the risk strategy and the most significant risk limits, following proposals put forward by the company management and applicable committees in Nordea Group.

Board Risk Committee (BRIC) shall assist the Board in fulfilling its oversight responsibilities concerning management and control of the risks, risk frameworks, controls and processes associated with NMB's operations, including credit, market, liquidity, business, operational risk and compliance, as well as related frameworks and processes.

The company operates in three lines of defence. The first line of defence is all other functions in NMB, except the functions described below. The second line of defence consists of the CRO function responsible for the risk management framework and processes; and Compliance responsible for monitoring compliance with internal and external rules. The third line of defence consists of Internal Audit.

The second line of defence is independent of and controls the first line of defence. The third line of defence is independent of and controls the first and second lines. Together, the second and third lines of defence form the internal control functions, which have access and provide reporting directly to NMB Board. The CRO function is headed by the Chief Risk Officer and seconded by the Senior Operational Risk Officer.

Note 2 Risk and liquidity management, cont.

Liquidity risk
Liquidity risk is the risk that NMB can only meet its liquidity commitments at an usually high cost or, ultimately, is unable to meet obligations as they come due. Liquidity risk in NMB is mainly associated with funding the operations through borrowings from the market and Nordea Bank Abp.

According to outsourcing agreements Nordea's Group Treasury ("GT") is responsible for managing NMB's liquidity. GT performs this according to the Group Internal Rules and the risk strategy and risk limits set by NMB. The responsibility is regulated through outsourcing agreements. Liquidity risk management is integrated into the Group's liquidity risk management so as to create efficiency for the Group as a whole. Policy statements stipulate that the company's liquidity management reflects a conservative attitude towards liquidity risk.

GT and Group Risk (GR) are responsible for identifying, controlling and reporting the progression of risks. Liquidity-risk-related risk appetite limits are approved by the NMB Board. To ensure funding in situations where the company is in urgent need of cash and the normal funding sources do not suffice, NMB holds a liquidity buffer. NMB's liquid assets consist of central bank deposits.

NMB's cash flows are very predictable due to the nature of the business. The main short-term liquidity risk relates to covered bond maturities. Internal survival horizon metric is monitored, which shows the survival horizon in days or months, given the current liquidity buffer. The main sources for liquidity are covered bonds issued by the company and funding from Nordea Bank Abp.

The liquidity coverage ratio is a legal requirement, which in principle is calculated by dividing cash inflow within the liquidity window by cash outflow. A liquidity coverage ratio above 100% means the company holds excess liquidity. The liquidity coverage ratio limit is set, which ensures the liquidity buffer is increased prior to bond maturity entering the liquidity window.

The net stable funding ratio (NSFR) relates the bank's available stable funding to its required stable funding and the ratio must equal or exceed 100%.

At the end of 2021 the internal survival horizon for NMB was 289 days (195), liquidity coverage ratio was 167% (4,549) and the net stable funding ratio was 104.8% (108.3). A maturity analysis is presented in Note 25 "Maturity analysis for assets and liabilities".

Capital management
NMB strives to be efficient in its use of capital and therefore actively manages its balance sheet with respect to different asset, liability and risk categories. The goal is to enhance returns to shareholder while maintaining a prudent capital structure. The Board of Directors of NMB decides ultimately on the targets for capital ratios, capital policy and the overall framework of capital management.

Minimum targets for Common Equity Tier 1 (CET1) capital ratio, Tier 1 capital ratio, total capital ratio, leverage ratio and MREL, that exceed the capital requirements set out by the Finnish Financial Supervisory Authority and the Single Resolution Board (SRB), have been set by the Board of Directors of NMB.

NMB uses internal rating based (IRB) approach for the majority of its exposures. At the end of 2021, 99.6% (99.5) of the company's total credit risk exposures were covered by the IRB approach.

NMB bases the internal capital requirements under the Internal Capital Adequacy Assessment Process (ICAAP) on the minimum capital requirements and on internally identified risks. The following major risk types are included in the assessment of the internal capital requirement for the company: credit risk, operational risk, concentration risk and Pillar II risks, such as Interest Rate in the Banking Book and a stress test add-on.

Subordinated loans
At the end of 2021 NMB had no subordinated loans on the balance sheet. The dated subordinated debenture loan with a nominal value of EUR 200m was called in October 2021.

Own funds
Own funds is the sum of Tier 1 and Tier 2 capital. Tier 1 capital consists of both Common Equity Tier 1 (CET1) and additional Tier 1 capital. CET1 capital is considered to be capital of the highest quality with ultimate loss-absorbance characteristics and consists predominately of paid-in capital and retained earnings. Profit may only be included after permission from the financial supervisory authority and after deduction of proposed dividend. Additional Tier 2 capital consists of the IRB provisioning excess.

MREL (Minimum Requirement for Own Funds and Eligible Liabilities)
In May, Nordea received the SRB decision for NMB MREL. According to the decision, the NMB should meet an interim MREL requirement of 15.87% of REA and 4.81% of LRE (Leverage Ratio Exposure) from 1 January, 2022, and a final requirement of 15,87% of REA and 5.91% of LRE from 1 January, 2024. In addition, the NMB should ensure a linear MREL build-up towards those requirements.

To meet the interim MREL requirement for 2022, an internal MREL loan of EUR 605m was executed in December 2021.

Note 2 Risk and liquidity management, cont.

Credit risk management

The risks in NMB's business are mainly attributable to credit risk. Credit risk occurs when a borrower fails to meet its obligations to clear a debt in accordance with agreed terms and conditions leading to a potential loss in NMB. Risks related to changes in the company's prospects of getting back funds invested in loans and other receivables from counterparties are risks which are inherent in the business operations. Negative changes to the credit quality of the company's borrowers and counterparties due to a general economic decline or systemic risks in the financial system, or due to declining collateral values, have a negative impact on the value of the company's assets. In such a situation, a necessary increase to the company's provisions for expected loan losses and realised loan losses, beyond provisioning already made, would have a considerable negative impact on the company's business, financial position and earnings.

Business areas of the Nordea Group have, together with Group Credit Management, the primary responsibility for managing the credit risks in its operations within the established framework and limits, including risk identification, control and reporting. NMB's credit exposures comprise lending to corporates, supplied by Large Corporates & Institutions and Business Banking Finland, and lending to households provided by Private Banking and Personal Banking Finland. The responsibility for managing credit risk is regulated in outsourcing agreements between NMB and Nordea Bank Abp.

Group Credit Risk Control and Model Valuation (GCRC&MV), as a second line of defence unit, is responsible for the overarching credit process i.e. guidelines, instructions and Nordea Internal Rules. GCRC&MV is also responsible for controlling and monitoring the quality of the credit portfolio and the credit process. Within NMB, credit quality and adherence to guidelines, instructions and directives is monitored based on reporting from the Nordea Group and supplemented with controls performed by NMB's own staff. Reports are provided to the Management Group, BRIC and to the Board of Directors.

Customer classification

Rating and scoring are the main components in the risk management system for credit risk. The common denominator for the rating/scoring models is the ability to rank customers and predict insolvency. While the rating models are used for corporate customers, scoring models are used for household customers and smaller companies. Ratings are normally assigned in connection with limit/credit proposals or annual reviews and are approved by Group Credit Management (GCM). Scoring models are statistical methods for predicting the probability of default for a customer.

Credit risk exposure

NMB continuously reviews the quality of the credit exposures based on reporting from the Nordea Group and NMB internal controls. Weak and impaired exposures are closely and continuously monitored and reviewed by Business areas at least on a quarterly basis in terms of current performance, business outlook, future debt servicing capacity and the possible need for provisions.

Exposures with provisions are considered as impaired. The size of the provision is equal to the estimated loss, being the difference between the book value of the outstanding exposure and the discounted value of the future cash flow, including the value of pledged collateral. Impaired exposures can be either servicing or non-servicing.

Maximum exposure to credit risk

		31 Dec 2021		31 Dec 2020	
EURm	Note	Amortised cost and Fair value through other comprehensive income	Financial assets at fair value through profit or loss	Amortised cost and Fair value through other comprehensive income	Financial assets at fair value through profit or loss
Loans to central banks and credit institutions	11	923.1	**-**	582.7	**-**
Loans to the public	11	30,903.4	**-**	28,764.2	**-**
Derivatives	12	**-**	453.9	**-**	858.2
Off balance sheet items		522.9	**-**	396.2	**-**
Total		**32,349.4**	**453.9**	**29,743.1**	**858.2**

Allowances for credit risk

EURm	Note	31 Dec 2021	31 Dec 2020
Loans to central banks and credit institutions	11	**-**	**-**
Loans to the public	11	-56.9	-23.7
Off balance sheet items		-0.2	-0.1
Total		**-57.1**	**-23.8**

Note 2 Risk and liquidity management, cont.

Collaterals and guarantees
A crucial factor in the ability to avoid loan losses in the event of a borrower failing to meet its obligations is that the value of pledged collateral and/or guarantees cover the claim of Nordea Mortgage Bank on the borrower. For the purposes of calculating capital requirements and expected losses, the risk of loss is measured using various Credit Risk Models. Most such models account for risk protection methods, such as collateral and guarantees. Different collateral types have different Loss Given Default factors, which in turn impact the required capital. Collateral valuation processes are performed at the time of origination and periodically.

The table below presents the distribution of collateral used in the capital adequacy calculation process. The table shows residential real estate to constitute a major share of eligible collateral items.

Collateral distribution

	31 Dec 2021	31 Dec 2020
Financial Collateral	0.9 %	1.0 %
Residential Real Estate	97.8 %	97.6 %
Commercial Real Estate	0.7 %	0.8 %
Other Physical Collateral	0.6 %	0.6 %
Total	**100.0 %**	**100.0 %**

Loan-to-value
The loan-to-value (LTV) ratio is considered a useful measure to evaluate collateral's quality, i.e. the credit extended divided by the market value of the collateral pledged. At year end, the cover pool's unindexed weighted average loan-to-value was 53.2% (52.2), entailing that collateral covers roughly the double of lending.

Loan-to-value distribution[1]

	31 Dec 2021		31 Dec 2020	
Retail mortgage exposure	EURm	%	EURm	%
<40%	17,517.6	56.7	17,224.6	59.9
40–50%	2,639.4	8.5	2,505.2	8.7
50–60%	2,047.0	6.6	1,906.8	6.6
60–70%	1,440.2	4.7	1,298.2	4.5
70-100%[2]	7,259.2	23.5	5,829.4	20.3
Total	**30,903.4**	**100.0**	**28,764.2**	**100.0**

[1] Loan-to-value unindexed distribution in ranges where a single loan can exist in multiple buckets, with continuous distribution. LTV is calculated using market values. The residential collaterals in NMB's Cover Pool are capped at loans up to 70% of the market value.
[2] Other eligible assets

Individual and collective assessment of impairment
Requirements for impairment are set forth in IFRS9 and are based on an expected credit loss model. Impairment testing (individual and collective) applies to three forward looking and weighted scenarios, where assets tested for impairment are divided into three groups depending on the stage of credit deterioration.

Stage 1 includes assets where there has been no significant increase in credit risk, stage 2 includes assets where there has been a significant increase in credit risk, and stage 3 includes defaulted assets. All assets are assessed individually for staging. Significant assets in stage 3 are assessed for impairment individually. Assets in stage 1, stage 2 and insignificant assets in stage 3 are assessed for impairment collectively.

Throughout the process of identifying and mitigating credit impairment, NMB continuously reviews the quality of credit exposures. Weak and credit impaired exposures are closely monitored and reviewed at least on a quarterly basis in terms of current performance, business outlook, future debt service capacity, and the possible need for provisions. NMB recognises only certain specific credit risk adjustments (SCRAs). SCRAs comprise individually and collectively assessed provisions. SCRAs in the quarterly profit and loss statement are referred to as loan losses, while SCRAs in the balance sheet are referred to as allowances and provisions.

Individual provisioning
A need for individual provisioning is recognised if, based on credit events and observable data, a negative impact is likely on the customer's expected future cash flow to the extent that full repayment is unlikely (pledged collaterals taken into account).

Exposures with individually assigned provisions are credit Impaired and in stage 3. The size of the provision is equal to the estimated loss, which is the difference between the book value of the outstanding exposure and the discounted value of the expected future cash flow, including the value of pledged collateral.

Default
Customers with exposures that are past due more than 90 days, in bankruptcy or considered unlikely to pay are regarded as defaulted and non-performing. Such customers can be either servicing debt or non-servicing. If a customer recovers from being in default, the customer is seen as cured. Typically, this situation occurs if the customer succeeds in creating a balance in financials. In order to be cured, the recovery should include the customer's total liabilities, an established satisfactory repayment plan and an assessment that the recovery is underway.

Note 2 Risk and liquidity management, cont.

Collective provisioning

The collective model is executed quarterly. One important driver for provisions is the trigger for the transferring of assets from stage 1 to stage 2. For assets recognised from 1 January 2018, changes to the lifetime Probability of Default (PD) are used as the trigger. In addition, customers with forbearance measures and customers with payments more than thirty days past due are also transferred to stage 2. In stage 1, the provisions equal the 12 months expected loss. In stages 2 and 3, the provisions equal the lifetime expected loss. The output is complemented with an expert-based analysis process to ensure adequate provisioning. Defaulted customers without individual provisions have collective provisions.

Forbearance

Forbearance means easing or restructuring of credit terms and conditions due to the borrower experiencing financial difficulties. The intention with granting forbearance for a limited period of time is to ensure full repayment of the outstanding debt. Examples of eased terms are changes in amortisation profile, repayment schedule, customer margin or eased financial covenants. Forbearance is undertaken on a selective and individual basis, according to Power to Act and followed by impairment testing. Forborne exposures can be performing or non-performing. Individual loan loss provisions are recognised if necessary. Performing customers with forbearance measures are transferred to stage 2 and non-performing customers with forbearance measures are defined as credit impaired (stage 3). The minimum probation period for performing forborne loans is 24 months. Once a loan gets out of forborne status, it cannot be transferred to stage 1 until all other stage 2 triggers also are cleared and can only move out of stage 3 when no longer credit impaired/non-performing.

Forbearance

EURm	31 Dec 2021	31 Dec 2020
Forborne loans	263.1	281.2
- of which defaulted	63.0	61.5
Allowances for individually assessed impaired and forborne loans	-7.7	-3.4
- of which defaulted	-5.7	-2.4

Key ratios	31 Dec 2021	31 Dec 2020
Forbearance ratio[1]	0.8 %	1.0 %
Forbearance coverage ratio[2]	3.0 %	1.2 %
- of which defaulted	9.0 %	3.9 %

[1] Forborne loans/Loans before allowances.
[2] Individual allowances for forborne loans/Forborne loans.

Sensitivities

One important factor in estimating expected credit losses in accordance with IFRS9 is to assess what constitutes a significant increase in credit risk. To understand the sensitivities to these triggers, Nordea has calculated model-based provisions under two different scenarios:

	Base case scenario	Scenario 1	Scenario 2
Retail portfolios			
Relative threshold	100 %	50 %	150 %
Absolute 12-month threshold	45 bp	35 bp	55 bp
Absolute lifetime threshold	300 bp	250 bp	350bp
Notching[1]	1-6	1 down	1 up
Non-retail portfolios			
Relative threshold	150 %	100 %	200 %
Absolute 12-month threshold	20 bp	15 bp	25 bp
Absolute lifetime threshold	400 bp	350 bp	450 bp
Notching[1]	1-6	1 down	1 up

[1] For exposures with initial recognition before the transition to IFRS 9 (1 Jan 2018) stage classification is decided based on changes in rating grades. The trigger in scenario 1 is set at one notch less than in the model actually used and in scenario 2 the trigger is set at one notch more than in the model used.

The provisions would have increased by EUR 0.9m (EUR 0.4m) in scenario 1 and decreased by EUR 0.7m (EUR 0.4m) in scenario 2. For more information on the rating scale and average PDs, see table “Rating/ scoring information for loans measured at amortised cost” below.

The provisions are sensitive to rating migration even if triggers are not reached. The table below shows the impact on provisions from a one notch downgrade on all exposures in the bank. It includes both the impact of the higher risk for all exposures as well as the impact of transferring exposures from stage 1 to stage 2 that reach the trigger. It also includes the impact from the exposures with one rating grade above default becoming default, which is estimated at EUR 14m (EUR 5m). This figure is based on calculations with the statistical model rather than individual estimates that would be the case in reality for material defaulted loans.

Note 2 Risk and liquidity management, cont.

Sensitivities

	2021		2020	
EURm	Recognised provisions	Provisions if one notch downgrade	Recognised provisions	Provisions if one notch downgrade
Personal Banking	38	52	13	19
Business Banking	7	11	3	4
Large Corporations and institutions	0	0	0	0
Other	1	3	0	1
Total	**46**	**66**	**17**	**25**

Forward looking information

Forward looking information is used both for assessing significant increases in credit risk and calculating expected credit losses. NMB uses three macroeconomic scenarios, a base scenario, a favourable scenario and an adverse scenario. For the fourth quarter of 2021, the scenarios were weighted into the final expected credit losses (ECL) using base 60% (Q4 2020 50%), adverse 20% (45) and favourable 20% (5).

The macroeconomic scenarios are provided by Group Risk in Nordea, based on the Oxford Economics model. The forecast is a combination of modelling and expert judgement, subject to thorough checks and quality control processes. The model has been built to give a good description of the historic relationships between economic variables and to capture the key linkages between those variables. The forecast period in the model is ten years and for periods beyond, a long-term average is used in the ECL calculations.

The macroeconomic scenarios reflect Nordea's view of how the Finnish economy will potentially develop after the reopening of society after COVID-19 related restrictions. When developing the scenarios, Nordea took into account projections from Nordic governments and central banks, Nordea Research and the ECB's macroeconomic forecasts for the euro area.

Economic projections from the Bank of Finland and the European Central Bank are used as a basis for the baseline scenario. In Finland, real GDP has more than recovered from the fall in economic activity caused by the lockdowns of the past two years. Economic prospects are good, although growth is expected to be lower than in recent quarters. Strained global supply chains and bottlenecks are creating headwinds for growth but these problems are expected to subside as consumption patterns normalise, demand slows and production capacity is adjusted.

The spread of COVID-19 has increased again and it is still unclear how serious the economic implications of the new Omicron variant are. The baseline scenario is that Omicron will not have any major impact on growth. The two alternative macroeconomic scenarios cover a range of plausible impacts of the pandemic on the economy, reflecting the persisting uncertainty concerning the pandemic's future evolution and economic effects.

At the end of 2021, adjustments to the model-based provisions amounted to EUR 11m including management judgments. The management judgements cover projected loan losses not yet covered by the IFRS 9 model (cyclical reserve) and identified issues in the IFRS 9 model to be later covered in model updates (structural reserve). The cyclical reserve is supported by additional portfolio modelling, and triggered by the substantial uncertainty in the macroeconomic development as well as the need to account for future rating downgrades potentially underestimated by the IFRS 9 model through the updated macroeconomic scenarios. Given the macro-economic development is highly uncertain, NMB has chosen to be prudent and to book relatively high management judgement.

One important source of information in the estimation of the cyclical reserve is the internal stress testing models, adjusted for the impact of the Finnish government support schemes. For the retail portfolio the most important public sector actions have been the different forms of labour market support schemes, which have significantly reduced expected defaults and losses among households. Due to the extent of these schemes Nordea decreased the modelled development of new defaults originally predicted by the internal stress testing models, leading to lower predicted loan losses. These models are based on historical observations and correlations, thus they do not replicate the impact of the government support schemes launched during the pandemic. With regards to the expected rating migration in the corporate portfolio, Nordea took into consideration the positive impact of the Finnish government guarantee and support schemes, addressing primarily the liquidity shock caused by the lock-downs and quarantines. Without the public sector measures the modelled rating deterioration would have been more severe, and the predicted losses would have been higher.

The model based scenario simulations were compared to the initial bottom-up loan loss forecast process, thus helping NMB to ensure the conservativeness of the loan loss projections. The cyclical reserve decided on by the management in 2021 aims to adjust the outcome in the IFRS 9 models into the range of expected losses rather than the top range of the projections, and covers a substantial realisation of projected losses in the year.

Note 2 Risk and liquidity management, cont.

Scenarios and provisions

	2022	2023	2024	Unweighted ECL, EURm	Probability weight	Model based provisions, EURm	Adjustment to model based provisions, EURm	Individual provisions, EURm	Total provisions, EURm
Finland									
Favourable scenario									
- GDP growth, %	4.0%	1.8%	1.2%						
- Unemployment, %	6.7%	6.4%	6.2%	44	20%				
- Change in household consumption, %	5.5%	1.7%	1.6%						
- Change in house prices, %	3.1%	2.7%	2.0%						
Base scenario									
- GDP growth, %	2.8%	1.3%	1.0%						
- Unemployment, %	6.9%	6.7%	6.6%						
- Change in household consumption, %	4.6%	1.3%	1.2%	45	60%	46	11	0	57
- Change in house prices, %	1.5%	1.6%	1.4%						
Adverse scenario									
- GDP growth, %	0.6%	1.2%	0.9%						
- Unemployment, %	7.7%	7.5%	7.2%						
- Change in household consumption, %	2.9%	0.6%	0.6%	49	20%				
- Change in house prices, %	-2.0%	-0.3%	0.5%						
Total						**46**	**11**	**0**	**57**

Credit portfolio

NMB's lending to the public increased 7% during 2021 and amounted to EUR 30.9bn (28.8). Out of lending to the public, corporate customers accounted for 5% (6) of the exposure and household customers for 95% (94). The distribution of lending on contractual maturities is shown in Note 25. For ECL calculations NMB uses behavioural maturity which is usually shorter than contractual maturity. NMB only mortgages properties in Finland. Credit commitments amounted to EUR 522.9m (396.2).

As in the previous year, NMB did not have any assets in the form of bonds or other interest-bearing securities. Lending to credit institutions amounted at the end of the year to 0.9bn (0.6), all of which was placed in Group companies.

Impaired loans, gross, amounted to EUR 233.4m (240.7) of which 98% refers to private individuals. Following a deduction of EUR 31.5m (12.3) for provisioning for individually valued impaired loans, the net amount was EUR 201.9m (228.2), equalling 65bps (79) of loans to the public before allowances. Allowances for collectively assessed loans in Stage 1 and Stage 2 amounted to EUR 25.4m (11.2). For more information, see also Note 11 "Loans and impairment".

Collateral held as security for impaired loans amounted to EUR 280.1m at the end of 2021.

Impaired loans and ratios

	2021	2020
Gross impaired loans, EURm	233.4	240.7
- of which servicing	23.7	24.6
- of which non-servicing	209.7	216.1
Impairment rate, (stage 3) gross, basis points[1]	73	82
Impairment rate (stage 3), net, basis points[2]	63	78
Allowances in relation to loans in stage 1 and 2, basis points[3]	8	4
Total allowance rate (stage 1, 2 and 3), basis points[4]	18	8
Allowances in relation to impaired loans (stage 3), %[5]	14	5

[1] Impaired loans (stage 3) before allowances divided by total loans measured at amortised cost before allowances
[2] Impaired loans (stage 3) after allowances divided by total loans measured at amortised cost before allowances
[3] Allowances for impaired loans (stage 1 and 2) divided by loans measured at amortised cost, not impaired (stage 1 and 2)
[4] Total allowances divided by total loans measured at amortised cost before allowances.
[5] Allowances for impaired loans (stage 3) divided by impaired loans (stage 3)

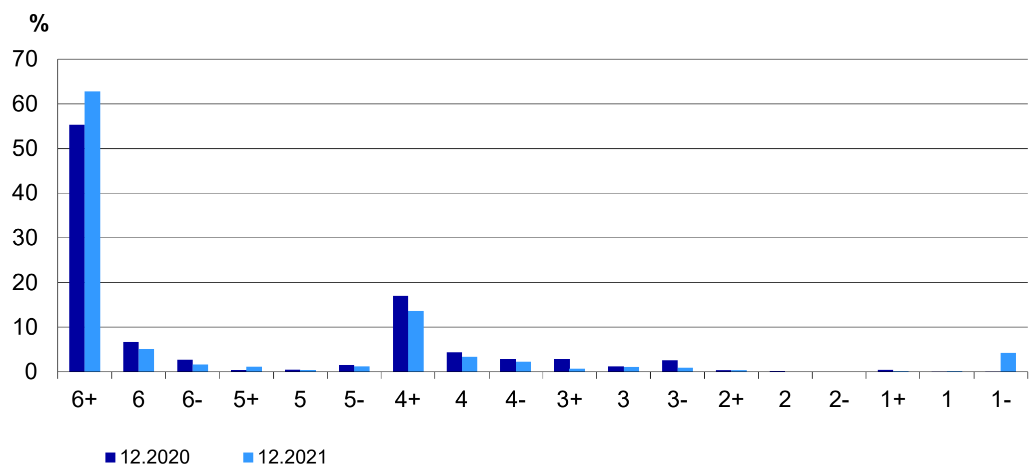
Note 2 Risk and liquidity management, cont.

Rating and scoring distribution

One way of assessing credit quality is through analysis of the distribution across rating grades, for rated corporate customers and institutions, as well as risk grades for scored household and small business customers, i.e. retail exposures. The average credit quality remains strong in both the corporate portfolio and the household portfolio in 2021. 20.5% (12.7) of the number of corporate customers migrated upwards while 16.0% (16.4) were down-rated. Exposure-wise, 21.1% (13.0) of the corporate customer exposure migrated upwards while 12.3% (15.0) was down-rated. 64.2% (22.6) of the number of household customers migrated upwards while 16.2% (53.2) were down-rated. Exposure-wise, 64.2% (24.1) of the household customer exposure migrated upwards while 16.6% (52.0) was down-rated.

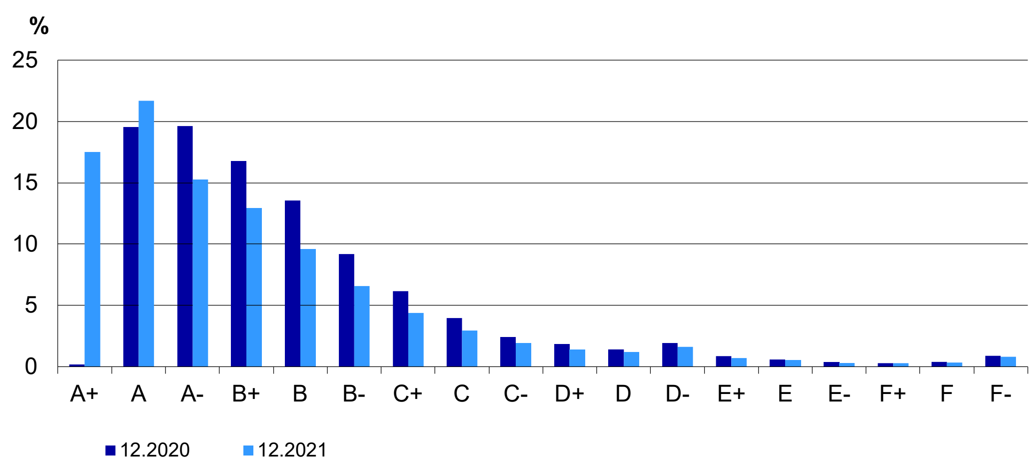
Rating distribution, IRB Corporate customers

Out of corporate exposure, 92% (92) was rated 4- or higher (on a scale of 6+ to 1- where 6+ is the highest and 1- is the lowest rating). 5% (1) of corporate customers were rated 1+ or poorer. Defaulted loans are not included in the rating distributions.



Risk grade distribution, IRB Retail customers

Out of household customer exposures, 93% (92) had a score of C- or higher (on a scale of A+ to F- where A+ is the highest and F- the lowest score), which indicates a probability of default of 1% or lower. 1% (2) of household customers had a score of F+ or lower. Defaulted loans are not included in the scoring distributions.



Rating/scoring information for loans measured at amortised cost[1]

EURm	Gross carrying amount 31 Dec 2021				
Rating/scoring grade	Stage 1	Stage 2	Stage 3	**Total**	**Provisions**
6 / A	14,742.8	22.0	-	14,764.8	-0.6
5 / B	8,895.8	140.6	0.5	9,036.9	-1.9
4 / C	3,131.0	550.7	1.0	3,682.7	-3.5
3 / D	1,102.3	614.1	0.9	1,717.3	-5.2
2 / E	368.8	356.1	0.9	725.8	-4.0
1 / F	239.6	459.6	6.9	706.1	-10.5
Standardised / Unrated	30.1	3.2	1.6	35.0	-2.5
0+ / 0 / 0- (default)	33.6	36.6	221.6	291.8	-28.8
Internal[2]	923.1	-	-	923.1	-
Total	**29,467.1**	**2,182.9**	**233.4**	**31,883.4**	**-57.0**

EURm	Gross carrying amount 31 Dec 2020				
Rating/scoring grade	Stage 1	Stage 2	Stage 3	**Total**	**Provisions**
6 / A	9,818.5	36.1	0.1	9,854.7	-0.4
5 / B	10,541.9	178.1	0.2	10,720.2	-1.2
4 / C	3,833.2	643.1	0.3	4,476.6	-2.3
3 / D	1,390.9	562.0	1.4	1,954.3	-2.8
2 / E	426.0	322.4	2.5	750.9	-1.8
1 / F	246.2	361.3	13.9	621.4	-3.1
Standardised / Unrated	5.9	5.4	0.1	11.4	-0.1
0+ / 0 / 0- (default)	99.2	77.1	222.2	398.5	-12.0
Internal[2]	582.7	-	-	582.7	-
Total	**26,944.5**	**2,185.5**	**240.7**	**29,370.7**	**-23.7**

[1] The stage classification and calculated provision for each exposure is based on the situation as per end of October 2021 (October 2020), while exposure amount and rating grades are based on the situation as per end of December 2021 (December 2020). Some of the exposures in default according to the rating grade as per end of Decembers were not in default as per end of October, and hence this is reflected in the stage classification.

[2] Exposures towards Nordea entities

Rating/scoring information for off balance sheet items

EURm	Nominal amount 31 Dec 2021				
Rating/scoring grade	Stage 1	Stage 2	Stage 3	**Total**	**Provisions**
6 / A	282.1	0.4	-	282.5	0.0
5 / B	136.4	0.0	-	136.4	0.0
4 / C	53.8	9.4	-	63.2	-0.1
3 / D	20.7	9.8	-	30.5	-0.1
2 / E	1.5	4.2	-	5.7	0.0
1 / F	1.2	2.7	-	3.9	0.0
Standardised / Unrated	0.5	0.0	-	0.5	0.0
0+ / 0 / 0- (default)	-	-	0.2	0.2	0.0
Total	**496.2**	**26.5**	**0.2**	**522.9**	**-0.2**

EURm	Nominal amount 31 Dec 2020				
Rating/scoring grade	Stage 1	Stage 2	Stage 3	**Total**	**Provisions**
6 / A	149.6	0.0	-	149.6	0.0
5 / B	156.6	0.1	-	156.7	-0.1
4 / C	52.2	6.0	-	58.2	0.0
3 / D	19.0	5.4	-	24.4	0.0
2 / E	1.0	1.8	-	2.8	0.0
1 / F	0.3	2.5	-	2.8	0.0
Standardised / Unrated	0.6	0.1	-	0.7	0.0
0+ / 0 / 0- (default)	-	-	0.9	0.9	0.0
Total	**379.3**	**15.9**	**0.9**	**396.1**	**-0.1**

Note 2 Risk and liquidity management, cont.

Past due loans
The table below shows loans past due 6 days or more, split into corporate and household customers, at the end of 2021 totalling EUR 252.1m (252.4).

	31 Dec 2021		31 Dec 2020	
EURm	Corporate customers	Household customers	Corporate customers	Household customers
6-30 days	3.6	98.9	6.5	100.8
31-60 days	2.0	34.0	0.4	29.3
61-90 days	1.1	15.4	0.0	12.9
>90 days	0.8	96.3	1.9	100.6
Total	**7.5**	**244.6**	**8.8**	**243.6**
Past due loans divided by loans to the public after allowances, %	0.4	0.8	0.5	0.9

Net loan losses
Net loan losses totalled EUR -40.2m (-15.4), the increase mainly driven by an update of the IFRS 9 model with more conservative loss data assumption. In addition, collective provisions based on management judgement of EUR 9.6m (7.1) in total have been booked in addition to the model based provisions.

Net loan losses and loan loss ratios

	2021	2020
Net loan losses, EURm	-40.2	-15.4
Loan loss ratio, basis points	13.0	5.4
- of which Stage 3	8.4	3.6
- of which Stage 1 & 2	4.6	1.7

Note 2 Risk and liquidity management, cont.

Movements in risks and allowances

Carrying amount of loans measured at amortised cost, before allowances

	Central banks and credit institutions				The public			
EURm	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 Jan 2021	**582.7**	**-**	**-**	**582.7**	**26,361.7**	**2,185.5**	**240.8**	**28,788.0**
Origination and acquisition[1]	-	-	-	-	6,016.4	-	-	6,016.4
Transfers between stage 1 and stage 2, net	-	-	-	-	-327.5	327.5	-	0.0
Transfers between stage 2 and stage 3, net	-	-	-	-	-	-24.0	24.0	0.0
Transfers between stage 1 and stage 3, net	-	-	-	-	-15.7	-	15.7	0.0
Repayments and disposals[2]	-	-	-	-	-3,840.7	-319.8	-51.2	-4,211.7
Write-offs	-	-	-	-	-	-	-6.9	-6.9
Drawdowns of credit facilities granted earlier	340.4	-	-	340.4	349.9	13.7	11.0	374.6
Closing balance at 31 Dec 2021	**923.1**	**-**	**-**	**923.1**	**28.544,1**	**2,182.9**	**233.4**	**30,960.3**

	Total			
EURm	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 Jan 2021	**26,944.4**	**2,185.5**	**240.8**	**29,370.7**
Origination and acquisition[1]	6,016.4	-	-	6,016.4
Transfers between stage 1 and stage 2, net	-327.5	327.5	-	0.0
Transfers between stage 2 and stage 3, net	-	-24.0	24.0	0.0
Transfers between stage 1 and stage 3, net	-15.7	-	15.7	0.0
Repayments and disposals[2]	-3,840.7	-319.8	-51.2	-4,211.7
Write-offs	-	-	-6.9	-6.9
Drawdowns of credit facilities granted earlier	690.3	13.7	11.0	715.0
Closing balance at 31 Dec 2021	**29,467.2**	**2,182.9**	**233.4**	**31,883.5**

	Central banks and credit institutions				The public			
EURm	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 Jan 2020	**666.4**	**-**	**-**	**666.4**	**24,782.4**	**1,721.7**	**240.9**	**26,745.0**
Origination and acquisition[1]	-	-	-	-	5,834.5	-	-	5,834.5
Transfers between stage 1 and stage 2, net	-	-	-	-	-737.2	737.2	-	0.0
Transfers between stage 2 and stage 3, net	-	-	-	-	-	-17.7	17.7	0.0
Transfers between stage 1 and stage 3, net	-	-	-	-	-34.4	-	34.4	0.0
Repayments and disposals[2]	-83.8	-	-	-83.8	-3,736.9	-273.7	-52.9	-4,063.5
Write-offs	-	-	-	-	-	-	-3.2	-3.2
Drawdowns of credit facilities granted earlier	-	-	-	-	253.3	18.0	3.9	275.2
Closing balance at 31 Dec 2020	**582.7**	**-**	**-**	**582.7**	**26,361.7**	**2,185.5**	**240.8**	**28,788.0**

	Total			
EURm	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 Jan 2020	**25,448.8**	**1,721.7**	**240.9**	**27,411.4**
Origination and acquisition[1]	5,834.5	-	-	5,834.5
Transfers between stage 1 and stage 2, net	-737.2	737.2	-	0.0
Transfers between stage 2 and stage 3, net	-	-17.7	17.7	0.0
Transfers between stage 1 and stage 3, net	-34.4	-	34.4	0.0
Repayments and disposals[2]	-3,820.7	-273.7	-52.9	-4,147.3
Write-offs	-	-	-3.2	-3.2
Drawdowns of credit facilities granted earlier	253,3	18.0	3.9	275,2
Closing balance at 31 Dec 2020	**26,944.3**	**2,185.5**	**240.8**	**29,370.7**

[1] Contains newly granted credits within the year
[2] Contains repayments of credits

Movement of allowance accounts for loans measured at amortised cost

	Central banks and credit institutions				The public			
EURm	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 Jan 2021	**-**	**-**	**-**	**-**	**-3.3**	**-8.0**	**-12.4**	**-23.7**
Origination and acquisition	-	-	-	-	-1.5	-	-	-1.5
Transfers from stage 1 to stage 2	-	-	-	-	0.3	-13.1	-	-12.8
Transfers from stage 1 to stage 3	-	-	-	-	0.0	-	-2.7	-2.7
Transfers from stage 2 to stage 1	-	-	-	-	-0.4	3.5	-	3.1
Transfers from stage 2 to stage 3	-	-	-	-	-	0.4	-4.6	-4.2
Transfers from stage 3 to stage 1	-	-	-	-	-	-	0.5	0.5
Transfers from stage 3 to stage 2	-	-	-	-	-	-0.4	1.2	0.8
Changes in credit risk without stage transfer	-	-	-	-	-0.1	-3.8	-16.8	-20.7
Repayments and disposals	-	-	-	-	0.2	0.7	3.1	4.0
Write-off through decrease in allowance account	-	-	-	-	-	-	0.2	0.2
Changes due to update in the institution's methodology for estimation (net)	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-	-
Translation differences	-	-	-	-	-	-	-	-
Closing balance at 31 Dec 2021	**-**	**-**	**-**	**-**	**-4.8**	**-20.7**	**-31.5**	**-57.0**

	Total			
EURm	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 Jan 2021	**-3.3**	**-8.0**	**-12.4**	**-23.7**
Origination and acquisition	-1.5	-	-	-1.5
Transfers from stage 1 to stage 2	0.3	-13.1	-	-12.8
Transfers from stage 1 to stage 3	0.0	-	-2.7	-2.7
Transfers from stage 2 to stage 1	-0.4	3.5	-	3.1
Transfers from stage 2 to stage 3	-	0.4	-4.6	-4.2
Transfers from stage 3 to stage 1	-	-	0.5	0.5
Transfers from stage 3 to stage 2	-	-0.4	1.2	0.8
Changes in credit risk without stage transfer	-0.1	-3.8	-16.8	-20.7
Repayments and disposals	0.2	0.7	3.1	4.0
Write-off through decrease in allowance account	-	-	0.2	0.2
Changes due to update in the institution's methodology for estimation (net)	-	-	-	-
Other changes	-	-	-	-
Translation differences	-	-	-	-
Closing balance at 31 Dec 2021	**-4.8**	**-20.7**	**-31.5**	**-57.0**

Note 2 Risk and liquidity management, cont.

Movement of allowance accounts for loans measured at amortised cost

	Central banks and credit institutions				The public			
EURm	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 Jan 2020	**-**	**-**	**-**	**-**	**-2.1**	**-4.3**	**-5.3**	**-11.7**
Origination and acquisition	-	-	-	-	-1.7	-	-	-1.7
Transfers from stage 1 to stage 2	-	-	-	-	0.2	-5.5	-	-5.3
Transfers from stage 1 to stage 3	-	-	-	-	0.0	-	-2.4	-2.4
Transfers from stage 2 to stage 1	-	-	-	-	-0.1	1.9	-	1.8
Transfers from stage 2 to stage 3	-	-	-	-	-	0.2	-2.3	-2.1
Transfers from stage 3 to stage 1	-	-	-	-	0.0	-	0.5	0.5
Transfers from stage 3 to stage 2	-	-	-	-	-	-0.2	0.5	0.3
Changes in credit risk without stage transfer	-	-	-	-	0.2	-0.5	-4.1	-4.4
Repayments and disposals	-	-	-	-	0.2	0.4	0.7	1.3
Write-off through decrease in allowance account	-	-	-	-	-	-	-	-
Changes due to update in the institution's methodology for estimation (net)	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-	-
Translation differences	-	-	-	-	-	-	-	-
Closing balance at 31 Dec 2020	**-**	**-**	**-**	**-**	**-3.3**	**-8.0**	**-12.4**	**-23.7**

	Total			
EURm	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 Jan 2020	**-2.1**	**-4.3**	**-5.3**	**-11.7**
Origination and acquisition	-1.7	-	-	-1.7
Transfers from stage 1 to stage 2	0.2	-5.5	-	-5.3
Transfers from stage 1 to stage 3	0.0	-	-2.4	-2.4
Transfers from stage 2 to stage 1	-0.1	1.9	-	1.8
Transfers from stage 2 to stage 3	-	0.2	-2.3	-2.1
Transfers from stage 3 to stage 1	0.0	-	0.5	0.5
Transfers from stage 3 to stage 2	-	-0.2	0.5	0.3
Changes in credit risk without stage transfer	0.2	-0.5	-4.1	-4.4
Repayments and disposals	0.2	0.4	0.7	1.3
Write-off through decrease in allowance account	-	-	-	-
Changes due to update in the institution's methodology for estimation (net)	-	-	-	-
Other changes	-	-	-	-
Translation differences	-	-	-	-
Closing balance at 31 Dec 2020	**-3.3**	**-8.0**	**-12.4**	**-23.7**

Note 2 Risk and liquidity management, cont.

Movements in provisions for off balance sheet items

EURm	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 Jan 2021	**0.0**	**-0.1**	**-**	**-0.1**
Origination and acquisition	0.0	-0.1	-	-0.1
Transfers from stage 1 to stage 2	0.0	0.0	-	0.0
Transfers from stage 1 to stage 3	-	-	-	-
Transfers from stage 2 to stage 1	0.0	0.0	-	0.0
Transfers from stage 2 to stage 3	-	0.0	-	0.0
Transfers from stage 3 to stage 1	-	-	-	-
Transfers from stage 3 to stage 2	-	-	-	-
Changes in credit risk without stage transfer	0.0	0.0	-	0.0
Repayments and disposals	0.0	0.0	-	0.0
Write-off through decrease in allowance account	-	-	-	-
Other changes	-	-	-	-
Translation differences	-	-	-	-
Closing balance at 31 Dec 2021	**0.0**	**-0.2**	**-**	**-0.2**

EURm	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 Jan 2020	**0.0**	**-0.1**	**-**	**-0.1**
Origination and acquisition	0.0	-0.1	-	-0.1
Transfers from stage 1 to stage 2	0.0	0.0	-	0.0
Transfers from stage 1 to stage 3	0.0	-	-	0.0
Transfers from stage 2 to stage 1	0.0	0.0	-	0.0
Transfers from stage 2 to stage 3	-	0.0	-	0.0
Transfers from stage 3 to stage 1	0.0	-	-	0.0
Transfers from stage 3 to stage 2	-	-	-	-
Changes in credit risk without stage transfer	0.0	0.1	-	0.1
Repayments and disposals	0.0	0.0	-	0.0
Write-off through decrease in allowance account	-	-	-	-
Other changes	-	-	-	-
Translation differences	-	-	-	-
Closing balance at 31 Dec 2020	**0.0**	**-0.1**	**-**	**-0.1**

Market risk

Market risk is the risk of loss in a position in either the trading book or non-trading book as a result of changes in market rates and parameters that affect the market values or net interest income flows. Market risk exist irrespective of the accounting treatment of the positions.

The market risk appetite for NMB is expressed through risk appetite statements issued by NMB Board. The statements are defined for the banking book as NMB does not have any trading book assets. The 2LoD ensures that the risk appetite is appropriately translated through relevant committees into specific risk appetite limits for GT which is responsible for managing the market risk according to intra group outsourcing agreement. The risk management on behalf of NMB is largely integrated into the Group's risk management so as to attain the most efficient management of market risk within the Group as a whole. GT and GR are responsible for identifying, controlling and reporting the progression of risks.

As part of the overall RAF, holistic and bespoke stress tests are used to measure the market risk appetite and calibrate limits to monitor and control the full set of material market risk factors to which NMB is exposed.

Non-traded market risk

Non-traded market risk principally arises from the core banking business of NMB and related hedges. GT is responsible for the comprehensive risk management of all non-traded market risk exposures in the Nordea Group's balance sheet, including NMB.

The non-traded market risks that NMB is exposed to is interest rate risk in the banking book (IRRBB) defined as the current or prospective risk to NMB's capital and earnings arising from adverse movements in interest rates. The market risks are managed centrally by GT from an earnings and Economic Value perspective and include gap risk, basis risks and option risk stemming from floors in issued bonds and customer contracts.

Due to the lending structure in NMB's home market Finland, most of the contractual interest rate exposures are floating rate linked to Euribor and floored at zero while fixed rate lending only constitutes a small part of the loan book. Consequently, wholesale funding is also issued in or swapped to floating rate format. The resulting residual repricing gap risk and fixing risk is managed by GT for NMB. The net outright interest rate risk stemming from the residual repricing gaps, together with the limited fixed interest rate risk, is hedged with interest rate swaps (IRS) and Overnight Index Swaps (OIS) partially under hedge accounting. Fair value hedges and cash flow hedges are described in more detailed in Note 12 "Derivatives and hedge accounting."

The two metrics to measure NMB's IRRBB are the Structural Interest Income Risk (SIIR) metric for Earnings risk and Economic Value (EV).

Structural Interest Income Risk (SIIR)
SIIR is the amount by which NMB's accumulated net interest income would change during the next 12 months if all interest rates were to change by +/-50 basis points. SIIR reflects the mismatches in the balance sheet and the off-balance sheet items due to differences in the interest rate repricing periods, volumes or reference rates of assets, liabilities and derivatives. The SIIR model uses a constant balance sheet assumption and implied forward curves with behavioural modelling of prepayments. Furthermore, the SIIR model takes into account the floors Nordea has towards customers from Finnish banking law that prevents negative interest rates from household customers.

NMB's SIIR is measured through dynamic simulations by calculating several net interest income scenarios and comparing the difference between these scenarios and the base net interest income expectation. Several interest rate scenarios are applied. The Board of Directors has set a risk limit for two parallel rate shift SIIR scenarios (increasing rates and decreasing rates). These scenarios measure the effect on the company's net interest income for a 12-month period of a +/-50 basis point change in all interest rates where the balance sheet is assumed to be constant. Significant elements of customer behaviour and Nordea's decision-making process concerning Nordea's own rates are taken into account.

A SIIR limit has been set aiming to optimise financial structure, balanced risk taking and reliable earnings growth. GT has the responsibility for the operational management of SIIR. At the end of the year, the SIIR for increasing market rates was EUR -28m (-29) and the SIIR for decreasing market rates was EUR 45m (26). These figures imply that the net interest income would decrease if interest rates rise and increase if interest rates fall.

Economic value Stress test (EV stress test)
Economic value (EV) of Equity stress tests consider the change in the economic value of banking book assets, liabilities and interest-bearing derivative exposures resulting from interest rate movements, independently of the accounting classification and ignoring credit spreads and commercial margins. These are measured as the changes in the Economic Value of the Equity of the banking book under the 6 standardised scenarios defined by the Basel Committee on Banking Supervision (BCBS). The exposure limit under this metric is the greatest of these values.

The EV model is based on a run-off balance sheet and implied forward curves with behavioural modelling of prepayments. Just as the SIIR model the EV model also takes into account the floors NMB has towards customers from Finnish banking law that prevents negative interest rates from household customers.

Market risk figures for NMB

EURm	31 Dec 2021	31 Dec 2020
Interest rate risk		
SIIR	28.0	31.3
EV	25.3	188.7

Operational risk
Operational Risk is defined in Nordea as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk. The risk of loss includes direct or indirect financial loss, which includes but is not limited to impacts from regulatory sanctions, legal exposure, reputational damage and critical business process disruption.

Operational risks are inherent in all of Nordea's businesses and operations. Managers throughout Nordea are accountable for the operational risks related to their mandate and for managing these risks within risk limits and risk appetite in accordance with the operational risk management framework.

While the risks related to the COVID-19 crisis have been presented in Nordea with an elevated level, this has not materialised as increased operational losses in 2021.

The management of operational risk includes all activities aimed at identifying, assessing and measuring, responding and mitigating, controlling and monitoring, and reporting risks. The risk management is supported by various processes including e.g. the Risk and Control Self-Assessment, Change Risk Management and Approval, Incident Management, Scenario Analysis, Business Continuity and Crisis Management, Information Security Management, Third Party Risk Management, Insurance related risk diversification and Significant Operating Processes. Some of these processes are described below. Risk exposures are governed by limits set within the boundaries of the risk appetite. The Risk Appetite Statement (RAS) is expressed in terms of:

- residual risk level in breach of risk appetite and requirements for mitigating actions for risks
- total loss amount from incidents.

Note 2 Risk and liquidity management, cont.

In Nordea Group the business areas and units are responsible for the management and limitation of the operational risks in their business activity. Likewise, NMB is responsible for the management and limitation of the operational risks that arise in its own business, and for monitoring the risk management in relevant business units in Nordea Bank Abp that are key service providers for NMB.

NMB has implemented the Nordea Group's Operational Risk Management framework. NMB's operational risk is largely attributable to the Nordea Bank Abp's operational risk since most of the business activities are outsourced there. NMB performs its own assessment of the most important risks that must be managed and regulates the management thereof in the Intra-Group Agreements with service providing units.

NMB has in 2LoD CRO function an in-house Operational Risk Officer (ORO), responsible for identifying, monitoring and reporting of operational risks. ORO also has a role for supporting 1LoD. ORO reports to NMB CRO. Group Operational Risk (GOR) within Group Risk (GR) constitutes the 2nd LoD risk control function in Nordea Group and is responsible for developing and maintaining the overall operational risk management framework as well as for monitoring and controlling the operational risk management of the 1st LoD in the Group. GOR services supporting NMB is defined in Intra-Group Agreement.

Risk and Control Self-Assessment (RCSA) process provides an overview and assessment of operational and compliance risks across Nordea improving risk awareness and enables effective assessment, control and mitigation of risks.

Change Risk Management and Approval Framework (CRMA) is to ensure that there is a full understanding of both financial and non-financial risks arising from the change (e.g. product change, process change), and that risks are adequately managed consistent with the risk strategy and risk appetite before the change is approved, executed and implemented.

Business Continuity and Crisis Management is the overall risk management under which Nordea ensures building and maintaining the appropriate levels of resiliency, readiness, response and management of extraordinary events and crises. Business Continuity Plan sets out the procedures to respond, recover, resume and restore operations following the extraordinary events. The foundation for continuity plans is set up is BIA's (Business Impact Analysis). Testing of plans is done annually to secure credibility and to discover prioritised development needs. Because a large part of NMB's processes are conducted by Nordea Bank Abp, business continuity plans are done in consultation with NMB and service providing units in Nordea Bank Abp.

The outcomes of operational risk management activities are reported to NMB's Board quarterly or on Ad hoc basis when deemed necessary.

Intra-group dependence
NMB's business is conducted in close integration with Nordea Bank Abp and its service providing units. The most significant operational risk is this very dependence. If e.g. Nordea Bank Abp was to cease to conduct these services or otherwise neglect to fulfil its obligations towards NMB, this would have a negative effect on NMB's business. This risk has been addressed through continuous effort to develop more rigid control of, and reporting for, the services rendered by Nordea Bank Abp.

Financial Reporting Risk
Financial reporting risk is defined as the risk of misstatements or deficiencies in financial reporting, regulatory reporting and disclosures. An internal control framework for managing financial reporting risk is in place and implemented in NMB. The framework provides structure and standards for designing, operating and evaluating internal controls over financial reporting across the Nordea Group. NMB CRO function is responsible for the independent monitoring, assessment and oversight of the risks and NMB's implementation of the framework, and reports to the Board on a quarterly basis.

Losses related to operational risks remain very low and in 2021 no incidents occurred that materially affected NMB.

Compliance risk
Compliance risk is defined as the risk of failure to comply with applicable regulations and related internal rules.

The key principle for the management of compliance risk is the adherence to three lines of defence. The first line of defence represented by the Business Areas, Legal Entities and Group Functions are risk owners, and are responsible for their own daily risk management and control of compliance risks. Management on all levels are responsible for operating their business within defined limits for risk exposure and in accordance with decided directives, instructions and risk management processes

Group Compliance (GC) is a second line of defence risk control function coordinating, facilitating and overseeing the effectiveness and integrity of the compliance risk management. Group Compliance provides an independent view on compliance to relevant rules, regulations and advises, as well as supports and trains first line on ways to effectively and efficiently handle compliance obligations. On a quarterly basis, GC reports on all significant compliance risks to the Management and the Board of NMB to inform about NMB`s current risk exposure in relation to the predefined risk appetite and tolerance level. The quarterly report covers also GC findings on the effectiveness of the risk management and control framework in NMB. Risk reporting from the control functions enables efficient and risk-based decision-making procedures and approach for the Board of NMB and the Board Committees.

Note 2 Risk and liquidity management, cont.

Group Compliance has nominated company Compliance Officer (CO) to support and advice NMB in compliance related matters. CO is dedicated to NMB and is supported by the resources of the GC function. The company CO is responsible for the overall compliance action planning for NMB and the alignment of actions with the consolidated Group Compliance planning. In addition, Nordea is continuing to invest in enhanced compliance standards, processes, and resourcing. NMB as a subsidiary in the Nordea Group will benefit from the work done in the Group.

Financial Crime Prevention
Nordea Mortgage Bank Plc is dependent on Nordea Bank Abp's financial crime prevention activities. Monitoring of Nordea Bank Abp's performance of Anti-Money Laundering (AML), Counter Terrorism Financing (CTF) and sanctions screening obligations are key control measures for NMB. To enhance fit for purpose in-house competencies NMB has also during 2021 continued tailormade AML training activities per job description for its personnel. During 2021 NMB has also implemented enhancements to Financial Crime Risk Management related to mortgage loans in NMB's balance sheet, including company specific reporting of High Risk customers and added transaction monitoring controls for mortgage repayments. Financial Crime risk of NMB is assessed annually by the Company.

Management of emerging risks
Nordea Mortgage Bank Plc implements the risk framework of the Nordea Group. NMB assures that risk taxonomy changes will be implemented in due time and risk processes are well embedded. New emerging risks have increased focus and the inventory of material risks are updated as needed to ensure sufficient management and reporting of risks.

Note 3 Segment reporting

Measurement of Operating segments' performance
The measurement principles and allocation between operating segments follow the information reported to the Chief Operating Decision Maker (CODM). The CODM has been defined as NMB Board.

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

Note 4 Net interest income

EURm	2021	2020
Interest income		
Interest income from financial instruments calculated using the effective interest method		
Loans to credit institutions	2.6	5.0
Loans to the public	243.8	250.6
Yield fees	12.4	13.1
Net interest paid or received on derivatives in economic hedges of assets	3.0	0.2
Other interest income[1]	18.7	10.3
Other		
Net interest income from derivatives	-0.2	1.2
Interest income	**280.5**	**279.3**
- Of which negative yield on liabilities	15.8	9.3
Interest expense		
Interest expense from financial instruments calculated using the effective interest method		
Deposits by credit institutions	-9.8	-10.8
Debt securities in issue	-55.5	-129.4
Subordinated liabilities	-1.4	-2.0
Net interest paid or received on derivatives in economic hedges of liabilities	0.0	0.0
Other interest expenses[1]	-15.5	-12.0
Other		
Net interest income from derivatives	64.3	110.5
Interest expense	**-17.9**	**-43.7**
- Of which negative yield on assets	-2.3	-3.3
Net interest income	**262.6**	**235.6**

[1] Comparative figures have been restated. See Note 1 "Accounting policies" section "Changed accounting policies and presentation" for more information.

Interest on impaired loans amounted to an insignificant portion of interest income.

Note 5 Net fee and commission income

EURm	2021	2020
Brokerage, securities issues and corporate finance	-0.1	-0.6
- of which expense	-0.1	-0.6
Lending Products	11.4	10.1
- of which income	11.4	10.1
Guarantees and liquidity facility	-7.6	-9.5
- of which expense	-7.6	-9.5
Other	0.0	-0.3
- of which income	0.0	0.0
- of which expense	0.0	-0.3
Total	**3.7**	**-0.2**

Fee income, not included in determining the effective interest rate, from financial assets and liabilities not measured at fair value through profit or loss amounted to EUR 11.4m (10.1).

Guarantees and liquidity facility contain fees arising from the services provided by Nordea Bank Abp. Guarantee expenses are related to covered bonds originally issued by Nordea Bank Finland Plc, where NMB has received a guarantee from Nordea Bank Abp to secure settlements to the holders of those bonds. Liquidity facility fees are related to the agreement with Nordea Bank Abp to guarantee NMB's liquidity needs in daily operations. Guarantee expenses totalled EUR -5.8m (-7.8) and liquidity facility fees amounted to EUR -1.8m (-1.7).

Note 6 Net result from items at fair value

EURm	2021	2020
Interest related instruments and foreign exchange gains/losses	9.8	-9.4
Total	**9.8**	**-9.4**

Net result from categories of financial instruments

EURm	2021	2020
Financial assets and liabilities mandatorily at fair value through profit or loss	-204.9	107.1
Financial assets at amortised cost[1]	-236.4	143.2
Financial liabilities at amortised cost[1]	451.0	-259.6
Foreign exchange gains/losses excluding currency hedges	0.0	-0.1
Total	**9.7**	**-9.4**

[1] These rows comprise mainly of fair value changes of hedged amortised cost assets or liabilities in hedges of interest rate risk. More information on Note 1 Accounting policies in section Fair value hedge accounting.

Note 7 Staff costs

EURm	2021	2020
Salaries and remuneration	-1.2	-1.1
Pension costs (specification below)	-0.2	-0.2
Social security contributions	0.0	0.0
Allocation to profit-sharing foundation	0.0	0.0
Other staff costs	0.0	-0.1
Total	**-1.4**	**-1.4**

EURm	2021	2020
Pension costs:		
Defined benefit plans	0.0	0.0
Defined contribution plans	-0.2	-0.2
Total	**-0.2**	**-0.2**

Additional disclosures on remuneration under Nordic FSAs' regulation and general guidelines
The qualitative disclosures under these regulations can be found in the separate section on remuneration in the Board of Director's Report, while the quantitative disclosures will be published in a separate report on Nordea's homepage (www.nordea.com) no later than one week before the Annual General Meeting of Nordea on 24 March 2022.

Note 7 Staff costs, cont.

Compensation to the Board of Directors and Chief Executive Officer
As at 31 December 2021, four members of the Board of Directors of NMB were employed by Nordea Bank Abp and three members were external. NMB has not paid any compensation to the members which were employees of Nordea Bank Abp. Fees paid to external members of the Board amounted to 76,000 euros in 2021 (76,000). Salaries, fees and other staff related expenses to the other members of the Board were paid by Nordea Bank Abp. Salaries, fees, pensions and other staff related expenses paid to the Chief Executive Officer are presented below.

Remuneration to the Chief Executive Officer

EUR	Fixed salary 2021	Benefits 2021	**Total 2021**
Chief Executive Officer			
Jussi Pajala	**220,363**	**17,520**	**237,883**

EUR	Fixed salary 2020	Benefits 2020	**Total 2020**
Chief Executive Officer [1]			
Jussi Pajala	142,681	9,297	**151,978**
Deputy Chief Executive Officer [2]			
Tarja Ikonen	17,526	29	**17,555**
Total	**160,207**	**9,326**	**169,533**

[1] Jussi Pajala started as the Chief Executive Officer 13 February 2020. The reported figures are based on the salary from 13 February to 31 December 2020
[2] Deputy CEO Tarja Ikonen acted as interim CEO until 13 February 2020. The reported figures are based on the salary from 1 January to 13 February 2020

There was no pension obligation for the Chief Executive Officer of Nordea Mortgage Bank Plc at the year-end 2021 or 2020.

Loans granted to the Chief Executive Officer and members of the Board of Directors

EUR	Loans in the balance sheet 2021	Paid interest 2021	Loans in the balance sheet 2020	Paid interest 2020
Chief Executive Officer				
Jussi Pajala	483,889	3,828	322,874	3,073
To members of the Board of Directors	983,171	5,522	840,322	5,383
Total	**1,467,060**	**9,350**	**1,163,196**	**8,456**

Loans to key management personnel amounted to EUR 2,199,942 in 2021 (1,768,460). Interest income on these loans amounted to EUR 11,156 in 2021 (10,054). In Finland the employee interest rate for loans corresponds to Nordea's funding cost with a margin of 30 basis points. Loans to family members of key management personnel are granted on normal market terms, as well as loans to key management personnel who are not employed by Nordea Group.

Guarantees and other off-balance-sheet commitments
NMB has not pledged any assets or other collateral or committed to contingent liabilities on behalf of any key management personnel or auditors. The members of the administrative and controlling boards have no holdings of shares, equity warrants or convertible bonds issued by NMB.

Number of employees

Average number of employees	31 Dec 2021	31 Dec 2020
Full-time employees	13	12
Part-time employees	-	-
Total	**13**	**12**
Total number of employees (FTEs), end of period	**13**	**12**

Note 8 Other expenses

EURm	2021	2020
Resolution fees	-7.8	-6.0
Information technology	0.0	0.0
Marketing and representation	0.0	0.0
Postage, transportation, telephone and office expenses	0.0	0.0
Rents, premises and real estate	-0.1	0.0
Fees for the outsourced services provided by the parent company[1]	-136.2	-56.5
Other	-2.4	-2.2
Total	**-146.5**	**-64.7**

[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 the OECD guidelines on transfer pricing and local tax practice. The updated methodology has entailed pricing adjustments of sales and distribution fees, increasing the expenses in NMB and equally increasing the income in Nordea Bank Abp.

Auditor's fees

EURm	2021	2020
PricewaterhouseCoopers Oy		
Auditing assignments	-0.1	-0.2
Audit-related services	0.0	0.0
Other assignments	-0.1	0.0
Total	**-0.2**	**-0.2**

Note 9 Net loan losses

2021, EURm	Loans to the public[2]	Off balance sheet items[3]	**Total**
Net loan losses, stage 1	-1.4	0.0	-1.4
Net loan losses, stage 2	-12.8	-0.1	-12.9
Net loan losses, non-defaulted	**-14.2**	**-0.1**	**-14.3**
Stage 3, defaulted			
Net loan losses, individually assessed, collectively calculated[1]	-16.9	-	-16.9
Realised loan losses	-6.9	-	-6.9
Decrease of provisions to cover realised loan losses	0.2	-	0.2
Recoveries on previous realised loan losses	0.0	-	0.0
New/increase in provisions	-2.3	-	-2.3
Reversal of provisions	0.0	-	0.0
Net loan losses, defaulted	**-25.9**	**-**	**-25.9**
Net loan losses	**-40.1**	**-0.1**	**-40.2**

[1] Includes individually identified assets where the provision has been calculated based on statistical models.
[2] Provisions included in Note 11 "Loans and impairment".
[3] Provisions included in Note 17 "Provisions"

2021, EURm	Net loan losses, individually assessed	Net loan losses, collectively assessed	Decrease of provisions to cover realised loan losses	Reversals of provisions	Recoveries on previous realised loan losses	Write-offs	**Total in Income Statement**
Loans to the public	-19.2	-14.2	0.2	0.0	0.0	-6.9	-40.1
Guarantees and other off-balance sheet items	-	-0.1	-	-	-	-	-0.1
Net loan losses from loans measured at amortised cost	-19.2	-14.3	0.2	0.0	0.0	-6.9	-40.2

2021 Net loan losses comprise management judgements of EUR 9.6m (7.1) booked to model based provisions. The management judgement covers projected loan losses not yet covered by the IFRS 9 model and identified issues in the IFRS 9 model to be later covered in model updates.

Note 9 Net loan losses, cont.

2020, EURm	Loans to the public[2]	Off balance sheet items[3]	**Total**
Net loan losses, stage 1	-1.2	0.0	-1.2
Net loan losses, stage 2	-3.7	-0.1	-3.8
Net loan losses, non-defaulted	**-4.9**	**-0.1**	**-5.0**
Stage 3, defaulted			
Net loan losses, individually assessed, collectively calculated[1]	-7.4	-	-7.4
Realised loan losses	-3.2	-	-3.2
Decrease of provisions to cover realised loan losses	-	-	-
Recoveries on previous realised loan losses	-0.1	-	-0.1
New/increase in provisions	0.0	-	0.0
Reversal of provisions	0.3	-	0.3
Net loan losses, defaulted	**-10.4**	**-**	**-10.4**
Net loan losses	**-15.3**	**-0.1**	**-15.4**

[1] Includes individually identified assets where the provision has been calculated based on statistical models.
[2] Provisions included in Note 11 "Loans and impairment".
[3] Provisions included in Note 17 "Provisions"

2020, EURm	Net loan losses, individually assessed	Net loan losses, collectively assessed	Decrease of provisions to cover realised loan losses	Reversal of provisions	Recoveries on previous realised loan losses	Write-offs	**Total in Income Statement**
Loans to the public	-7.4	-4.9	-	0.3	-0.1	-3.2	**-15.3**
Guarantees and other off-balance sheet items	-	-0.1	-	-	-	-	**-0.1**
Net loan losses from loans measured at amortised cost	**-7.4**	**-5.0**	**-**	**0.3**	**-0.1**	**-3.2**	**-15.4**

Note 10 Taxes

Income tax expense

EURm	2021	2020
Current tax	-18.0	-28.3
Deferred tax	0.4	-0.6
Total	**-17.6**	**-28.9**

For current and deferred tax recognised in Other comprehensive income, see Statement of comprehensive income.

The tax on NMB’s profit before tax differs from the theoretical amount that would arise using the tax rate of Finland as follows:

EURm	2021	2020
Profit before tax	88.1	144.6
Tax calculated at a tax rate of 20 %	-17.6	-28.9
Non-deductible expenses	-	-
Adjustments relating to prior years	-	-
Tax charge	**-17.6**	**-28.9**
Average effective tax rate	20%	20%

Note 10 Taxes, cont.

EURm	31 Dec 2021	Charged to income statement	Charged to OCI	1 Jan 2021	31 Dec 2020	Charged to income statement	Charged to OCI	1 Jan 2020
Deferred tax assets:								
Loans to the public	12.6	0.4	-	12.2	12.2	-0.6	-	12.8
Retirement benefits	0.0	0.0	-	0.0	0.0	-	0.0	0.0
Liabilities/provisions	0.0	0.0	-	0.0	0.0	0.0	-	0.0
Netting between deferred tax assets and liabilities	-2.1	-	2.7	-4.8	-4.8	-	-1.1	-3.7
Total	**10.5**	**0.4**	**2.7**	**7.4**	**7.4**	**-0.6**	**-1.1**	**9.1**

EURm	31 Dec 2021	Charged to income statement	Charged to OCI	1 Jan 2021	31 Dec 2020	Charged to income statement	Charged to OCI	1 Jan 2020
Deferred tax liabilities:								
Loans to the public	2.1	-	-2.7	4.8	4.8	-	1.1	3.7
Netting between deferred tax assets and liabilities	-2.1	-	-2.7	-4.8	-4.8	-	-1.1	-3.7
Total	**0.0**	**-**	**0.0**	**0.0**	**0.0**	**-**	**0.0**	**0.0**
Net deferred tax asset	**10.5**	**0.4**	**2.7**	**7.4**	**7.4**	**-0.6**	**-1.1**	**9.1**

There were no unrecognised deferred tax assets in 2021 or 2020.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, when the deferred tax income relates to the same fiscal authority.

Note 11 Loans and impairment

Despite COVID-19, the credit quality of NMB's loan book has remained strong. 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	31 Dec 2021	31 Dec 2020
Loans measured at amortised cost, not impaired (stage 1 and 2)	31,650.0	29,129.9
Impaired loans (stage 3)	233.4	240.7
- of which servicing	23.7	24.6
- of which non-servicing	209.7	216.1
Loans before allowances	**31,883.4**	**29,370.6**
-of which credit institutions	923.1	582.7
Allowances for impaired loans (stage 3)	-31.5	-12.5
- of which servicing	-4.0	-1.2
- of which non-servicing	-27.5	-11.3
Allowances for impaired loans (stage 1 and 2)	-25.4	-11.2
Allowances[1]	**-56.9**	**-23.7**
-of which credit institutions		-
Loans, carrying amount	**31,826.5**	**29,346.9**
- of which Loans to credit institutions	923.1	582.7
- of which Loans to the public	30,903.4	28,764.2

[1] Allowances 31 December 2021 comprise management judgements of EUR 9.6m (7.1) covering projected loan losses not yet covered by the IFRS 9 model and identified issues in the IFRS 9 model to be later covered in model updates.

Note 12 Derivatives and hedge accounting

NMB enters into derivatives for risk management purposes. Derivatives held for risk management purposes include hedges that either meet the hedge accounting requirements or hedges that are economic hedges but do not meet the hedge accounting requirements.

As from 2021 the fair value and nominal amount of derivatives in this note represent derivatives before offsetting between assets and liabilities on the balance sheet (gross amount) instead of after offsetting as earlier. The gross amount better reflects the exposure in the hedging instrument. Comparative figures have been restated accordingly.

The table below shows the fair values of derivative financial instruments together with their notional amounts. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of either the market or credit risk.

	Fair value		
31 Dec 2021, EURm	Positive	Negative	Nominal amount
Derivatives not used for hedge accounting			
Interest rate derivatives			
Interest rate swaps	0.2	0.0	16,217.0
Total derivatives	**0.2**	**0.0**	**16,217.0**
Derivatives used for hedge accounting			
Interest rate derivatives	404.8	210.9	43,938.9
Foreign exchange derivatives	-	-	-
Other derivatives	48.9	-	7,775.7
Total derivatives used for hedge accounting	**453.7**	**210.9**	**51,714.6**
- of which cash flow hedges	16.1	-	560.0
- of which fair value hedges	437.7	210.9	51,154.6
Total derivatives	**453.9**	**211.0**	**67,931.6**

	Fair value		
31 Dec 2020, EURm	Positive	Negative	Nominal amount
Derivatives not used for hedge accounting			
Interest rate derivatives			
Interest rate swaps	6.0	0.7	18,950.0
Total derivatives	**6.0**	**0.7**	**18,950.0**
Derivatives used for hedge accounting			
Interest rate derivatives	686.5	330.5	41,115.6
Foreign exchange derivatives	26.1	-	116.2
Other derivatives	139.6	-	8,343.2
Total derivatives used for hedge accounting	**852.2**	**330.5**	**49,575.0**
- of which cash flow hedges	53.7	-	673.0
- of which fair value hedges	798.5	330.5	48,902.1
Total derivatives	**858.2**	**331.3**	**68,525.0**

Risk management

NMB manages its identified market risks according to the risk management framework and strategy described in the Market risk section in Note 2 ”Risk and Liquidity management”.

Interest rate risk

NMB is a mortgage bank, with a significant majority of assets being loans and receivables to the public. These assets are primarily funded through covered bonds and intragroup funding. Interest rate risk is the impact that changes in interest rates could have on NMB’s margins, profit or loss and equity. Interest risk arises from mismatch of interest from interest-bearing liabilities and assets such as issued debt securities and loan portfolio.

As part of NMB’s risk management strategy, the Board of NMB has issued risk appetite statements for the banking book and NMB aligns its hedge accounting objectives to keep exposures within those limits. For further information on measurement of risks, see the Market risk section in Note 2 ”Risk and Liquidity management”.

For hedge accounting relationships related to interest rate risk, the hedged item is the benchmark rate. The hedging ratio is one-to-one and is established by matching the notional of the derivatives against the principal of the hedged item.

Note 12 Derivatives and hedge accounting, cont.

Interest risk arises from mismatch of interest from interest-bearing liabilities and assets such as issued debt securities. In order to hedge the risk, NMB uses the hedging instruments, which are interest rate derivatives to swap interest rate exposures into either fixed or variable rates, in order to manage the risk, and limit the impact on Nordea's margins, profit or loss, and equity.

NMB designates risk component of hedged items as follows:

- benchmark interest rate risk as a component of interest rate risk, such as the EURIBOR. Using the benchmark interest rate risk can result in other risks, such as credit risk and liquidity risk, being excluded from the hedge accounting relationship; and
- components of cashflows of hedged items.

The benchmark rate is determined as a change in present value of the future cash flows using benchmark rate discount curves. The benchmark rate is separately identifiable and reliably measurable and is typically the most significant component of the overall change in fair value or cash flows.

Fair value hedges
In order to reduce or mitigate the risk of changes in the fair value of financial assets and financial liabilities due to movements in interest rates, NMB enters into fair value hedge relationships by transforming the fixed interest rate risk in recognised financial assets and financial liabilities to floating with interest rate swaps. NMB designate a portfolio of derivatives, as a hedge of similar aggregated assets or liabilities as a group since individual assets or individual liabilities in the group share the risk exposure that is designated as being hedged.

There is an economic relationship between the hedged item and the hedging instrument as the terms of the interest rate swap match the terms of the fixed rate assets or liabilities (i.e. notional amount, maturity, payment and reset dates). The hedged item notional amount is the core stable volume and its maturity is based on expected repricing dates, rather than contractual terms.

The table below presents the accumulated fair value adjustments arising from continuing hedge relationships, irrespective of whether or not there has been a change in hedge designation during the year.

Hedged items

	Interest rate risk	
EURm	31 Dec 2021	31 Dec 2020
Fair value hedges		
Carrying amount of hedged assets[1]	21,636.3	18,560.6
- of which accumulated amount of fair value hedge adjustment[3]	55.8	230.3
Carrying amount of hedged liabilities[2]	12,127.6	13,450.0
- of which accumulated amount of fair value hedge adjustment[3]	367.6	716.8

[1] Presented on the balance sheet rows Cash and balances with central banks, Loans to credit institutions, Loans to the public and Fair value changes of the hedged items in hedges of interest rate risk.
[2] Presented on the balance sheet rows, Debt securities in issue and Fair value changes of the hedged items in hedges of interest rate risk.
[3] Of which all relates to continuing portfolio hedges of interest rate risk.

The following table provides information about the hedging instruments included in the line item Derivatives on the balance sheet:

Hedging instruments

	Fair value		Nominal
31 Dec 2021, EURm	Positive	Negative	amount
Fair value hedges			
Interest rate risk	437.7	210.9	51,154.6

	Fair value		Nominal
31 Dec 2020, EURm	Positive	Negative	amount
Fair value hedges			
Interest rate risk	798.5	330.5	48,902.1

Note 12 Derivatives and hedge accounting, cont.

The table below presents the changes in the fair value of the hedged items and the changes in fair value of the hedging instruments used as the basis for recognising ineffectiveness. These changes are recognised on the row ”Net result from items at fair value” in the income statement.

Hedge ineffectiveness

	Interest rate risk	
EURm	2021	2020
Fair value hedge		
Changes in fair value of hedging instruments	-207.9	96.9
Changes in fair value of hedged items used as basis for recognising hedge ineffectiveness	214.3	-112.6
Hedge ineffectiveness recognised in Net result from items at fair value	**6.4**	**-15.7**

Source of ineffectiveness relates to mismatch between the reset frequency of the swap and the benchmark frequency

Cash flow hedges
For NMB’s cash flow hedge of interest rate risk relate to exposures to the variability in future interest payments and receipts due to the movement of benchmark interest rates on forecast transactions and on recognised financial assets and financial liabilities. This variability in cash flows is hedged by interest rate swaps, fixing the hedged cashflows on EUR denominated floating loans according to NMB’s policies and risk management strategy described in Note 1, section 8, and in the Market risk section in Note 2 ”Risk and Liquidity management”.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the interest rate swaps match the terms of the future interest cash flows (i.e. notional amount and expected payment date). Changes in the valuation of swaps that are in effective cash flow hedge relationships are recognised in cash flow hedge reserves.

The tables below provide information about the hedging instruments as well as the outcome of the cash flow hedges addressing interest rate risk including the notional and the carrying amounts of the hedging instruments and the changes in fair values used for measuring hedge ineffectiveness separately showing the effective and ineffective portions.

Hedging instruments

	Fair value		
31 Dec 2021, EURm	Positive	Negative	Nominal amount
Cash flow hedges			
Interest rate risk	16.1	-	560.0

	Fair value		
31 Dec 2020, EURm	Positive	Negative	Nominal amount
Cash flow hedges			
Interest rate risk	28.4	-	560.0

Hedge ineffectiveness
No ineffectiveness recognised in cash flow hedges in 2021 or 2020 related to interest rate risk.

Cash flow hedge reserve (effective portion)	Interest rate risk	
EURm	2021	2020
Balance at 1 Jan	**11.5**	**10.9**
Cash flow hedges:		
Valuation gains/losses during the year	2.3	5.4
Tax on valuation gains/losses during the year	-0.5	-1.1
Transferred to the income statement during the year	-5.6	-4.7
Tax on transfers to the income statement during the year	1.1	0.9
Fair value reserve, net of tax	-2.6	0.6
Total through cash-flow hedge reserve	**-2.6**	**0.6**
Balance at 31 Dec	**8.8**	**11.5**
-of which relates to continuing hedges for which hedge accounting is applied	8.8	11.5

Note 12 Derivatives and hedge accounting, cont.

The maturity profile of NMB's hedging instruments used to hedge interest rate risk (both fair value and cash flow hedge accounting) follows below.

Maturity profile of the nominal amount of hedging instruments

31 Dec 2021, EURm	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Total
Instrument hedging interest rate risk	-	1,660.1	8,350.8	22,024.1	19,679.6	51,714.6
Total	**-**	**1,660.1**	**8,350.8**	**22,024.1**	**19,679.6**	**51,714.6**

31 Dec 2020, EURm	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Total
Instrument hedging interest rate risk	-	1,483.4	1,328.0	23,831.0	22,819.6	49,462.1
Total	**-**	**1,483.4**	**1,328.0**	**23,831.0**	**22,819.6**	**49,462.1**

Average rate of instruments hedging interest rate risk
The average interest rate on the fixed leg of instruments hedging interest rate risk per 31 December 2021 is 0.28% (0.93%).

Currency risk
Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk in NMB relates mainly to covered bonds issued in foreign exchange rates. NMB's assets and liabilities at year-end 2021 were all in EUR. There are no outstanding covered bonds issued in other currencies. At year-end 2020, there was one outstanding covered bond issued in CHF.

Differences in exposures to individual currencies that exist between different transactions are predominantly matched by entering into cross currency interest rate swaps. The currency component is designated as a cash flow hedge of currency risk and the interest component as a fair value hedge of interest rate risk.

For hedge accounting relationships related to currency risk, the hedged item is a foreign currency component. The hedging ratio is one-to-one and is established by matching the notional of the derivatives against the principal of the hedged item.

The currency component is determined as the change in present value of the future cash flows using foreign exchange curves. The foreign currency component is separately identifiable and reliably measurable and is typically the most significant component of the overall change in fair value or cash flows. (see the Market risk section in Note 2 "Risk and Liquidity management").

Cash flow hedges
The tables below provide information about the outcome of the cash flow hedges addressing currency risks including the notional and the carrying amounts of the hedging instruments and the changes in fair values used for measuring hedge ineffectiveness separately showing the effective and ineffective portions.

Hedging instruments

	Fair value		Nominal
31 Dec 2021, EURm	Positive	Negative	amount
Cash flow hedges			
Foreign exchange risk	-	-	-
Total derivatives used for hedge accounting	**453.7**	**210.9**	**51,714.6**

	Fair value		Nominal
31 Dec 2020, EURm	Positive	Negative	amount
Cash flow hedges			
Foreign exchange risk	25.4	-	113.0
Total derivatives used for hedge accounting	**852.2**	**330.5**	**49,575.0**

Hedge ineffectiveness

No ineffectiveness recognised in cash flow hedges in 2021 or 2020, related to foreign exchange risk.

Note 12 Derivatives and hedge accounting, cont.

Cash flow hedge reserve (effective portion)

	Foreign exchange risk	
EURm	2021	2020
Balance at 1 Jan	**7.9**	**3.7**
Cash flow hedges:		
Valuation gains/losses during the year	-2.9	1.1
Tax on valuation gains/losses during the year	0.6	-0.2
Transferred to the income statement during the year	-7.0	4.2
Tax on transfers to the income statement during the year	1.4	-0.8
Fair value reserve, net of tax	-7.9	4.2
Total through cash flow hedge reserve	**-7.9**	**4.2**
Balance at 31 Dec	**0.0**	**7.9**
- of which relates to continuing hedges for which hedge accounting is applied	0.0	7.9

Maturity profile of the nominal amount of hedging instruments

31 Dec 2021, EURm	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Total
Instrument hedging foreign exchange risk	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**

31 Dec 2020, EURm	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Total
Instrument hedging foreign exchange risk	-	113.0	0.0	0.0	0.0	113.0
Total	**-**	**113.0**	**0.0**	**0.0**	**0.0**	**113.0**

The IBOR reform

The IBOR transition is a global reform with significant impact on the financial industry. It affects a large variety of financial products and services and thus individuals, companies and institutions. The transition influences products, market liquidity, risk management, data and technology infrastructure as well as financials and the balance sheet. IBORs are embedded in a vast range of financial instruments, including loans, mortgages, bonds, trading products and derivative contracts.

Nordea has established an IBOR Transition Programme to prepare and coordinate group-wide efforts to manage the operational impacts and financial risks caused by the transition from existing IBORs to alternative near risk-free rates. NMB has adopted the Phase I and Phase II amendments to IFRS 7 and IAS 39. Hedge relationships in NMB can continue as before and no material modification gains or losses have been recognised. There are no financial instruments with IBORs that remain to be transitioned.

Note 13 Other assets

EURm	31 Dec 2021	31 Dec 2020
Receivables from the parent company	74.6	88.3
Other	1.5	1.9
Total	**76.1**	**90.2**

Note 14 Prepaid expenses and accrued income

EURm	31 Dec 2021	31 Dec 2020
Other accrued income[1]	3.9	8.4
Total	**3.9**	**8.4**

[1]Unsettled debt between Nordea Group and Nordea Mortgage Bank. Consists of loan origination fees to be invoiced from Nordea Bank Abp and ORO service fees to be invoiced from Nordea Eiendomskreditt and Nordea Hypotek.

Note 15 Other liabilities

EURm	31 Dec 2021	31 Dec 2020
Accounts payable	0.3	-2.4
Dividends payable	70.5	57.8
Other	1.4	4.0
Total	**72.2**	**59.4**

Note 16 Accrued expenses and prepaid income

EURm	31 Dec 2021	31 Dec 2020
Accrued interest	0.0	0.0
Other accrued expenses[1]	157.9	78.4
Prepaid income	0.2	55.0
Total	**158.1**	**133.4**

[1] Comprises mainly of the costs for intragroup services.

Note 17 Provisions

EURm	31 Dec 2021	31 Dec 2020
Guarantees/commitments	0.2	0.1
Total	**0.2**	**0.1**

Loan loss provisions for individually assessed guarantees and other commitments amounts to EUR 0.2m (0.1). For further information, see Note 2.

Note 18 Retirement benefit obligations

Net retirement benefit liabilities

EURm	31 Dec 2021	31 Dec 2020
Obligations	0.5	0.6
Plan assets	0.4	0.4
Net liability(-)/asset (+)	**-0.1**	**-0.2**

NMB's defined benefit plans are arranged in Nordea Pension Foundation.

Characteristics of the Nordea Pension Foundation
Nordea Pension Foundation plan is a final salary and service-based pension plan providing pension benefits on top of the statutory systems. The employer has promised a certain level of benefit after retirement to a certain group of employees within the plan. Plan's operation is managed by the Board of Members. The board consists of both employers' and employee's representatives. The Board of Members has named a managing director to take care of regular operations in the foundation.

The plan exposes the employer to certain risks. If the return of foundation's assets is not enough to cover the increment of liability and benefit payments over the financial year then the employer funds the deficit with contributions. The present value of the defined benefit liability is calculated using a discount rate determined by reference to high quality bond yields. A decrease in the corporate bond yields increases the liabilities along with increment of plan's benefit obligation calculated according to IAS 19. However, part of increment of obligation is offset by asset increment along with the increment of plan's bond holdings. Asset volatility may also impact NMB although basically the distribution of assets to different asset classes is strictly dictated by authorities so significant concentration risk cannot be borne. The plan's benefits in payment are tied to TyEL-index which depends on inflation (80 %) and common salary index (20 %). Higher inflation increases the TyEL-index which leads to an increase in liabilities. Higher inflation causes extra challenges to investment activities from which the employer in the last resort is responsible. The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in life expectancy of the plan participants will increase the plan's liability.

IAS 19 pension calculations and assumptions
Calculations on defined benefit plans are performed by external liability calculators and are based on the actuarial assumptions.

Assumptions	Finland	Finland
	2021	**2020**
Discount rate[1]	0.65%	0.15%
Salary increase	1.75%	1.75%
Inflation	1.25%	1.25%
Mortality	Gompertz	Gompertz
Increase in income base amount	1.70%	1.70%

[1] More information on the discount rate can be found in Note 1. section 16.

Movements in the obligation

EURm	2021	2020
Opening balance	0.6	0.6
Current service cost	0.0	0.0
Interest expense	0.0	0.0
Remeasurement from changes in financial assumptions	0.0	0.1
Remeasurement from changes experience adjustments	-0.1	-0.1
Closing balance	**0.5**	**0.6**

The average duration of the obligation is 22 years (23). The duration is based on discounted cash flows. The fact of the defined benefit plans being closed for new entrants gives a lower duration.

Note 18 Retirement benefit obligations, cont.

Movements in the fair value of plan assets

EURm	2021	2020
Opening balance	0.4	0.4
Interest income (calculated using the discount rate)	0.0	0.0
Refund from the Pension Foundation	0.0	0.0
Remeasurement (actual return less interest income)	0.0	0.0
Closing balance	**0.4**	**0.4**

Asset composition
The combined return on assets in 2021 was -9% (-6). At the end of the year, the equity exposure in pension foundation represented 19% (19) of total assets. The company is not expected to pay contribution to its defined benefit plans in 2022.

Defined benefit pension cost
Only a minor pension cost related to defined benefit plans has been recognised in the income statement (as staff costs) in 2021. Total pension costs comprise defined benefit pension costs as well as costs related to defined contribution plans (see specification in Note 7).

Key management personnel
As at 31 December 2021 four members of the Board of Directors of Nordea Mortgage Bank Plc were employed by Nordea Bank Abp and three members were external.

Information on salaries, loans and pension liabilities regarding the members of the Board and the Chief Executive Officer is presented in Note 7.

Note 19 Subordinated liabilities

EURm	31 Dec 2021	31 Dec 2020
Dated subordinated debenture loans	0.0	200.5
Total	**0.0**	**200.5**

These debenture loans are subordinated to other liabilities. Dated debenture loans entitle the lender to payment before undated subordinated loans and hybrid capital loans. Within each respective category the loans entitle lenders to equal payment rights.

Issued by	Year of issue / maturity	Nominal value. EURm	Carrying amount. EURm	Interest rate (coupon)
Nordea Bank Abp[1]	2016/2026	200.0	-	Floating 3-month EURIBOR +1.42%

[1] Call date 1 October 2021. The loan was called on 1 October 2021.

Note 20 Equity

Total number of shares of NMB registered were 257.7 million. All the shares in NMB are held by Nordea Bank Abp. Pursuant to the Articles of Association the Bank's minimum share capital is EUR 5 million and maximum share capital EUR 500 million.

No decision was made during the financial year to issue equity warrants or convertible bonds entitling to subscription of shares in the NMB. At the end of 2021, NMB held no authorisations given by the General Meeting for issuance or buybacks of shares, equity warrants or convertible bonds.

Note 21 Assets pledged as security for own liabilities

EURm	31 Dec 2021	31 Dec 2020
Assets pledged for own liabilities		
Loans to the public	23,644.1	22,934.8
Total	**23,644.1**	**22,934.8**
The above pledges pertain to the following liabilities		
Debt securities in issue	20,873.8	19,750.8
Total	**20,873.8**	**19,750.8**

Loans to the public amounting to EUR 23,644.1m (22,934.8) have been registered as collateral for issued Finnish covered bonds amounting to EUR 20,873.8m (19,750.8) In the event of the company's insolvency, the holders of these bonds have priority to the assets registered as collateral. Collaterals are valuated up to the first 70% of the market value of the property.

Note 22 Classification of financial instruments

31 Dec 2021, EURm	Amortised cost	Mandatorily at fair value through profit or loss	Non-financial assets	Total
Assets				
Cash and balances with central banks	1,821.3	-	-	1,821.3
Loans to credit institutions	923.1	-	-	923.1
Loans to the public	30,903.4	-	-	30,903.4
Derivatives	-	453.9	-	453.9
Fair value changes of the hedged items in hedges of interest rate risk	55.8	-	-	55.8
Property and equipment	-	-	0.0	0.0
Deferred tax assets	-	-	10.5	10.5
Other assets	74.5	-	1.5	76.0
Prepaid expenses and accrued income	3.9	-	-	3.9
Total	**33,782.0**	**453.9**	**12.0**	**34,247.9**

31 Dec 2021, EURm	Amortised cost	Mandatorily at fair value through profit or loss	Non-financial liabilities	Total
Liabilities				
Deposits by credit institutions	10,669.4	-	-	10,669.4
Debt securities in issue	21,479.2	-	-	21,479.2
Derivatives	-	211.0	-	211.0
Fair value changes of the hedged items in hedges of interest rate risk	367.6	-	-	367.6
Current tax liabilities	-	-	3.5	3.5
Other liabilities	0.3	-	71.9	72.2
Accrued expenses and prepaid income	0.2	-	158.0	158.2
Provisions	-	-	0.2	0.2
Retirement benefit liabilities	-	-	0.1	0.1
Total	**32,516.7**	**211.0**	**233.7**	**32,961.4**

Note 22 Classification of financial instruments, cont.

31 Dec 2020, EURm	Amortised Cost	Mandatorily at fair value through profit or loss	Non-financial assets	Total
Assets				
Cash and balances with central banks	241.8	-	-	241.8
Loans to credit institutions	582.7	-	-	582.7
Loans to the public	28,764.2	-	-	28,764.2
Derivatives	-	858.2	-	858.2
Fair value changes of the hedged items in hedges of interest rate risk	230.3	-	-	230.3
Deferred tax assets	-	-	7.4	7.4
Current tax assets	-	-	0.0	0.0
Other assets	88,3	-	1.9	90.2
Prepaid expenses and accrued income	-	-	8.4	8.4
Total	**29,907.3**	**858.2**	**17.7**	**30,783.2**

31 Dec 2020, EURm	Amortised cost	Mandatorily at fair value through profit or loss	Non-financial liabilities	Total
Liabilities				
Deposits by credit institutions	8,386.6	-	-	8,386.6
Debt securities in issue	19,750.8	-	-	19,750.8
Derivatives	-	331.3	-	331.3
Fair value changes of the hedged items in hedges of interest rate risk	716.8	-	-	716.8
Current tax liabilities	-	-	6.9	6.9
Other liabilities	-2.4	-	61.8	59.4
Accrued expenses and prepaid income	55.0	-	78.4	133.4
Provisions	-	-	0.1	0.1
Retirement benefit liabilities	-	-	0.2	0.2
Subordinated liabilities	200.5	-	-	200.5
Total	**29,107.3**	**331.3**	**147.4**	**29,586.0**

Note 23 Assets and liabilities at fair value

Fair value of financial assets and liabilities

	31 Dec 2021		31 Dec 2020	
EURm	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and balances with central banks	1,821.3	1,821.3	241.8	241.8
Loans	31,882.3	32,384.1	29,577.2	30,465.5
Derivatives	453.9	453.9	858.2	858.2
Other assets	74.6	74.6	88.3	88.3
Total financial assets	**34,232.1**	**34,733.9**	**30,765.5**	**31,653.8**
Financial liabilities				
Deposits and debt instruments	32,516.2	32,676.1	29,054.7	29,249.5
Derivatives	211.0	211.0	331.3	331.3
Other liabilities	0.3	0.3	-2.4	-2.4
Accrued expenses and prepaid income	0.2	0.2	55.0	55.0
Total financial liabilities	**32,727.7**	**32,887.6**	**29,438.6**	**29,633.4**

Note 23 Assets and liabilities at fair value, cont.

For information about the valuation of items measured at fair value on the balance sheet, see Note 1 and the section "Determination of fair values for items measured at fair value on the balance sheet" in this note. 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" in this note.

Assets and liabilities held at fair value on the balance sheet

Categorisation into the fair value hierarchy

31 Dec 2021, EURm	Quoted prices in active markets for 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 sheet[1]				
Derivatives	-	405.0	48.9	453.9
Total	**-**	**405.0**	**48.9**	**453.9**
Liabilities at fair value on the balance sheet[1]				
Derivatives	-	211.0	-	211.0
Total	**-**	**211.0**	**-**	**211.0**

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

31 Dec 2020, EURm	Quoted prices in active markets for 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 sheet[1]				
Derivatives	-	718.7	139.5	858.2
Total	**-**	**718.7**	**139.5**	**858.2**
Liabilities at fair value on the balance sheet[1]				
Derivatives	-	331.3	-	331.3
Total	**-**	**331.3**	**-**	**331.3**

[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
Fair value measurements of assets and liabilities carried at fair value have been categorised under the three levels of the IFRS fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The categorisation of these instruments is based on the lowest level input that is significant to the fair value measurement in its entirety.

Level 1 in the fair value hierarchy consists of assets and liabilities valued using unadjusted quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an on-going basis. NMB does not have any Level 1 instruments.

Level 2 in the fair value hierarchy consists of assets and liabilities that do not have directly quoted market prices available from active markets. The fair values are based on quoted prices for similar assets or liabilities in active markets or quoted prices for identical or similar assets or liabilities in markets that are not active. Alternatively, the fair values are estimated using valuation techniques or valuation models based on market prices or rates 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 the majority of Nordea's OTC derivatives and other instruments where active markets supply the input to the valuation techniques or models.

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. NMB does not have any Level 3 instruments.

All valuation models, both complex and simple models, make use of market prices and inputs. These markets 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 the implied volatilities and the correlations of the interest rates and FX rates may be observable through option prices up to a certain maturity. Implied volatilities and correlations are may also be observable for the most liquid equity instruments in the short end. For less liquid equity instruments the option market is fairly illiquid, and hence the volatilities and correlations are unobservable. For each instrument the sensitivity towards unobservable parameters is measured. If the impact from unobservable parameters on the valuation is significant the instrument is categorised as Level 3 in the fair value hierarchy.

Fair value of financial assets and liabilities are generally calculated as the theoretical net present value of the individual instruments. This calculation is supplemented by a portfolio adjustment.

Note 23 Assets and liabilities at fair value, cont.

Nordea incorporates credit valuation adjustments (CVA) and debit valuation adjustments (DVA) into derivative valuations. CVA and DVA reflect the impact on fair value of the counterparty's credit risk and Nordea's own credit quality respectively. Calculations are based on estimates of exposure at default, probability of default and recovery rates on a counterparty basis.

Generally, exposure at default for CVA and DVA is based on expected exposure and estimated through the simulation of underlying risk factors. Where possible, probabilities of defaults (PDs) and recovery rates are sourced from the CDS markets. For counterparties that do not have a liquid CDS, PDs are estimated using a cross sectional regression model, which calculates an appropriate proxy CDS spread given each counterparty's rating region and industry.

The impact of funding costs and funding benefits on valuation of uncollateralised and imperfectly collateralised derivatives is recognised as a funding fair valuation adjustment (FFVA). In addition, Nordea applies in its fair value measurement close-out-cost valuation adjustments and model risk adjustments for identified model deficiencies.

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

31 Dec 2021, EURm	Carrying amount	Fair value	Level in fair value hierarchy
Assets not held at fair value on the balance sheet			
Cash and balances with central banks	1,821.3	1,821.3	3
Loans	31,882.6	32,384.3	3
Other assets	74.5	74.5	3
Total	**33,778.4**	**34,280.1**	
Liabilities not held at fair value on the balance sheet			
Deposits and debt instruments	32,516.3	32,676.1	3
Other liabilities	0.3	0.3	3
Accrued expenses and prepaid income	0.3	0.3	3
Total	**32,516.8**	**32,676.6**	

31 Dec 2020, EURm	Carrying amount	Fair value	Level in fair value hierarchy
Assets not held at fair value on the balance sheet			
Cash and balances with central banks	241.8	241.8	3
Loans	29,577.2	30,465.5	3
Other assets	88.3	88.3	3
Total	**29,907.3**	**30,795.6**	
Liabilities not held at fair value on the balance sheet			
Deposits and debt instruments	29,054.8	29,249.5	3
Other liabilities	-2.4	-2.4	3
Accrued expenses and prepaid income	55.0	55.0	3
Total	**29,107.4**	**29,302.1**	

Cash and balances with central banks
The fair value of "Cash and balances with central banks", is due to its short-term nature, assumed to equal the carrying amount and is thus is categorised into Level 3 in the fair value hierarchy.

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

Prepaid expenses and accrued income
The balance sheet items "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 23 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 the corresponding nominal interest rate in the portfolios. The fair value changes in the credit risk is calculated as a 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´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”.

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

Note 24 Financial instruments set off on balance or subject to netting agreements

31 Dec 2021, EURm	Gross recognised financial assets[1]	Gross recognised financial liabilities set off on the balance sheet	Net carrying amount on the balance sheet	Amounts not set off but subject to master netting agreements and similar agreements: Financial instruments	Financial collateral received	Cash collateral received	Net amount
Assets							
Derivatives	454.0	-	454.0	-124.2	-	-	329.8
Total	**454.0**	**-**	**454.0**	**-124.2**	**-**	**-**	**329.8**

31 Dec 2021, EURm	Gross recognised financial liabilities[1]	Gross recognised financial assets set off on the balance sheet	Net carrying amount on the balance sheet	Amounts not set off but subject to master netting agreements and similar agreements: Financial instruments	Financial collateral pledged	Cash collateral pledged	Net amount
Liabilities							
Derivatives	211.0	-	211.0	-124.2	-	-	86.8
Total	**211.0**	**-**	**211.0**	**-124.2**	**-**	**-**	**86.8**

[1] All amounts are measured at fair value.

31 Dec 2020, EURm	Gross recognised financial assets[1]	Gross recognised financial liabilities set off on the balance sheet	Net carrying amount on the balance sheet	Amounts not set off but subject to master netting agreements and similar agreements: Financial instruments	Financial collateral received	Cash collateral received	Net amount
Assets							
Derivatives	858.2	-	858.2	-159.5	-	-	698.7
Total	**858.2**	**-**	**858.2**	**-159.5**	**-**	**-**	**698.7**

31 Dec 2020, EURm	Gross recognised financial liabilities[1]	Gross recognised financial assets set off on the balance sheet	Net carrying amount on the balance sheet	Amounts not set off but subject to master netting agreements and similar agreements: Financial instruments	Financial collateral pledged	Cash collateral pledged	Net amount
Liabilities							
Derivatives	331.3	-	331.3	-159.5	-	-	171.8
Total	**331.3**	**-**	**331.3**	**-159.5**	**-**	**-**	**171.8**

[1] All amounts are measured at fair value.

Enforceable master netting arrangements and similar agreements

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, repos and securities lending transactions), would be subject to master netting agreements, and as a consequence Nordea 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. The reason why the netted exposures are not reflected under assets and liabilities on the balance sheet, would in most instances depend on the limited application of net settlement of financial transactions.

Note 25 Maturity analysis for assets and liabilities

Expected maturity

EURm	Note	31 Dec 2021 Expected to be recovered or settled: Within 12 months	After 12 months	Total	31 Dec 2020 Expected to be recovered or settled: Within 12 months	After 12 months	Total
Cash and balances with central banks		1,821.3	-	1,821.3	241.8	-	241.8
Loans to credit institutions	11	362.9	560.2	923.1	22.7	560.0	582.7
Loans to the public	11	528.8	30,374.6	30,903.4	698.2	28,066.0	28,764.2
Derivatives	12	16.6	437.3	453.9	77.5	780.7	858.2
Fair value changes of the hedged items in hedges of interest rate risk		17.1	38.7	55.8	2.6	227.7	230.3
Deferred tax assets	10	-	10.5	10.5	-	7.4	7.4
Other assets	13	76.1	-	76.1	90.2	-	90.2
Prepaid expenses and accrued income	14	3.9	-	3.9	8.4	-	8.4
Total assets		**2,826.7**	**31,421.3**	**34,248.0**	**1,141.4**	**29,641.8**	**30,783.2**
Deposits by credit institutions		6,654.3	4,015.1	10,669.4	2,459.8	5,926.8	8,386.6
Debt securities in issue		2,871.0	18,608.2	21,479.2	1,447.5	18,303.3	19,750.8
Derivatives	12	4.6	206.4	211.0	1.9	329.4	331.3
Fair value changes of the hedged items in hedges of interest rate risk		15.4	352.2	367.6	12.0	704.8	716.8
Current tax liabilities		3.5	-	3.5	6.9	-	6.9
Other liabilities	15	72.2	0.0	72.2	59.4	-	59.4
Accrued expenses and prepaid income	16	158.0	0.1	158.1	133.3	0.1	133.4
Provisions	17	0.0	0.2	0.2	0.0	0.1	0.1
Retirement benefit liabilities	18	-	0.1	0.1	-	0.2	0.2
Subordinated liabilities	19	-	-	-	-	200.5	200.5
Total liabilities		**9,779.0**	**23,182.3**	**32,961.3**	**4,120.8**	**25,465.2**	**29,586.0**

Contractual undiscounted cash flows

The table is based on contractual maturities for the financial instruments. For derivatives, the expected cash inflows and outflows are disclosed for both derivative assets and derivative liabilities, as derivatives are managed on a net basis. In addition to the instruments on the balance sheet items, NMB has credit commitments amounting to EUR 522.9m (396.2), which could be drawn on at any time.

31 Dec 2021, EURm	<1 month	1-3 months	3-12 months	1-5 years	>5 years	Total
Cash and balances with central banks	1,821.3	-	-	-	-	1,821.3
Loans to credit institutions	362.9	0.2	1.9	571.9	-	936.9
Loans to the public	216.3	428.0	2,067.7	8,695.0	23,012.2	34,419.3
Other non-derivative financial assets	-	-	-	-	75.7	75.7
Total assets	**2,400.5**	**428.2**	**2,069.6**	**9,266.9**	**23,087.9**	**37,253.1**
Deposits by credit institutions	-2.8	-5.2	7,133.3	3,558.9	-	10,684.2
Debt securities in issue	1,530.1	42.7	1,403.7	15,106.2	3,218.5	21,301.2
Other non-derivative financial liabilities	-	-	-	-	1,944.0	1,944.0
Total liabilities and equity	**1,527.3**	**37.4**	**8,537.0**	**18,665.1**	**5,162.6**	**33,929.4**
Derivatives, cash inflow	-4.9	11.3	-42.9	214.9	94.1	272.5
Derivatives, cash outflow	-4.5	-11.3	-61.1	133.5	41.5	98.1
Net exposure	**-0.4**	**22.5**	**18.2**	**81.4**	**52.6**	**174.4**
Exposure	**872.8**	**413.3**	**-6,449.2**	**-9,316.7**	**17,978.0**	**3,498.1**
Cumulative exposure	**872.8**	**1,286.1**	**-5,163.1**	**-14,479.8**	**3,498.1**	

Note 25 Maturity analysis for assets and liabilities, cont.

Contractual undiscounted cash flows

31 Dec 2020, EURm	<1 month	1-3 months	3-12 months	1-5 years	>5 years	Total
Cash and balances with central banks	241.8	0.0	0.0	0.0	0.0	241.8
Loans to credit institutions	22.5	0.2	1.7	567.7	0.0	592.1
Loans to the public	205.4	397.8	1,940.1	8,385.9	20,117.9	31,047.1
Other non-derivative financial assets	0.0	0.0	0.0	0.0	248.1	248.1
Total assets	**469.7**	**398.0**	**1,941.8**	**8,953.6**	**20,366.0**	**32,129.1**
Deposits by credit institutions	0.5	-0.6	3,241.2	5,161.0	0.0	8,402.1
Debt securities in issue	1.2	1,239.6	305.7	13,811.2	4,894.7	20,252.3
Other non-derivative financial liabilities	0.0	0.0	1.3	7.6	2,316.8	2,325.7
Total liabilities and equity	**1.7**	**1,239.0**	**3,548.2**	**18,979.8**	**7,211.5**	**30,980.2**
Derivatives, cash inflow	-4.6	192.3	-35.4	261.0	126.7	540.0
Derivatives, cash outflow	-3.7	98.4	-59.0	133.4	60.9	230.0
Net exposure	**-0.9**	**93.9**	**23.6**	**127.6**	**65.8**	**310.0**
Exposure	**467.1**	**-747.1**	**-1,582.8**	**-9,898.6**	**13,366.3**	**1,458.9**
Cumulative exposure	**467.1**	**-280.0**	**-1,862.8**	**-11,761.4**	**1,458.9**	

Note 26 Related-party transactions

The information below is presented from NMB's perspective, meaning that the information shows the effect from related party transactions on NMB's financial statements. For more information on definitions, see Note 1 "Accounting policies" section 19.

EURm	Parent company 31 Dec 2021	Group undertakings 31 Dec 2021	Other related parties 31 Dec 2021
Assets			
Loans	921.3	-	1.0
Derivatives	454.4	-	-
Other assets	74.5	-	-
Prepaid expenses and accrued income	3.7	0.2	-
Total assets	**1,454.1**	**0.2**	**1.0**
Liabilities			
Deposits	10,669.4	-	-
Debt securities in issue	8,612.5	-	-
Derivatives	211.7	-	-
Subordinated liabilities	-	-	-
Other liabilities	68.0	-	-
Accrued expenses and deferred income[1]	155.2	2.0	-
Total liabilities	**19.716.8**	**2.0**	**-**
Off balance[2]	**522.9**	**-**	**-**

[1] Contains Resolution fee transfer pricing, fees for the outsourced services, guarantee fees and upfront fees to be invoiced by the parent company and supervisory fees to be invoiced by the authorities.

[2] Excluding nominal values on derivatives.

Income statement

EURm	2021	2021	2021
Net interest income	114.3	-	0.0
Net fee and commission income	-7.6	-	-
Net result from items at fair value	-221.9	-	-
Other operating income	-	0.1	-
Total operating expenses	-143.9	-	-
Profit before loan losses	**-259.1**	**0.1**	**0.0**

Note 26 Related-party transactions, cont.

EURm	Parent company 31 Dec 2020	Group undertakings 31 Dec 2020	Other related parties 31 Dec 2020
Assets			
Loans	578,9	-	0.9
Derivatives	857.3	-	-
Other assets	88.3	-	-
Prepaid expenses and accrued income	8.4	0.2	-
Total assets	**1,532.7**	**0.2**	**0.9**
Liabilities			
Deposits	8,386.6	-	-
Debt securities in issue	6,057.4	-	-
Derivatives	330.6	-	-
Subordinated liabilities	200.5	-	-
Other liabilities	59.6	-	-
Accrued expenses and deferred income[1]	130.4	2.1	-
Total liabilities	**15,165.1**	**2.1**	**-**
Off balance[2]	**396.2**	**-**	**-**

[1] Contains Resolution fee transfer pricing, fees for the outsourced services, guarantee fees and upfront fees to be invoiced by the parent company and supervisory fees to be invoiced by the authorities.

[2] Excluding nominal values on derivatives.

Income statement

EURm	2020	2020	2020
Net interest income	124.1	-	0.0
Net fee and commission income	-9.5	-	-
Net result from items at fair value	112.7	-	-
Other operating income	-	0.1	-
Total operating expenses	-63.9	-	-
Profit before loan losses	**163.4**	**0.1**	**0.0**

All transactions with related parties are made on an arm’s length basis.

Compensations and loans to Key management personnel are specified in Note 7. Loans to family members of key management personnel are granted on normal market terms, as well as loans to key management personnel who are not employed by Nordea Group.

The proposal of the Board of Directors to the Annual General Meeting

The distributable funds on 31 December 2021 before the anticipated dividend were EUR 1,098,320,965.64 of which the profit for the year was EUR 70,483,737.21. The Board of Directors proposes that a dividend of EUR 70,483,737.21 equivalent to the anticipated dividend will be paid, corresponding to 100 percent of the year-end profits, whereafter the distributable funds will be EUR 1,027,837,228.43 of which the distributable earnings are 127,837,228.43.

No material changes have taken place in the financial position of the Company since the end of the financial period and the proposed dividend does not compromise the Company's solvency.

Signatures of the Directors' report and of the Financial Statements:

Helsinki, 21 February 2022

Jani Eloranta

Marte Kopperstad

Kaj Blomster

Hanna-Maria Heikkinen

Ola Littorin

Minna Martikainen

Timo Nyman

Jussi Pajala
Chief Executive Officer

The Auditor's Note

A report on the audit has been issued today.

Helsinki, 21 February 2022

PricewaterhouseCoopers Oy
Authorised Public Accountants

Jukka Paunonen
Authorised Public Accountant (KHT)

Auditor's Report (Translation of the Finnish Original)

To the Annual General Meeting of Nordea Mortgage Bank Plc

Report on the Audit of the Financial Statements

Opinion

In our opinion the financial statements, which are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, give a true and fair view of the company's financial position, financial performance and cash flows and comply with statutory requirements.

Our opinion is consistent with the additional report to the Audit Committee.

What we have audited

We have audited the financial statements of Nordea Mortgage Bank Plc (business identity code 2743219-6) for the year ended 31 December 2021. The financial statements comprise the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the company in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, the non-audit services that we have provided to the company are in accordance with the applicable law and regulations in Finland and we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014. The non-audit services that we have provided are disclosed in note 8 Other expenses/Auditor's fees to the Financial Statements.

Our Audit Approach

Overview

- Overall materiality: € 100 million, which represents 0,30 % of total assets

- Key audit matters:
  - Impairment of loans to customers
  - Valuation of certain Level II and III financial instruments held at fair value
  - IT systems supporting processes over financial reporting

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.

Overall materiality	€ 100 million (previous year € 90 million)
How we determined it	0,30 % of total assets
Specific materiality	€ 4,4 million (previous year € 7,2 million)
How we determined it	5 % of profit before tax
Rationale for the materiality benchmark applied	We chose total assets as the benchmark because, in our view, key drivers of the business and determinants of the mortgage bank's profit potential are best reflected in the balance sheet. A number of key performance indicators of the bank are driven by income statement items; therefore, we have applied a specific materiality to all income statement items after Net interest income. The benchmarks determined are within the range of acceptable quantitative materiality thresholds in auditing standards.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matter in the audit of the company	How our audit addressed the key audit matter
Impairment of loans to customers *Refer to the Note 1 Accounting policies (Critical judgements and estimation uncertainty), Note 9 Net loan losses and Note 11 Loans and impairment to the financial statements.* A high level of judgement is involved in determining the appropriate impairment loss to be recognised. For individually assessed loans, judgement is involved in determining whether a loan has a loss event and in assessing the loan loss amount. Expected credit losses (ECL) are calculated as a function of the probability of impairment, the	Our audit included a combination of testing of internal controls over financial reporting and substantive testing. We obtained an understanding of the loan origination process, credit risk management and the impairment allowances for loans and advances to customers. Based on risk, we selected individual loans and performed detailed credit file reviews and assessed its credit risk. For ECL models, we involved our modelling specialists to assess the methodology, challenge the

exposure at impairment and the loss given impairment, as well as the timing of the loss.	underlying assumptions and to independently reperform the calculation for a sample of loans.
IFRS 9 categorises loans into three stages depending on the level of credit risk or changes in credit risk for each individual loan. For loans without significant increase in credit risk, stage 1, expected credit losses are calculated for estimated defaults within 12 months. For loans where there is a significant increase in credit risk, stage 2, or loans in default, stage 3, a lifetime of expected losses are calculated. The COVID-19 global pandemic significantly impacted management's determination of the ECL. As a result, the ECL has a higher than usual degree of uncertainty, which may materially change the estimate of stage 1 and stage 2 ECL in future periods. To address the uncertainties inherent in the current and future environment and to reflect all relevant risk factors not captured in the Bank's modelled results, management developed post-model-adjustments.	We have tested the post-model-adjustments. We evaluated the appropriateness of the assumptions and accuracy of underlying data used to develop them and ensured that governance procedures have been performed. We have also assessed the disclosures related to impairment of loans.
Valuation of certain Level II and III financial instruments held at fair value *Refer to the Note 1 Accounting policies (Critical judgements and estimation uncertainty), Note 12 Derivatives and hedge accounting, Note 22 Classification of financial instruments and Note 23 Assets and liabilities at fair value to the financial statements.* Increased volatility and widespread macro-economic uncertainty due to the pandemic continue to be a key theme across most major markets. The challenging valuation environment emphasises the importance of robust valuation and reporting controls and the valuation of financial instruments continues to be an area of inherent risk. The valuation of Level II and III financial instruments utilize observable and unobservable inputs respectively, for recurring fair value measurements. Important areas in valuation of financial instruments held at fair value relate to: • Framework and policies relating to models and valuation; • Internal controls relating to fair value adjustments, fair value hierarchy, price testing and model control & governance; and • Disclosures of financial instruments.	We assessed and tested the design and operating effectiveness of the controls over: • The identification, measurement and oversight of valuation of financial instruments • Fair value adjustments, independent price verification and fair value hierarchy • Model control and governance. We examined the Company's independent price verification processes, model validation and approval processes, controls over data feeds and inputs to valuation and fair value hierarchy and the Company's governance and reporting processes and controls. We performed an independent fair valuation of a sample of positions including fair value hierarchy testing. In respect of fair value adjustments for derivatives, we assessed the methodology applied. We have also assessed the disclosures related to valuation of financial instruments held at fair value.
IT systems supporting processes over financial reporting The Company's financial reporting is highly dependent on IT systems supporting automated accounting and reconciliation procedures. To ensure	We have tested the design and operating effectiveness of controls related to the IT systems relevant for financial reporting. Our assessment

complete and accurate financial records it is important that the IT general controls are designed properly, and they operate effectively.	included access to program and data as well as program development and changes. For logical access to program and data, audit activities included testing of addition of access rights, removal of access rights and monitoring of appropriateness as well as appropriate segregation of duties. Other areas tested included monitoring of IT systems and controls over changes to IT-systems.

There are no significant risks of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014 with respect to financial statements.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the company or to cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Appointment
We were first appointed as auditors by execution of the demerger plan on 1 October 2016. Our appointment represents a total period of uninterrupted engagement of 6 years.

Other Information
The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion

- the information in the report of the Board of Directors is consistent with the information in the financial statements

- the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki 21 February 2022

PricewaterhouseCoopers Oy
Authorised Public Accountants

Jukka Paunonen
Authorised Public Accountant (KHT)

Corporate Governance Report 2021

Application by Nordea Mortgage Bank Plc

Nordea Mortgage Bank Plc (NMB) is a Finnish public limited company and a wholly owned subsidiary of Nordea Bank Abp, the listed parent company of the whole Nordea Group. In this report the Nordea Group is referred to as “Nordea”. A description of corporate governance in Nordea is included in the 2021 Annual Report of Nordea Bank Abp, which will be published in week 9, 2022, at the latest.

All the operations of Nordea Mortgage Bank Plc are integrated into the operations of Nordea. Nordea has established the corporate governance framework at Group level and the framework is reviewed on a continuous basis. Information on corporate governance in Nordea and this report are available on www.nordea.com. Nordea Mortgage Bank Plc has given a description of governance arrangements in accordance with the Finnish Act on Credit Institutions. The description is available on www.nordea.com.

Strong corporate governance is about companies having clear and systematic decision-making processes, thus providing clarity about responsibilities, avoiding conflicts of interest and ensuring satisfactory internal control, risk management and transparency. Commitment to Nordea’s purpose and values requires the integration of sound corporate governance practices into regular business activities to attain – as far as possible – a company that is both well governed and well managed.

Nordea Mortgage Bank Plc submits this Corporate Governance Report as an issuer of bonds. This report has been prepared following the guideline on Corporate Governance Statement in the Finnish Corporate Governance Code 2020 where applicable. This report is submitted as a separate report from the Annual Report 2021 and it is available on www.nordea.com.

The Board of Directors and the Audit Committee of Nordea Mortgage Bank Plc have reviewed this Corporate Governance Report.

On Internal Governance in Nordea Mortgage Bank Plc

Division of powers and responsibilities
Subject to the principles set out in the Governance Requirements, the Group Board has the overall responsibility for adequate Internal Governance across the Group and for ensuring that there is a governance framework appropriate to its structure, business and risks. The Group Board shall consider the interests of all Group Subsidiaries including Nordea Mortgage Bank Plc, and the way strategies and policies contribute to the interest of each of them as well as the whole Group over the long term.

The management and control of Nordea Mortgage Bank Plc is divided among the shareholder at the General Meeting, the Board of Directors and the Chief Executive Officer (CEO), pursuant to the provisions of the external framework, the Articles of Association and the internal instructions set forth by the Board of Directors.

General Meeting
NMB is the wholly owned subsidiary of Nordea Bank Abp. The Annual General Meeting is the highest decision-making body at which the shareholder exercises its voting rights. At the Annual General Meeting, decisions are taken regarding matters such as the annual accounts, dividend, election of the Board of Directors and auditors and remuneration for Board members and auditors.

The Board of Directors
The Board of Directors of NMB shall be responsible for managing the company and organising its activities in a proper manner and for representing NMB. The Board of Directors of NMB consists of seven members, three of which are external board members. According to the Articles of Association, the Board of Directors shall consist of not less than three and not more than seven members. The Board of Directors shall appoint the Chair and the Deputy Chair of the Board.

Members of the Board of Directors of NMB until 19 February 2021 were Jani Eloranta (Chair), Kaj Blomster, Hanna-Maria Heikkinen, Marte Kopperstad (Deputy Chair), Erja Ketko, Ola Littorin and Timo Nyman.

As from 19 February 2021 the members of the Board were Jani Eloranta (Chair), Kaj Blomster, Hanna-Maria Heikkinen, Marte Kopperstad (Deputy Chair), Ola Littorin and Timo Nyman.

As from 4 June 2021 the members of the Board were Jani Eloranta (Chair), Kaj Blomster, Hanna-Maria Heikkinen, Marte Kopperstad (Deputy Chair), Ola Littorin, Minna Martikainen and Timo Nyman.

Further information on the members of the Board of Directors can be found in the section of “Management and auditors” in the Annual Report 2021 of Nordea Mortgage Bank Plc and on www.nordea.com.

Of the members of the Board of Directors Kaj Blomster, Hanna-Maria Heikkinen and Minna Martikainen are independent of NMB and its shareholder. Jani Eloranta (Chair), Marte Kopperstad (Deputy Chair), Ola Littorin and Timo Nyman are all employees in the Nordea Group. None of the members of the Board of Directors take part in the day-to-day management of NMB.

The Board of Directors shall, in accordance with the Local Governance Rules for the Board of Directors of Nordea Mortgage Bank Plc approved by it, confirm the authorisation to act for and on behalf of NMB and the distribution of duties between the members of the Board of Directors and the CEO.

The Board of Directors is responsible for the organisation and administration of NMB and its business. The Board shall manage NMB’s affairs with due expertise and care in accordance with legislation, the Articles of Association, existing Group Internal Rules issued by the Group Board and the Group CEO as well as internal guidelines issued by NMB’s Board.

It is particularly incumbent upon the Board of Directors to:

a) set up the governance structure of NMB,
b) ensure that NMB’s organisation with respect to accounting and NMB’s financial circumstances generally includes satisfactory controls,
c) approve the risk strategy and other strategic goals as well as ensure that the surveillance of the goals and strategy is reliable,
d) acknowledge and adjust and adopt Group Internal Remuneration Rules as amended from time to time to ensure that NMB have remuneration policies that are in line with the remuneration principles set out in external regulation,
e) appoint and discharge the CEO, the Deputy CEO and CRO and exercise supervision to ensure that the CEO fulfils his or her obligations,
f) determine matters relating to the funding operations,
g) resolve on and submit annual reports and interim reports for NMB,
h) regularly monitor and assess NMB’s financial situation and risks,
i) convene and prepare items for the Annual General Meeting.

The Board has approved a policy for NMB to advance diversity in the composition of the Board. When the selection process of board members is carried out by NMB’s Board of Directors the following shall be considered:

All Board member nominations should be based on merit with the prime consideration being to maintain and enhance the Board’s overall effectiveness. Within this, a broad set of qualities and competences is sought for and it is recognised that diversity, including age, gender, geographical provenance and educational and professional background, is an important factor to take into consideration. NMB’s objective is to have a fair, equal and balanced representation of different genders and other diversifying factors in the Board collectively. The composition of the Board of Directors is in line with the diversity policy.

Work of the Board of Directors

In 2021, the Board of Directors held 14 meetings. Ten meetings were phone meetings and four meetings were held per capsulam.

Meeting attendance in 2021:

As from 1 January 2021 until 19 February 2021

Jani Eloranta, Chair	2/2
Kaj Blomster	2/2
Hanna-Maria Heikkinen	2/2
Erja Ketko	2/2
Marte Kopperstad, Deputy Chair	2/2
Ola Littorin	2/2
Timo Nyman	2/2

As from 19 February 2021 until 4 June 2021

Jani Eloranta, Chair	4/4
Kaj Blomster	4/4
Hanna-Maria Heikkinen	4/4
Marte Kopperstad, Deputy Chair	1/4
Ola Littorin	4/4
Timo Nyman	4/4

As from 4 June 2021 until 31 December 2021

Jani Eloranta, Chair	8/8
Kaj Blomster	8/8
Hanna-Maria Heikkinen	6/8
Marte Kopperstad, Deputy Chair	8/8
Ola Littorin	7/8
Minna Martikainen	8/8
Timo Nyman	8/8

The Board regularly follows up on the business plan, financial position and development as well as risks. The financial targets and the business plan will be reviewed on an annual basis. In 2021, the Board discussed issues related e.g. to the risk strategy and risk appetite framework, financial impacts of COVID-19, AML, internal control and compliance, recovery planning details, housing loan and covered bond market.

The Secretary of the Board of Directors is Tarja Ikonen, Chief Operating Officer of Nordea Mortgage Bank Plc.

Board committees
The Board of Directors of Nordea Mortgage Bank Plc has three Board committees: Audit Committee (AC) and, Risk Committee (BRIC) and Nomination Committee.

Audit Committee
Audit Committee (AC, Committee) has tasks set out to it in the Finnish Act on Credit Institutions and in the Company Directive for on the Audit Committee approved by the Board of Directors of NMB.

The members of the Audit Committee were Hanna-Maria Heikkinen (Chair), Kaj Blomster and Marte Kopperstad until 9 September 2021. As from 9 September 2021 the members of the Audit Committee were Hanna-Maria Heikkinen (Chair), Kaj Blomster and Ola Littorin.

Generally, the Chief Internal Auditor (CIA), the Chief Financial Officer (CFO) and Chief Executive Officer (CEO) as well as the external auditor of NMB are present at meetings with the right to participate in discussions but not in decisions.

The majority of the members of AC are to be independent of NMB and its shareholder. AC assists the Board in ensuring the quality of NMB's financial reporting process and in that connection reviews and monitors NMB's quarterly financial reporting and the external auditors' reports on key matters arising from their audit of NMB's financial statements and reviews NMB's annual and interim reports. AC shall review the external audit plan. Further the Committee shall assess in discussions with the external auditor the threats to their independence and the safeguards applied to mitigate those threats as documented by them, to monitor on the provision of other services in addition to audit that the external auditor is allowed to provide to NMB, and annually review the external auditor's disclosure of such other services and shall assess and ensure that the internal and external auditors annually confirm in writing their impartiality and independence. The AC shall review Group Internal Audit's (GIA) audit plan as well as GIA's periodic reports, including the audit log. The AC shall prepare the election of the external auditor prior to the Annual General Meeting and shall annually review the Company Directive for Audit Committee. In 2021, the Committee held four meetings.

Risk Committee

Risk Committee (BRIC) has tasks set out to it in the Finnish Act on Credit Institutions and in the Local Governance Rules for the Board Risk Committee approved by the Board of Directors of NMB.

The members of the Committee were Kaj Blomster (Chair), Erja Ketko and Timo Nyman until 19 February 2021. As from 4 June 2021 the members of the Committee were Kaj Blomster (Chair), Minna Martikainen and Timo Nyman

The majority of the members of the BRIC are to be independent of NMB and its shareholder. BRIC assists the Board in fulfilling its oversight responsibilities concerning management and control of the risks, risk frameworks, controls and processes associated with NMB's operations, including credit, market, liquidity, business, operational risk, conduct and compliance, as well as related frameworks and processes. BRIC shall take appropriate actions in response to Group Risk and Group Internal Audit (GIA) reports on significant deficiencies and risk presented to BRIC.
In 2021, BRIC held six meetings.

Nomination Committee

Nomination Committee was established in 10 December 2020. The Committee members are Ari Kaperi, Nina Luomanen and Petteri Änkilä. The purpose of the Committee is to assist the Board of Directors at least in the following matters:

i. to propose candidates to be elected as board members by the general meeting of the shareholders, both annually in connection with AGMs and *ad hoc* when otherwise necessary, for example, to replace resigning board members and/or to elect additional board members if the board shall be increased; and
ii. to continuously work to ensure the appropriate succession planning concerning the board members and thereby, among other things, to the extent possible ensure continuity of decision making and prevent too many individuals having to be replaced simultaneously as well as set out plans for dealing with unexpected absences or departures and take into account diversity objectives.
iii. The nomination committee shall in its work consider all applicable rules on the formation of a board including rules on suitability – covering good repute, competence, sufficient time commitment, conflicts of interest and composition in general – and thereby ensuring that both the board as a whole and each board member fulfils all relevant requirements.

Chief Executive Officer (CEO), Deputy CEO and Management Group

Nordea Mortgage Bank Plc has a Chief Executive Officer (CEO) and a Deputy CEO.

The CEO of Nordea Mortgage Bank Plc has established a Management Group to assist and support him in the management of the daily operations of NMB. The Management Group consists of the CEO, the Chief Financial Officer (CFO), Head of Mortgage Products, the Chief Operating Officer (COO), Collateral Manager, the Chief Risk Officer (CRO) and the appointed Compliance Officer (CO) of the Company. The CRO and CO are members of the Management Group but do not take part in business decisions. While it is CRO's and CO's task to ensure that risks are considered in business decisions, the accountability remains with the business.

Internal Control Process

The Board of Directors is responsible for setting and overseeing an adequate and effective Internal Control Framework.

The Internal Control Framework is designed to ensure effective and efficient operations, adequate identification, measurement and mitigation of risks, prudent conduct of business, sound administrative and accounting procedures, reliability of financial and non-financial information reported or disclosed (both internally and externally) and compliance with laws, regulations, supervisory requirements, the Nordea Group Internal Rules and the company specific internal guidelines.

The internal control process is carried out by NMB's Board of Directors, senior management, risk management functions and other staff. The internal control process aims to create the necessary fundamentals for the entire organisation to contribute to the effectiveness and high quality of internal control through, for instance, clear definitions, assignment of roles and responsibilities and common tools and procedures.

Roles and responsibilities with respect to internal control and risk management are divided into three lines of defence. In the first line of defence, NMB is a risk owner, and thus responsible for conducting the business within the risk exposure limits and risk appetite and in accordance with the Internal Control Framework.

Risk management
As the second line of defence, the control functions are responsible for maintaining the Internal Control Framework and for monitoring the implementation of the policies and procedures within this Framework.

Chief Risk Officer
NMB has a Chief Risk Officer (CRO). The CRO is an independent second line of defence risk management function within NMB. The CRO shall provide a complete view of the whole range of risks in NMB to the Board of Directors and ensure the coordination of risk management activities and adequate risk management set-up in the legal entity. The CRO also reports to Group Risk / Country CRO in Finland.

Compliance
Group Compliance is responsible for ensuring and monitoring compliance with internal and external rules and for establishing policies and processes to manage compliance risks and to ensure compliance. It is responsible for providing the framework for the internal control of non-financial risks, by designing relevant processes as well as issuing relevant internal rules. The second line of defence is responsible for activities such as identifying, assessing, monitoring, controlling and reporting of issues related to risks, including compliance with internal rules and regulations.

NMB has outsourced its compliance activities to Nordea Bank Abp, Personal Banking FI Compliance. The Compliance function has the overall responsibility for co-ordinating the control of NMB's compliance risk, and for producing and following up on appropriate compliance risk assessments, for planning compliance activities and for compliance risk reporting in respect of NMB. The Compliance Officer regularly reports to the CEO of NMB and reports on significant compliance observations are also provided to the Board of Directors of NMB and relevant Board Committees.

Internal audit
Group Internal Audit (GIA) is an independent function commissioned by the Board of Directors. Audit Committee is responsible for guidance on and evaluation of GIA within NMB. The Chief Internal Auditor reports on a functional basis to the Board of Directors and Audit Committee and on an administrative basis to the CEO.

The purpose of GIA is to support the Board of Directors in protecting the assets, reputation and sustainability of NMB. GIA does this by assessing whether all significant risks are identified and appropriately reported by management and the risk functions to the Board, Audit Committee and the senior management; by assessing whether all significant risks are adequately controlled; and by challenging the senior management to improve the effectiveness of governance, risk management and internal controls.

GIA does not engage in consulting activities unless otherwise instructed by the AC.

All activities and entities of the Group fall within the scope of GIA. GIA makes a risk-based decision as to which areas within its scope should be included in the audit plan approved by the Group Board. After the approval of the Nordea Group Audit Plan, the Audit Plan of NMB is composed by GIA and approved by the Board of Directors of NMB.

GIA shall operate free from interference in determining the scope of internal auditing, in performing its audit work and in communicating its results. For example, this means that GIA is authorised to inform the financial supervisory authorities of any matter without further approval. The Chief Internal Auditor has unrestricted access to the CEO and Chair of the AC and should meet with the Chair of the AC informally and formally throughout the year, even without the presence of the executive management. GIA is authorised to carry out all investigations and obtain all information required to discharge its duties. This includes the right to sufficient and timely access to the organisation's records, systems, premises and staff. GIA has the right to attend and observe e.g. Board Committees and senior management meetings when relevant and necessary.

Insider Administration
The Nordea Group and Nordea Mortgage Bank Plc have in accordance with laws and regulations adopted internal guidelines governing handling of insider information and trading in securities.

Leading officials
Leading Officials (LO) are appointed by Group Compliance after they assume a position that fulfils the criteria of a LO, and shall be registered on a List of Leading Officials of NMB. Members of the Board of Directors, the CEO and the Deputy CEO of NMB are considered to hold positions in which they discharge managerial responsibilities in NMB and are thus classified as Leading Officials (LO).

Other persons in such leading positions that they are to be considered as Leading Officials, are members of NMB's Management Group who have regular access to Inside Information relating directly or indirectly to

NMB and the power to make managerial decisions affecting the future developments and business prospects of NMB.

Inside information and Internal Insider lists
As part of its ordinary work, the management of NMB shall in dialogue with the Head of Long Term Funding and/or the Head of Group Treasury (GT) on a continuous basis consider if any decision, event, agreement or other circumstance (including the financial results or financial position) would be likely to have a significant effect on the price of a Financial Instrument i.e. Covered Bond issued by NMB. If the management of NMB considers any information as likely Inside Information, it shall without undue delay refer the matter to the Head of Head of Group Corporate Legal (GCL) for further handling in accordance with procedures for the Insider Coordination Team (ICT) of Nordea.

An Internal Insider List shall be established and maintained by the Control Room upon request by the Insider Coordination Team (ICT), following their identification of Inside Information that relates to Nordea. The Chief Financial Officer is responsible for all Internal Insider Lists. The Control Room is responsible for keeping the Insider List up to date and for sending all relevant notifications to Insiders.

If the information is classified as Inside Information, the Control Room will inform the person who reported the information to the Head of GCL of the decision and such person shall inform the Head of the Control Room of all persons who are in possession of the Inside Information. This information is needed to ensure that NMB as a Nordea Group entity fulfils its obligation to record all employees who possess Inside Information on an insider list.

The employees who have received or have access to Inside Information shall be registered on a relevant case-based Insider List. They shall be informed of all restrictions and obligations that apply for them as Insiders and will be required to acknowledge in writing their understanding of the legal and regulatory duties entailed.

Trading in Securities issued by Nordea Mortgage Bank Plc
Leading Officials (LO) of NMB are subject to the One-Month Rule when executing transactions in Covered Bonds issued by NMB (Relevant Financial Instruments). This means that a LO may not acquire Relevant Financial Instruments if the LO has disposed of that same Relevant Financial Instrument less than a month previously. Correspondingly, a LO may not dispose of Relevant Financial Instruments if the LO acquired that Relevant Financial Instrument less than a month previously.

One month in the One-Month Rule is the period from the date of execution of the previous transaction to the same date in the following calendar month. In the event the date does not appear in the following month, such date shall be deemed to fall on the first day of the month thereafter.

Any time a Leading Official has Inside Information about NMB, he / she must abstain from trading.

Report on the key aspects of the systems for internal control and risk management regarding financial reports for the financial year 2021
Nordea Mortgage Bank Plc belongs to the Nordea Group. The internal control and risk management systems in relation to the financial reporting process are organised at Nordea level. Financial reporting processes are fully integrated within Nordea. The Board of Directors of Nordea Mortgage Bank Plc monitors financial and risk reporting at Nordea Mortgage Bank Plc level and has dealt with the risk reports at Nordea Mortgage Bank Plc level. Nordea Mortgage Bank Plc complies with the Group Internal Rules and supporting instructions to the extent applicable.

The systems for internal control and risk management of financial reporting are designed to provide reasonable assurance about the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, applicable laws and regulations, and other requirements for listed companies. The internal control and risk management activities are included in Nordea's planning and resource allocation processes. Internal control and risk management of financial reporting at Nordea can be described in accordance with the COSO Framework as follows below.

Control Environment
The control environment constitutes the basis for Nordea's internal control and centres around the culture and values established by the Board of Directors and Group Executive Management of Nordea Bank Abp, and the organisational structure, with clear roles and responsibilities.

A clear and transparent organisational structure is of importance for the control environment. Nordea's business structure aims to support the overall strategy, ensuring strong business momentum and increased requirements on capital and liquidity. The business and the organisation are under continuous development.

Clear roles and responsibilities are critical in the governance of the internal control of financial reporting where the risk owners in the business areas and Group Finance are responsible for the risk management activities. A risk management function supports the Group CFO in maintaining a Group wide set of controls (in Nordea defined as Accounting Key Controls (AKC)), in line with the risk framework, which covers the control of risks and the risk identification process that to a large extent is based on the actual business and financial closing processes in place. An independent risk control function that is responsible for identifying, controlling and reporting on financial reporting risk has been established in Group Risk Management and Control (GRMC). In addition, the internal audit function provides the Group Board with an assessment of the overall effectiveness of the governance, risk management and control processes.

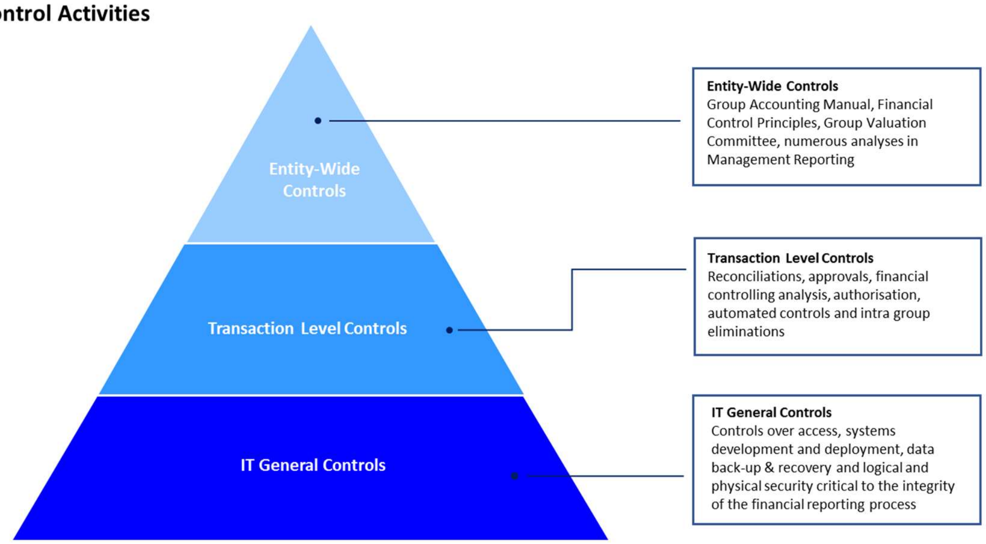
The control environment is implemented in NMB where the CFO of NMB is responsible for maintaining the set of controls covering the control of risks and the risk identification process in accordance with the AKC. The CRO of NMB is the independent second line of defence risk management function within NMB responsible for identifying, controlling and reporting on financial reporting risk. GIA as the third line of defence function provides the Board of NMB with an assessment of the overall effectiveness of the governance, risk management and control processes.

Risk Assessment

The Group Board of Directors bears the ultimate responsibility for limiting and monitoring Nordea's risk exposure. Risk management is considered to be an integral part of running the business and the main responsibility for performing risk assessments regarding financial reporting risks lies with the business organisation. Performing risk assessments close to the business increases the possibility of identifying the most relevant risks. In order to govern the quality, central functions stipulate in governing documents when and how these assessments are to be performed. Examples of risk assessments are the recurring Control Self-Assessments and the event driven Change Risk Management and Approval Process.

Risk assessment in relation to reliable financial reporting involves the identification and analysis of risks of material misstatements. Financial reporting risk control work in Nordea focuses on risks and processes which could lead to material financial misstatements, i.e. misstatements that if they occurred would significantly and adversely affect Nordea. The scope of the AKC is therefore areas where risks of material financial misstatements exist, i.e. where the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion of correction of the misstated item. Structured risk assessment procedures determine in which divisions, locations and/or processes risks for material financial misstatements exist and therefore will need to be monitored under the AKC framework to ensure reasonable assurance of the reliability of Nordea's external financial reporting.

Control Activities



The heads of the respective units are primarily responsible for managing the risks associated with the units' operations and financial reporting processes. This responsibility is primarily supported by the Group Accounting Manual (GAM), the Financial Control Principles and various governing bodies, such as the Group

Valuation Committee. The GAM includes a standard reporting package used by all entities to ensure consistent use of Nordea's principles and coordinated financial reporting. Fundamental internal control principles at Nordea are the segregation of duties and the four-eyes principle when approving, for instance, transactions and authorisations.

AKC control structure is based on Transaction Level Controls (TLC) which are identified through analysing risks based on high level processes with an end-to-end product focus. After deciding on the TLCs, an analysis is performed to decide what systems/applications are in scope for AKC where specific IT General Controls are governed. The analysis aims at scoping in the major systems where there is a risk that data, which is not detected in the TLC control structure, could become corrupt.

The quality assurance vested in the management reporting process, where a detailed analysis of the financial outcome is performed, constitutes one of the most important control mechanisms associated with the reporting process. The reconciliations constitute another set of important controls with which Nordea works continuously to further strengthen the quality.

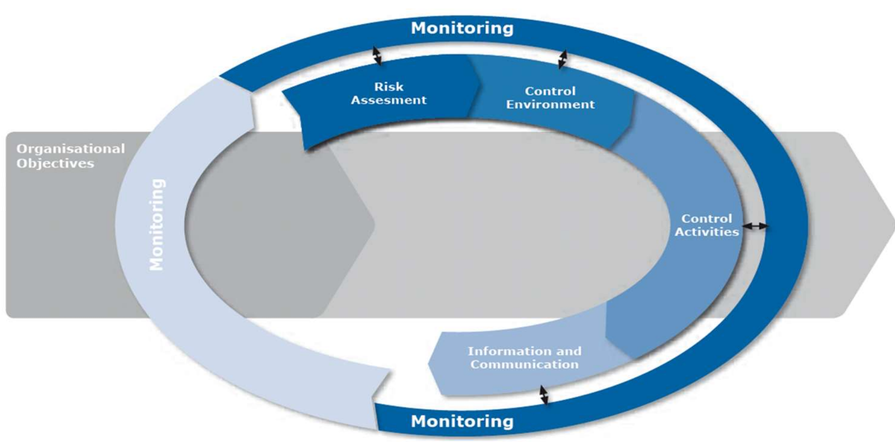
Information & Communication
Group Finance is responsible for ensuring that the Group Accounting Manual and the Financial Control Principles are up-to-date and that changes are communicated with the responsible units. These governing documents are broken down into guidelines and standard operating procedures in the responsible units. Accounting specialists from Group Finance continuously provide accountants and controllers with information on changes in order to inform of existing and updated rules and regulations with an impact on Nordea.

The key criteria applied when communicating financial information to the market are "correct, relevant, consistent, reliable and timely". The information is to be disclosed in such a way that the information is made available to the public in a fast and non-discriminatory manner.

Nordea interacts with relevant subject-matter experts to ensure fulfilment of financial reporting objectives. Nordea actively participates in relevant national forums, such as forums established by the financial supervisory authorities, central banks and associations for financial institutions.

AKC reporting procedures provide the management at different levels in the organisation with information related to the performance and assessment of the identified AKCs in the form of Process Owner reports and Management Dashboard reports with a summarised assessment outcome and high-risk areas. As all the operations of NMB are integrated into the operations of the Nordea Group, also the AKC reporting procedures are applicable to it. The CFO receives AKC reporting quarterly.

Monitoring
Nordea has established a process with the purpose of ensuring the proper monitoring of the quality of financial reporting and the follow-up regarding possible deficiencies. This interactive process aims to cover all COSO components in the framework and is illustrated with the diagram below:



The Risk and Control Self-Assessment process covers identification and assessment of risks and controls, which also includes risks and controls related to financial reporting.

The Board of Directors, the Board Audit Committee and the Board Risk Committee of Nordea Bank Abp, as well as Group Internal Audit (GIA), have important roles in respect of overseeing and monitoring the internal control of financial reporting in the whole Nordea Group. Similarly, the Board of Directors and the Board Audit Committee of Nordea Mortgage Bank Plc have an important role with regard to monitoring the internal control of financial reporting in Nordea Mortgage Bank Plc.

Group Finance has also established specific quarterly reporting regarding the internal control of financial reporting to the Group CFO covering risk management and high-risk areas. The independent risk control function within GR reports specifically on financial reporting risk to the Board Audit Committee and the CEO in Group Executive Management on a quarterly basis.

Auditors

According to the Articles of Association, the auditor must be elected by the General Meeting for a term of one year. NMB's auditors were elected by the Annual General Meeting of Nordea Mortgage Bank Plc on 21 February 2021. The auditor must be an audit firm authorised by the Finnish Chamber of Commerce.

The current auditor:

PricewaterhouseCoopers Oy
Authorised Public Accountants

Auditor with main responsibility
Jukka Paunonen
Authorised Public Accountant

This Corporate Governance Report has not been reviewed by the external auditors and the report is not part of the formal financial statements.

Nordea Mortgage Bank Plc
Satamaradankatu 5, Helsinki
FI-00020 NORDEA
Tel: +358 9 1651

www.nordea.com