Nordea

Half-year financial report January-June 2020

Nordea Mortgage Bank Plc

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Introduction

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

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

This report is unaudited.

Result summary January-June 2020

Income in the first half of 2020 increased by 14% and amounted to EUR 108.3m (January-June 2019 94.7). Total expenses decreased to EUR 31.2m (36.9). Net loan losses amounted to EUR 12.9m (1.7m).

NMB's operating profit was EUR 64.2m (56.1). Net profit increased by 14% and totalled EUR 51.4m (44.9). Return on equity was 8.8% (7.8) and the cost/income ratio 29% (39).

Macroeconomic trend

The necessary protection measures ranging from social distancing, restrictions on activities, to lockdowns and closing of borders to contain the outbreak of COVID-19 have had a significant negative impact on economic activity. The world economy is actually in the deepest recession since the Great Depression in the 1930s as the world GDP expected to fall by 5-6% this year according to the IMF and OECD.

However, a swift monetary-policy response has helped to stabilise financial markets. In addition, easing of fiscal policies, including the widespread use of loan guarantees, tax deferrals, work sharing and wage compensation in countries will help economies to avoid the worst and longer-term impact of the lockdowns. A U-shaped economic recovery scenario in which growth gradually returns after the summer and then accelerates into 2021 is currently considered the most likely but risks to the overall economic outlook remain high.

The US Federal Reserve and ECB kept their policy rates unchanged in the second quarter, but further expanded their stimulus measure in the form of QE programmes. Credit spreads on bonds have narrowed. Volatility in the financial markets has fallen gradually but remains elevated compared to the pre- COVID-19 levels.

Market performance in Finland in January–June 2020

The Finnish economy was hit hard by the coronavirus in early 2020. When the virus began to spread in Finland during March, consumers became cautious and started avoiding social contacts already prior to the restrictions ordered by the government. The change in the daily behaviour of consumers sent the economy into a dramatic decline in March-April when the Finnish economy was estimated to function at least 10% below normal levels. The service industries, such as tourism, suffered most.

In May, consumer behaviour started normalizing and Nordea's card transactions indicate that consumption returned back to normal levels by the end of June. However, the economy as a whole is expected to continue to suffer from the coronavirus and the resulting weak global outlook in the coming months. The recent data on export orders indicate that the worst remains to be seen in many manufacturing sectors.

Nordea Research forecasts Finland's GDP to decline by 7% in 2020 and grow by 4% in 2021. The forecast assumes that the worst of the crisis is already behind and the virus remains under control. The uncertainty around the forecast is, of course, exceptionally high.

The corona crisis has had a devastating impact on the Finnish labour market. The number of temporary lay-offs quickly peaked at 160,000 and is still above 100,000 or around 5% of the Finnish labour force. The increase in the number of unemployed so far has been smaller but there is a risk that if the economy does not recover soon a significant part of furloughs may turn into more permanent types of unemployment.

In the housing market, labour market developments obviously play a key role. Low interest rates and breaks in servicing mortgages supported the housing market during spring. Prices actually continued to rise in the capital region and other growth centres, while the downward trend became steeper in the rest of Finland.

However, the number of housing sales declined dramatically. Future trends in the housing market will depend largely on the more general economic outlook, especially in the labour market.

Nordea Mortgage Bank business development in the first half of 2020

The Finnish mortgage market have remained strong despite of the COVID-19. The sales of new mortgages have been strong especially in the growth centres where Nordea's mortgage business is mainly concentrated, boosted by Nordea's increased customer satisfaction during the COVID-19 pandemic.

The division of the housing market has continued with house prices increasing in the capital area and decreasing outside the capital area. In the whole country the housing prices of old apartments went down 1.1% in January to May compared to previous year. In Greater Helsinki, prices went up 1.4%, whereas in the rest of Finland the prices went down 3.5%. Prices of old single-family houses rose 16.0 percent in Greater Helsinki in January to March compared to previous year and fell by 2.9% in the rest of the country. The prices of single-family house plots increased by 6.8% in the whole country during Q1 2020 compared to previous quarter.

Construction of new apartments in the capital region as well as in growth centres have been strong, supported by the gradual movement of population to growth centres from other parts of the country, but construction companies' willingness to invest could be affected in times of uncertainty.

The buy-to-let-market has continued to grow – supported by strong demand and increasing rent levels especially in the growth centres. Loan maturities are slowly lengthening, but Nordea caps maturity at origination at 35 years. The Board of the FIN-FSA will restore the loan cap for residential mortgage loans to the standard level of 90% from the current 85%. For the first-home loans the level will stay at 95% as today.

The Finnish tradition of steady amortisation is likely to continue despite of COVID-19, with relatively short and few interest-only periods during the lifetime of the loan. The demand for instalment-free periods has rapidly increased but the volumes are still low compared to total lending. Also, there is no direct impact of COVID-19 visible in the development of loans in arrears and the movement has stayed within the range of normal fluctuation.

Comments on the income statement

(Comparison figures in brackets refer to the corresponding period in 2019)

Income

Net interest income in January-June 2020 increased to EUR 113.5m (104.7), supported by sound volume growth. Interest income was EUR 134.4m (129.4) and interest expenses were EUR 20.9m (24.7). Contrary to early expectations related to COVID-19 impact on global economy, the interest rates continued to stay on a very low level throughout the first half year safeguarding low funding costs for NMB's operations. The previous pressure towards mortgage margins seem to have stalled and the margins have remained relatively stable during the period.

Net fee and commission income was EUR -2.8m (-5.0). Commission income relates mainly to lending and amounted to EUR 4.9m (4.0). Commission expenses relate mainly to the guarantee and liquidity facility provided by Nordea Bank Abp and were EUR 7.7m (9.0).

Net result from items at fair value was EUR -2.4m (-5.0) representing the hedging inefficiency of financial instruments.

Expenses

Total operating expenses were EUR 31.2m (36.9) of which staff costs amounted to EUR 0.8m (1.2). The number of employees was 11 (18) at the end of June 2020.

Other operating expenses decreased to EUR 30.4m (35.7), mainly explained by the additional service fees booked in 2019 related to the purchase of EUR 2.2bn loan portfolio from Nordea Bank Abp in June 2019.

Other operating expenses consist mostly of payments for the intra-group outsourced services as well as of the resolution fee of 6.0m (4.2) for the whole year 2020.

The cost/income ratio was 29% (39) in the first half of 2020.

Loan losses

Net loan losses totalled EUR 12.9m (1.7) corresponding to a loan loss ratio of 9.3 (1.3) basis points. The increase is mainly driven by the new approach, triggered by COVID-19, where additional adjustments to model based provisions have been booked amounting to EUR 9m, consisting of management judgement of EUR 6m and late corrections of EUR 3m.

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 7 “Loans and impairment”.

Taxes

The effective tax rate for the first half of 2020 was 20% (20).

Net profit

Net profit amounted to EUR 51.4m (44.9), corresponding to a return on equity of 8.8% (7.8) in the first half of the year.

Comments on the balance sheet

(Comparison figures in brackets refer to year-end 2019 figures.)

NMB’s total assets amounted to EUR 29.8bn (30.0).

Total loans to the public grew 3% compared to the end of 2019, amounting to EUR 27.6bn (26.7). Lending to households was 93% (93) of the total lending and totalled EUR 25.8bn (24.8). Corporate lending was EUR 1.9bn (1.9).

Positive market values of derivatives amounted to EUR 0.9bn (0.7). NMB’s derivatives mainly pertain to interest rate swaps and forward currency exchange contracts.

Total liabilities amounted to EUR 28.6bn (28.9) and equity to EUR 1.2bn (1.1).

Deposits by credit institutions decreased to EUR 7.4bn (11.6) as the need for intragroup funding was reduced after the new covered bond issuances in Q2 2020.

Debt securities in issue consist of covered bonds issued under the EUR 25bn Covered Bond Programme. Covered bond funding at the end of June 2020 was EUR 19.9bn (16.1).

During the first half year of 2020 NMB issued one new covered bond and a tap issue amounting to EUR 6.0bn in total. The size of the cover pool was EUR 22.3bn (21.9) and the overcollateralisation was 12.5% (36.4).

Capital position and capital management

At the end of June 2020, NMB’s risk exposure amount (REA) was EUR 4.8bn, compared to EUR 4.6bn at year-end 2019.

Excluding profit, the Common Equity Tier 1 capital ratio stood at 22.3% and total capital ratio at 26.7% at the end of June 2020.

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

Credit portfolio

Total lending was EUR 27.6bn (26.7) at the end of June 2020.

Impaired loans gross increased to EUR 250.0m from EUR 240.9m at the end of December 2019.

Allowances amounted to EUR 23.4m (11.7), representing 0.09% (0.04) of total loans before allowances.

Off-balance sheet commitments

NMB’s off-balance sheet items mainly consist of credit commitments. The total amount of off-balance sheet commitments was EUR 381.8m compared to EUR 334.4m at year-end 2019.

Risks and uncertainties

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

The impacts of COVID-19 have become increasingly evident during the second quarter and the pandemic continues to severely affect individuals, businesses and societies.

Although still too early to conclude on the longer-term economic consequences of the crisis, it can be concluded that NMB entered the COVID-19 crisis with a strong financial position which the company has managed to maintain. The underlying business have remained strong despite of COVID-19. In this respect none of the above exposures and risks are expected to have a significant adverse effect on the company or its financial position in the next six months.

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

Summary of items included in own funds

EURm	30 Jun 2020[2]	31 Dec 2019[3]	30 Jun 2019[2]
Calculation of own funds			
Equity	1,139.6	1,224.4	1,082.6
Proposed/actual dividend	-	-89.8	-
Common Equity Tier 1 capital before regulatory adjustments	1,139.6	1,134.6	1,082.6
Deferred tax assets	-	-	-
Intangible assets	-	-	-
IRB provisions shortfall (-)	-40.0	-35.7	-12.4
Deduction for investments in credit institutions (50%)	-	-	-
Pension assets in excess of related liabilities[1]	-	-	-
Other items, net	-20.6	-15.6	-20.2
Total regulatory adjustments to Common Equity Tier 1 capital	**-60.6**	**-51.4**	**-32.6**
Common Equity Tier 1 capital (net after deduction)	**1,079.0**	**1,083.2**	**1,050.0**
Additional Tier 1 capital before regulatory adjustments	-	-	-
Total regulatory adjustments to Additional Tier 1 capital	-		-
Additional Tier 1 capital	**-**	**-**	**-**
Tier 1 capital (net after deduction)	**1,079.0**	**1,083.2**	**1,050.0**
Tier 2 capital before regulatory adjustments	200.0	200.0	200.0
IRB provisions excess (+)	12.8	5.0	19.2
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	**12.8**	**5.0**	**19.2**
Tier 2 capital	**212.8**	**205.0**	**219.2**
Own funds (net after deduction)	**1,291.8**	**1,288.2**	**1,269.2**

[1] Based on conditional FSA approval
[2] Excluding profit of the period
[3] Including profit of the period

Capital ratios

Percentage	30 Jun 2020[1]	31 Dec 2019[2]	30 Jun 2019[1]
CRR/CRDIV			
Common Equity Tier 1 capital ratio	22.3	23.5	23.4
Tier 1 capital ratio	22.3	23.5	23.4
Total capital ratio	26.7	27.9	28.2

[1] Excluding profit of the period.
[2] Including profit of the period.

Leverage ratio

	30 Jun 2020[1]	31 Dec 2019[2]	30 Jun 2019[1]
Tier 1 capital, EURm	1,079.0	1,083.2	1,050.0
Leverage ratio exposure, EURm	29,887.2	30,210.8	28,337.2
Leverage ratio, percentage	3.6	3.6	3.7

[1] Excluding profit of the period.
[2] Including profit of the period.

Minimum capital requirement and risk exposure amount

EURm	30 Jun 2020 Minimum Capital requirement	30 Jun 2020 **REA**	31 Dec 2019 Minimum Capital requirement	31 Dec 2019 **REA**	30 Jun 2019 Minimum Capital requirement	30 Jun 2019 **REA**
Credit risk	**315.6**	**3,944.9**	**278.9**	**3,486.1**	**274.0**	**3,424.6**
IRB	**314.1**	**3,926.1**	**277.1**	**3,436.2**	**272.2**	**3,403.1**
- sovereign	-	-	-	-	-	-
- corporate	36.5	456.6	36.8	459.7	38.5	481.1
- advanced	*36.5*	*456.6*	*36.8*	*459.7*	*38.5*	*481.1*
- retail	275.8	3,447.9	240.1	3,000.7	233.8	2,922.0
- secured by immovable property collateral	*204.9*	*2,561.0*	*180.1*	*2,251.3*	*178.4*	*2,230.6*
- other retail	*71.0*	*886.9*	*60.0*	*749.4*	*55.3*	*691.3*
- other	1.7	21.6	0.2	2.8	0.0	0.0
Standardised	**1.5**	**18.8**	**1.8**	**23.0**	**1.7**	**21.5**
- sovereign	1.5	18.8	1.8	23.0	1.7	21.5
- other	0.0	0.0	0.0	0.0	-	-
Operational risk	**24.0**	**299.4**	**23.0**	**287.4**	**23.0**	**287.4**
Additional risk exposure amount related to Finnish RW floor due to Article 458 CRR	**46.4**	**580.2**	**66.8**	**834.5**	**62.3**	**778.2**
Additional risk exposure amount related to Swedish RW floor due to Article 458 CRR	**0.4**	**4.7**	**0.4**	**5.1**	**0.4**	**4.9**
Total	**386.4**	**4,829.2**	**369.0**	**4,613.1**	**359.6**	**4,495.1**

Minimum Capital Requirement & Capital Buffers

		Capital Buffers					
Percentage	Minumum Capital requirement	CCoB	CCyB	SII	SRB	Capital Buffers total 1	Total
Common Equity Tier 1 capital	4.5	2.5	0.0	-	-	2.5	**7.0**
Tier 1 capital	6.0	2.5	0.0	-	-	2.5	**8.5**
Own funds	8.0	2.5	0.0	-	-	2.5	**10.5**
EURm							
Common Equity Tier 1 capital	217.3	120.8	0.0	-	-	120.8	**338.1**
Tier 1 capital	289.7	120.8	0.0	-	-	120.8	**410.5**
Own funds	386.3	120.8	0.0	-	-	120.8	**507.1**

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

Changes in the management

The term of Sara Mella ended upon the conclusion of the Annual General Meeting and Jani Eloranta was appointed as the Chairman of the Board on 19 February 2020.

As from 19 February 2020 the composition of the Board is as follows:

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

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

Deputy Chief Executive Officer Tarja Ikonen was acting as the interim Chief Executive Officer until Jussi Pajala was appointed as the Chief Executive Officer of Nordea Mortgage Bank Plc in the meeting of the Board of Directors 21 January 2020. Jussi Pajala started as the Chief Executive Officer 13 February 2020.

Helsinki, 17 July 2020
Board of Directors

Income statement

EURm	Jan-Jun 2020	2019	%	2019
Net interest income	113.5	104.7	8	219.7
Net fee and commission income	-2.8	-5.0	44	-7.6
Net result from items at fair value	-2.4	-5.0	52	0.6
Other operating income	0.0	0.0	-	0.1
Total operating income	**108.3**	**94.7**	**14**	**212.8**
Staff costs	-0.8	-1.2	-33	-1.9
Other expenses	-30.4	-35.7	-15	-66.4
Depreciation of tangible assets	-	-	-	0.0
Total operating expenses	**-31.2**	**-36.9**	**-15**	**-68.3**
Profit before loan losses	**77.1**	**57.8**	**33**	**144.5**
Net loan losses	-12.9	-1.7		10.3
Operating profit	**64.2**	**56.1**	**14**	**154.8**
Income tax expense	-12.8	-11.2	14	-35.1
Net profit for the period	**51.4**	**44.9**	**14**	**119.7**

Business volumes, key items[1]

EURm	30 Jun 2020	30 Jun 2019	Change %	31 Dec 2019	Change %
Loans to the public	27,631.3	25,913.2	7	26,719.9	3
Debt securities in issue	19,860.8	16,160.7	23	16,111.7	23
Equity	1,191.0	1,127.4	6	1,134.6	5
Total assets	29,755.1	28,199.8	6	30,021.6	-1

[1] End of period

Ratios and key figures[1]

	Jan-Jun 2020	Jan-Jun 2019	Full year 2019
Return on equity[2] %	8.8	7.8	10.4
Cost/income ratio[2], %	29	39	32
Loan loss ratio, basis points[2]	9.3	1.3	-3.9
Common Equity Tier 1 capital ratio[2], %	22.3	23.4	23.5
Tier 1 capital ratio[2], %	22.3	23.4	23.5
Total capital ratio[2], %	26.7	28.2	27.9
Tier 1 capital[2], EURm	1,079.0	1,050.0	1,083.2
Risk exposure amount, EURm	4,829.2	4,495.1	4,613.1
Number of employees (full-time equivalents)[2]	11	18	18

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

[2] End of period.

Income statement

EURm	Note	Jan-Jun 2020	Jan-Jun 2019	Full year 2019
Operating income				
Interest income		134.4	129.4	267.0
Interest expense		-20.9	-24.7	-47.3
Net interest income		**113.5**	**104.7**	**219.7**
Fee and commission income		4.9	4.0	9.3
Fee and commission expense		-7.7	-9.0	-16.9
Net fee and commission income	3	**-2.8**	**-5.0**	**-7.6**
Net result from items at fair value	4	-2.4	-5.0	0.6
Other operating income		0.0	0.0	0.1
Total operating income		**108.3**	**94.7**	**212.8**
Operating expenses				
General administrative expenses:				
- Staff costs		-0.8	-1.2	-1.9
- Other expenses		-30.4	-35.7	-66.4
Depreciation of tangible assets		0.0	0.0	0.0
Total operating expenses		**-31.2**	**-36.9**	**-68.3**
Profit before loan losses		**77.1**	**57.8**	**144.5**
Net loan losses	6	-12.9	-1.7	10.3
Operating profit		**64.2**	**56.1**	**154.8**
Income tax expense		-12.8	-11.2	-35.1
Net profit for the period		**51.4**	**44.9**	**119.7**
Attributable to:				
Shareholders of Nordea Mortgage Bank Plc		51.4	44.9	119.7
Non-controlling interests		-	-	-
Total		**51.4**	**44.9**	**119.7**

Statement of comprehensive income

EURm	Jan-Jun 2020	Jan-Jun 2019	Full year 2019
Net profit for the period	**51.4**	**44.9**	**119.7**
Items that may be reclassified subsequently to the income statement			
Cash flow hedges:			
-Valuation gains/losses during the period, net of recycling	6.3	18.6	14.3
-Tax on valuation gains/losses during the period	-1.3	-3.7	-2.9
Items that may not be reclassified subsequently to the income statement			
Defined benefit plans:			
-Remeasurement of defined benefit plans	0.0	-0.1	0.0
-Tax on remeasurement of defined benefit plans	0.0	0.0	0.0
Other comprehensive income, net of tax	**5.0**	**14.8**	**11.4**
Total comprehensive income	**56.4**	**59.7**	**131.1**
Attributable to:			
Shareholders of Nordea Mortgage Bank Plc	56.4	59.7	131.1
Non-controlling interests	-	-	-
Total	**56.4**	**59.7**	**131.1**

Balance sheet

EURm	Note	30 Jun 2020	31 Dec 2019	30 Jun 2019
Assets				
Cash and balances with central banks		241.1	1,694.4	294.9
Loans to credit institutions	7	706.5	666.1	950.6
Loans to the public	7	27,631.3	26,719.9	25,913.2
Derivatives		862.1	711.5	793.2
Fair value changes of the hedged items in portfolio hedge of interest rate risk		203.5	174.5	190.5
Property and equipment		0.0	0.0	0.0
Deferred tax assets		7.5	9.2	8.6
Current tax assets		-	-	6.1
Other assets		88.0	2.6	0.1
Prepaid expenses and accrued income		15.1	43.4	42.6
Total assets		**29,755.1**	**30,021.6**	**28,199.8**
Liabilities				
Deposits by credit institutions		7,363.2	11,560.4	9,271.3
Debt securities in issue		19,860.8	16,111.7	16,160.7
Derivatives		293.4	199.0	204.7
Fair value changes of the hedged items in portfolio hedge of interest rate risk		740.5	544.8	686.3
Current tax liabilities		1.7	9.4	-
Other liabilities		3.8	92.1	413.7
Accrued expenses and prepaid income		99.9	168.8	134.7
Retirement benefit obligations		0.1	0.2	0.2
Provisions		0.2	0.1	0.2
Subordinated liabilities		200.5	200.5	200.6
Total liabilities		**28,564.1**	**28,887.0**	**27,072.4**
Equity				
Share capital		250.0	250.0	250.0
Other reserves		819.6	814.6	818.0
Retained earnings		121.4	70.0	59.4
Total equity		**1,191.0**	**1,134.6**	**1,127.4**
Total liabilities and equity		**29,755.1**	**30,021.6**	**28,199.8**
Assets pledged as security for own liabilities		22,330.1	21,943.2	21,789.5
Credit commitments		381.8	334.4	267.6

Statement of changes in equity

	Attributable to the shareholders of Nordea Mortgage Bank Plc					
		Other reserves:				
EURm	Share capital[1]	Cash flow hedges	Other reserves	Defined benefit plans	Retained earnings	**Total equity**
Balance at 1 Jan 2020	**250.0**	**14.6**	**800.0**	**0.0**	**70.0**	**1,134.6**
Net profit for the period	-	-	-	-	51.4	51.4
Other comprehensive income, net of tax	-	5.0	-			5.0
Total comprehensive income	-	5.0	-	-	51.4	56.4
	-		-			
Other changes	-		-			
Balance at 30 Jun 2020	**250.0**	**19.6**	**800.0**	**0.0**	**121.4**	**1,191.0**

	Attributable to the shareholders of Nordea Mortgage Bank Plc					
		Other reserves:				
EURm	Share capital[1]	Cash flow hedges	Other reserves	Defined benefit plans	Retained earnings	**Total equity**
Balance at 1 Jan 2019	**250.0**	**3.2**	**800.0**	**0.0**	**124.6**	**1,177.8**
Change of parameters of statistical model for loan loss provisions	-	-	-	-	25.5	25.5
Restated opening balance 1 Jan 2019	**250.0**	**3.2**	**800.0**	**0.0**	**150.1**	**1,203.3**
Net profit for the period	-	-	-	-	119.7	119.7
Other comprehensive income, net of tax	-	11.4	-	0.0	-	11.4
Total comprehensive income	-	11.4	-	0.0	119.7	131.1
Dividend 2018	-	-	-	-	-110.0	-110.0
Anticipated dividend	-	-	-	-	-89.8	-89.8
Other changes	-	-	-	-	0.0	0.0
Balance at 31 Dec 2019	**250.0**	**14.6**	**800.0**	**0.0**	**70.0**	**1,134.6**

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

[1] Total shares registered were 257.7 million (31 Dec 2019: 257.7 million).

Cash flow statement, condensed

EURm	Jan-Jun 2020	Jan-Jun 2019	Full year 2019
Operating activities			
Operating profit	64.2	56.1	154.9
Adjustments for items not included in cash flow	141.8	267.7	158.4
Income taxes paid	-20.1	-13.4	-26.8
Tax refund	-	-	5.3
Cash flow from operating activities before changes in operating assets and liabilities	**185.9**	**310.4**	**291.8**
Changes in operating assets and liabilities	-1,514.0	-1,565.6	-428.5
Cash flow from operating activities	**-1,328.1**	**-1,255.2**	**-136.7**
Financing activities			
Dividend paid	-89.8	-110.0	-110.0
Other changes	5.0	14.8	11.3
Cash flow from financing activities	**-84.8**	**-95.2**	**-98.7**
Cash flow for the period	**-1,412.9**	**-1,350.4**	**-235.4**

Cash and cash equivalents

EURm	30 Jun 2020	30 Jun 2019	31 Dec 2019
Cash and cash equivalents at beginning of the period	1,800.5	2,035.9	2,035.9
Cash and cash equivalents at end of the period	387.6	685.5	1,800.5
Change	**-1,412.9**	**-1,350.4**	**-235.4**
The following items are included in cash and cash equivalents:			
Cash and balances with central banks	241.1	294.9	1,694.4
Loans to credit institutions	146.5	390.6	106.1
Total cash and cash equivalents	**387.6**	**685.5**	**1,800.5**

Cash comprises legal tender and bank notes in foreign currencies. Balances with central banks consist of deposits in accounts with central banks and postal giro systems under government authority, where the following conditions are fulfilled:
- the central bank or the postal giro system is domiciled in the country where the institution is established
- the balance on the account is readily available at any time.

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

Notes to the financial statements

Note 1 Accounting policies

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

The interim report is unaudited.

The accounting policies and methods of computation are unchanged in comparison with the Note 1 in Annual Report 2019, except for the items presented in the section "Changed accounting policies and presentation" below. For more information see Note 1 in the Annual Report 2019.

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

Changed accounting policies and presentation

The following new and amended standards issued by IASB were implemented by Nordea 1 January 2020 but have not had any significant impact on NMB's financial statements:

- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendments to IFRS 3: Definition of business
- Amendments to IAS 1 and IAS 8: Definitions of Material

Other amendments to IFRS

Other amendments to IFRS are not assessed to have any significant impact on NMB's financial statements, capital adequacy or large exposures in the period of initial application.

Critical judgements and estimation uncertainty

Nordea Mortgage Bank has applied significant critical judgements in the preparation of the interim report for the first half year 2020, due to the significant uncertainties in relation to the potential long-term impact of COVID-19 on NMB's financial statements. More information on where critical judgements are generally applied and where estimation uncertainty exists can be found in the Annual Report 2019, Note 1 "Accounting policies", section 4. The area of particular importance in the first half year 2020 is measurement of loans at amortised costs.

Critical judgement has been applied in the assessment of when loans have experienced a significant increase in credit risk (staging) and in the application of macro scenarios when estimating the increase in expected credit losses. When calculating allowances for individually impaired loans, judgement is exercised to estimate the value of the collateral received. Judgement is exercised in the choice of modelling approaches covering parameters used when calculating the expected losses, such as the expected lifetime, as well as in the assessment of whether the parameters based on historical experience are relevant for estimating future losses.

Besides the model-based impairments, management judgements are made to include impairments related to risks that are not captured by the impairment model. More information on the impairment testing of loans and receivables at amortised costs can be found in Note 7 "Loans and impairment".

Note 2 Segment reporting

Operating segments

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

Income statement	Jan-Jun	Jan-Jun	Full year
EURm	2020	2019	2019
Total operating income	108.3	94.7	212.8
Operating profit	64.2	56.1	154.8

Balance sheet	30 Jun	30 Jun	31 Dec
EURm	2020	2019	2019
Loans to the public	27,631.3	25,913.2	26,719.9
Debt securities in issue	19,860.8	16,160.7	16,111.7

Measurement of operating segments' performance

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

Note 3 Net fee and commission income

	Jan-Jun	Jan-Jun	Full year
EURm	2020	2019	2019
Brokerage, securities issues and corporate finance	-0.2	-0.1	-0.4
Lending products	4.9	4.0	9.0
Guarantees	-7.5	-8.9	-16.5
Other	0.0	0.0	0.3
Total	**-2.8**	**-5.0**	**-7.6**

Note 4 Net result from items at fair value

	Jan-Jun	Jan-Jun	Full year
EURm	2020	2019	2019
Interest related instruments and foreign exchange gains/losses	-2.4	-5.0	0.6
Total	**-2.4**	**-5.0**	**0.6**

Note 5 Other expenses

EURm	Jan-Jun 2020	Jan-Jun 2019	Full year 2019
Information technology	-	-	0.0
Marketing and representation	-0.1	0.0	-0.1
Postage, transportation, telephone and office expenses	0.0	0.0	0.0
Rents, premises and real estate	0.0	0.0	0.0
Resolution fee	-6.0	-4.2	-4.2
Other	-24.3	-31.5	-62.1
Total	**-30.4**	**-35.7**	**-66.4**

Note 6 Net loan losses

EURm	Jan-Jun 2020	Jan-Jun 2019	Full year 2019
Net loan losses, stage 1	-1.5	-0.3	-0.7
Net loan losses, stage 2	-2.4	1.4	7.5
Net loan losses, non-defaulted	**-3.9**	**1.1**	**6.8**
Stage 3, defaulted			
Net loan losses, individually assessed, model-based	-7.6	-2.7	4.3
Realised loan losses	-1.1	-0.1	-0.4
Decrease of provisions to cover realised loan losses	-	-	-
Recoveries on previous realised loan losses	0.0	0.0	0.0
New/increase in provisions	-0.3	-	-0.4
Reversal of previous provisions	-	-	-
Net loan losses, defaulted	**-9.0**	**-2.8**	**3.5**
Net loan losses	**-12.9**	**-1.7**	**10.3**

Key ratios

	Jan-Jun 2020	Jan-Jun 2019	Full year 2019
Loan loss ratio, basis points[1]	9.3	1.3	-3.9
- of which stage 1	1.1	0.2	0.3
- of which stage 2	1.7	-1.1	-2.8
- of which stage 3	6.5	2.2	-1.3

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

Note 7 Loans and impairment

Despite of 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.

Forward looking information

Forward looking information is used both for assessing significant increases in credit risk and in the calculation of expected credit losses. Nordea uses three macroeconomic scenarios, a base scenario, a favourable scenario and an adverse scenario. For Q2 2020 the scenarios have been weighted into the final expected credit losses (ECL) using base 60%, adverse 20% and favourable 20%. The same weights were applied during 2019.

The macro scenarios are provided by Group Risk and Compliance (GRC) 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 macro scenarios reflect Nordea's view of how the COVID-19 virus and lockdowns potentially can impact the economic outlook. The scenarios also reflect the macroeconomic effects of the government and central bank support measures. When developing the scenarios Nordea has taken into account projections from Nordic governments and central banks, Nordea Research and the ECB's macroeconomic forecasts for the Euro area. Labour market support schemes have played a significant role in supporting the Nordic economies during the lockdown phase. Looking forward, it is expected that the phasing out of the labour market support schemes and other support measures in the second half of 2020 will start weighing on consumer confidence and could potentially lead to more business insolvencies and unemployment. This effect is expected to be most pronounced in the service industries and transportation, where Nordea data indicate that spending has not yet returned to normal. The rise in open unemployment associated with the end of the labour market schemes is likely to weigh on housing markets.

NMB's adjustments to model based provisions amount to EUR 9m, including management judgements of EUR 6m and late corrections of EUR 3m. This management judgement covers 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 with the impact from the Finnish government support schemes. For the retail portfolio the most important public sector actions are the various forms of labour market support schemes, which are significantly decreasing the expected defaults and losses amongst 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 are not capable of replicating the impact of the current government supporting schemes. 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 helped NMB to ensure the conservativeness of the loan loss projections. The cyclical reserve decided on by management in Q2 2020 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 second half of the year.

Forbearance

Forbearance is eased terms or restructuring due to the borrower experiencing or about to experience financial difficulties. The intention with granting forbearance for a limited time period is to ensure full repayment of the outstanding debt. Examples of eased terms are changes in amortisation profile, repayment schedule, customer margin as well as ease of financial covenants. Forbearance is undertaken on a selective and individual basis, according to internal instructions, and followed by impairment testing. Forborne exposures can be performing or non-performing. Loan loss provisions are recognised if necessary. Customers with forbearance measures are transferred to stage 2, unless already identified as credit impaired (stage 3).

On 13 March 2020 Nordea announced that it would offer COVID-19 payment holidays to those personal and business customers in Finland who are in need of help due to the COVID-19 situation. The COVID-19 payments holidays were generally granted to customers experiencing only short-term liquidity issues due solely to COVID-19 and not valid for consumer financing facilities.

NMB currently does not register COVID-19 payment holidays as forbearance, and consequentially does not automatically transfer the exposures to stage 2, since customers would not have asked for payment holidays had it not been for COVID-19. As stated under "Forward looking information" above, Nordea has assessed the risk of stage transfers at the time when the government support measures are discontinued and included the impact therefrom in the cyclical reserve to the extent not already covered by the IFRS 9 models.

	Total		
EURm	30 Jun 2020	31 Dec 2019	30 Jun 2019
Loans measured at amortised cost, not impaired (stage 1 and 2)	28,111.1	27,156.8	26,688.5
Impaired loans (stage 3)	250.0	240.9	224.6
- of which servicing	38.3	29.4	24.3
- of which non-servicing	211.7	211.5	200.3
Loans before allowances	**28,361.1**	**27,397.7**	**26,913.1**
- of which central banks and credit institution	*706.5*	*666.1*	*950.6*
Allowances for individually assessed impaired loans (stage 3)	-13.2	-5.3	-18.9
- of which servicing	-2.1	-0.9	-2.1
- of which non-servicing	-11.1	-4.4	-16.8
Allowances for collectively assessed impaired loans (stage 1 and 2)	-10.2	-6.4	-30.4
Allowances	**-23.4**	**-11.7**	**-49.3**
Loans, carrying amount	**28,337.7**	**27,386.0**	**26,863.8**

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

	30 Jun 2020		
EURm	Stage 1	Stage 2	Stage 3
Loans to central banks, credit institutions and the public	26,129.9	1.981.2	250.0
Interest-bearing securities			

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

Allowances and provisions

	30 Jun 2020		
EURm	Stage 1	Stage 2	Stage 3
Loans to central banks, credit institutions and the public	-3.6	-6.6	-13.2
Interest-bearing securities	-	-	-
Provisions for off balance sheet items	-0.0	-0.1	-
Total allowances and provisions[3]	**-3.6**	**-6.7**	**-13.2**

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

Note 7 Loans and impairment, cont.

Movements of allowance accounts for loans measured at amortised cost

EURm	Stage 1	Stage 2	Stage 3	Total
Balance at 1 Jan 2020	**-2.1**	**-4.3**	**-5.3**	**-11.7**
Changes due to origination and acquisition	-1.5	-0.3	-0.3	-2.2
Transfers from stage 1 to stage 2	0.2	-3.3	-	-3.0
Transfers from stage 1 to stage 3	0.0	-	-1.4	-1.4
Transfers from stage 2 to stage 1	-0.2	1.5	-	1.4
Transfers from stage 2 to stage 3	-	0.2	-2.3	-2.1
Transfers from stage 3 to stage 1	0.0	-	0.3	0.3
Transfers from stage 3 to stage 2	-	-0.1	0.3	0.2
Changes due to change in credit risk (net)	-0.2	-0.6	-4.9	-5.6
Changes due to repayments and disposals	0.1	0.2	0.4	0.7
Balance at 30 Jun 2020	**-3.6**	**-6.6**	**-13.2**	**-23.4**

EURm	Stage 1	Stage 2	Stage 3	Total
Balance at 1 Jan 2019	**-5.5**	**-26.1**	**-16.2**	**-47.8**
Changes due to origination and acquisition	-1.0	-0.6	-0.4	-2.0
Transfers from stage 1 to stage 2	0.6	-10.5	-	-9.9
Transfers from stage 1 to stage 3	0.1	-	-2.1	-2.0
Transfers from stage 2 to stage 1	-0.9	7.3	-	6.4
Transfers from stage 2 to stage 3	-	1.4	-4.5	-3.1
Transfers from stage 3 to stage 1	-0.1	-	0.9	0.8
Transfers from stage 3 to stage 2	-	-0.5	2.0	1.5
Changes due to change in credit risk (net)	0.7	3.2	0.4	4.3
Changes due to repayments and disposals	0.3	1.2	1.0	2.5
Balance at 30 Jun 2019	**-5.8**	**-24.6**	**-18.9**	**-49.3**

Key ratios[1]	30 Jun 2020	31 Dec 2019	30 Jun 2019
Impairment rate (stage 3), gross, basis points	88	88	83
Impairment rate (stage 3), net, basis points	83	86	76
Total allowance rate (stage 1, 2 and 3), basis points	8	4	18
Allowances in relation to impaired loans (stage 3), %	5	2	8
Allowances in relation to loans in stage 1 and 2, % basis points	4	2	11

[1] For definitions, see Glossary

Note 8 Classification of financial instruments

EURm	Amortised cost (AC)	Fair value through profit or loss (FVPL) Mandatorily	Derivatives used for hedging	Total
Financial assets				
Cash and balances with central banks	241.1	-	-	241.1
Loans to credit institutions	706.5	-	-	706.5
Loans to the public	27,631.3	-	-	27,631.3
Derivatives	-	5.8	856.3	862.1
Fair value changes of the hedged items in portfolio hedge of interest rate risk	203.5	-	-	203.5
Prepaid expenses and accrued income	78.4	-	-	78.4
Total 30 Jun 2020	**28,860.8**	**5.8**	**856.3**	**29,722.9**
Total 31 Dec 2019	29,268.7	6.4	705.1	29,980.2

EURm	Amortised cost (AC)	Fair value through profit or loss (FVPL) Mandatorily	Derivatives used for hedging	Total
Financial liabilities				
Deposits by credit institutions	7,363.2	-	-	7,363.2
Debt securities in issue	19,860.8	-	-	19,860.8
Derivatives	-	7.1	286.3	293.4
Fair value changes of the hedged items in portfolio hedge of interest rate risk	740.5	-	-	740.5
Other liabilities	1.7	-	-	1.7
Accrued expenses and prepaid income	63.5	-	-	63.5
Subordinated liabilities	200.5	-	-	200.5

Note 9 Fair value of financial assets and liabilities

EURm	30 Jun 2020 Carrying amount	30 Jun 2020 Fair value	31 Dec 2019 Carrying Amount	31 Dec 2019 Fair value
Financial assets				
Cash and balances with central banks	241.1	241.1	1,694.4	1,694.4
Loans	28,541.3	29,702.8	27,560.5	28,499.2
Derivatives	862.1	862.1	711.5	711.5
Prepaid expenses and accrued income	78.4	78.4	13.8	13.8
Total	**29,722.9**	**30,884.4**	**29,980.2**	**30,918.9**
Financial liabilities				
Deposits and debt instruments	28,165.0	28,265.9	28,417.4	28,541.9
Derivatives	293.4	293.4	199.0	199.0
Other liabilities	1.7	1.7	-0.8	-0.8
Accrued expenses and prepaid income	63.5	63.5	71.6	71.6
Total	**28,523.6**	**28,624.5**	**28,687.2**	**28,811.7**

The determination of fair value is described in the Annual Report 2019. Note 26 "Assets and liabilities at fair value". The fair value for loans has been estimated by discounting the expected future cash flows with an assumed customer interest rate that would have been used on the market if the loans had been issued at the time of the measurement. The assumed customer interest rate is calculated as the benchmark interest rate plus the average margin on new lending.

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

Categorisation into the fair value hierarchy

EURm	Quoted prices in active markets for the same instrument (Level 1)	Valuation technique using observable data (Level 2)	Valuation technique using non-observable data (Level 3)	Total
Assets at fair value on the balance sheet[1]				
Derivatives	-	862.1	-	862.1
Total 30 Jun 2020	**-**	**862.1**	**-**	**862.1**
Total 31 Dec 2019	-	711.5	-	711.5
Liabilities at fair value on the balance sheet[1]				
Derivatives	-	293.4	-	293.4
Total 30 Jun 2020	**-**	**293.4**	**-**	**293.4**
Total 31 Dec 2019	-	199.0	-	199.0

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

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

For more information about valuation techniques and inputs in the fair value measurement, see the Annual Report 2019 Note 26 “Assets and liabilities at fair value”.

Glossary

Cost/income ratio
Total operating expenses divided by total operating income.

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

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

Impairment rate (stage 3) gross, basis points
Impaired loans (stage 3) before allowances divided by total loans measured at amortised cost before allowances

Impairment rate (stage 3) net, basis points
Impaired loans (stage 3) after allowances divided by total loans measured at amortised cost before allowances

Total allowance rate (stage 1, 2 and 3), basis points
Total allowances divided by total loans measured at amortised cost before allowances

Allowances in relation to credit impaired loans (stage 3), %
Allowances for impaired loans (stage 3) divided by impaired loans measured at amortised cost (stage 3) before allowances

Allowances in relation to loans in stage 1 and 2, basis points
Allowances for not impaired loans (stage 1 and 2) divided by not impaired loans measured at amortised cost (stage 1 and 2) before allowances.

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

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

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

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

Total capital ratio
Own funds as a percentage of risk exposure amount.