

Nordea

Half-year financial report January-June 2022

Nordea Mortgage Bank Plc

Nordea Mortgage Bank Plc

Introduction

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

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

This report is unaudited.

Result summary January-June 2022

Income in the first half of 2022 increased by 16% and amounted to EUR 157.0m (January-June 2021 135.8). Total expenses increased to EUR 83.9m (77.8). Net loan losses amounted to EUR 7.9m (34.4).

NMB’s operating profit was EUR 65.2m (23.6). Net profit increased by 177% and totalled EUR 52.1m (18.9). Return on equity was 7.5% (3.1) and the cost/income ratio 54% (57).

Macroeconomic trend

The global outlook has been hit by two major shocks this year. The Russian assault in Ukraine and COVID-19 lockdowns in China are further intensifying the price pressure and challenges in the global supply chains. Inflation is expected to continue at high levels for all of 2022 and the Western central banks will tighten monetary policy faster than previously expected. Global GDP growth is expected to be 3.3% in 2022 as a whole.

In the Euro area, recovery from the pandemic has continued, but household nominal income growth is still modest. Together with fast inflation, this implies that the real income development will be negative in 2022. On the other hand, investments are boosted by the NGEU recovery package and policies aiming to reduce the dependency on Russian energy. Fiscal expenditure on defence and refugees will also support growth. Tightening labour market will accelerate wage increases

later this year, implying the core inflation is likely to stay at levels above the ECB target also in 2023.

Market performance in Finland in January–June 2022

The Finnish economy was performing well at the start of the war, and demand has remained at a good level. Order books in the manufacturing sector are full, the number of construction projects is record high and the service sector is still recovering. The more than 8 billion euros in savings accumulated by households during the pandemic will help sustain private consumption despite real incomes falling this year due to rising inflation.

Nordea Research forecasts Finland’s GDP to grow by 2% in 2022 after growing by 3.0% in 2021. The risks affecting the economy have not disappeared and the forecasts include a considerable amount of uncertainty. The Finnish economy as a whole will not suffer from a rise in the global prices of commodities and materials in the same way as many other countries in Europe. The prices of imports and exports in Finland have actually risen in tandem.

The employment rate hit a new all-time high early this year, and the unemployment rate has fallen below 7%. As a result of the war in Ukraine, the growth in employment will slow down, although demand for labour will remain stable. The pick-up in the service sector will further boost employment, whereas the outlook in construction will slightly cool off.

Mortgage business development in the first half of 2022

The Finnish mortgage market has continued to perform strong thus proving its well-established and solid basis. The sales of new mortgages are still above the pre-pandemic levels. Sales are also boosted by Nordea’s increased customer satisfaction, safe dealing during the pandemic and improved availability through increased customer service personnel. On the other hand, the rise of inflation and the costs of housing by the higher energy prices as well as the increase in maintenance and renovation expenses are making the housing market less attractive especially for potential new investors.

In the whole country the housing prices of old apartments were up 1.5% in May compared to the previous year. In

the larger cities, prices went up 1.7%, whereas in the rest of Finland the prices went up 1.2%. Prices of old single-family houses rose 4.1 percent in the larger cities in January to March compared to previous year and increased by 2.1% in the whole country as well. The number of home sales has decreased by 10% compared to the previous year's record high numbers.

Construction of some 48,000 new homes were started in 2021. The rise of construction costs has decreased the number of new residential construction permits by 5 percent in February-April 2022 compared to the year before. The volume of ongoing residential construction has increased by 16% compared to 2021. The increased supply, together with rising interest rates and the return of other consumption to normal are expected to reduce the price pressure, resulting in moderate housing price growth in 2022.

The buy-to-let-market suffers from the subdued rental demand in cities due to distance learning and weak employment in the service sector. Oversupply in some areas, especially the Greater Helsinki area has resulted in decreasing rent levels. Demand for rental housing is expected to recover in the autumn, when students return to the lecture halls, employment in the service sector improves and demand for short-term accommodation grows on the back of reinvigorated tourism. Increased supply may still result in more moderate rent level growth compared to the previous years.

Average loan maturities have stabilised between 21 and 22 years. Nordea caps maturity at origination currently at 35 years. The Board of the FIN-FSA has decided to keep the loan cap for residential mortgage loans at 85%. For the first-home loans the level will stay at 95%. In addition, the Board of the FIN-FSA gave a recommendation to limit the stressed debt-service-to-income (DSTI) ratio at 60% of the applicant's net income starting from 1 January 2023. This is likely to have an adverse effect on the buy-to-let-market and the sales of larger family homes in the growth centres.

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

Comments on the income statement

(Comparison figures in brackets refer to the corresponding period in 2021)

Income

Net interest income in January-June 2022 increased to EUR 139.5m (128.9), supported by lowering interest expenses for covered bonds and other funding. Interest income was EUR 146.2m (139.1) and interest expenses were EUR 6.7m (10.2). The interest rates have been rising rapidly since February but the funding costs for NMB's operations have still remained below the previous year. The pressure towards mortgage margins has slowly been relieved and the margins have started to increase.

Net fee and commission income was EUR 1.9m (1.7). Commission income relates mainly to lending and amounted to EUR 5.9m (5.7). Commission expenses relate mainly to the guarantee and liquidity facility provided by Nordea Bank Abp and were EUR 4.0m (4.0).

Net result from items at fair value was EUR 15.6m (5.2) representing the hedging inefficiency of financial instruments.

Expenses

Total operating expenses were EUR 83.9m (77.8) of which staff costs amounted to EUR 0.9m (0.8). The number of employees was 13 (13) at the end of June 2022.

Other operating expenses increased to EUR 83.1m (77.0). These expenses consist mostly of payments for the intra-group outsourced services, as well as of the resolution fee of 8.9m (7.8) for the whole year 2022.

The cost/income ratio was 54% (57) in the first half of 2022.

Loan losses

Net loan losses totalled EUR 7.9m (34.4) corresponding to a loan loss ratio of 5.0 basis points (23.1). The high comparison figures are mainly driven by an update of the IFRS 9 model with more conservative loss data assumption, which increased the loan provisioning last year. Realised loan losses were EUR 3.0m (3.4) during the first half of 2022. More information can be found in Note 6 "Net loan losses" and Note 7 "Loans and impairment".

Taxes

The effective tax rate for the first half of 2022 was 20% (20).

Net profit

Net profit amounted to EUR 52.1 (18.9), corresponding to a return on equity of 7.5% (3.1) in the first half of the year.

Comments on the balance sheet

(Comparison figures in brackets refer to year-end 2021 figures.)

NMB's total assets amounted to EUR 33.1bn (34.2).

Total loans to the public grew 3% compared to the end of 2021, amounting to EUR 31.7bn (30.9).

Positive market values of derivatives amounted to EUR 0.4bn (0.5). NMB's derivatives mainly pertain to interest rate swaps.

Total liabilities amounted to EUR 31.5bn (33.0) and equity to EUR 1.6bn (1.3).

Deposits by credit institutions decreased to EUR 9.7bn (10.7).

Debt securities in issue consist of covered bonds issued under the EUR 25bn Covered Bond Programme and an internal MREL loan of 0.6bn received from Nordea Bank Abp. Covered bond funding at the end of June 2022 was EUR 20.8bn (20.8).

During the first half year of 2022 NMB issued one new covered bond amounting to EUR 1.5bn. Covered bonds amounting to EUR 1.6bn in total were redeemed. The size of the cover pool was EUR 24.0bn (23.6) and the overcollateralization was 16.2% (13.3).

Capital position and capital management

At the end of June 2022, NMB's risk exposure amount (REA) was EUR 4.1bn, compared to EUR 4.1bn at year-end 2021.

In May 2022, NMB received a capital injection of EUR 300m from Nordea Bank Abp, increasing the amount of invested unrestricted equity to EUR 1.2bn.

Excluding profit, the Common Equity Tier 1 capital ratio stood at 38.4% and total capital ratio at 38.9% at the end of June 2022.

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

Lending

Total lending to the public was EUR 31.7bn (30.9) at the end of June 2022. Lending to households was 95% (95) of the total lending and totalled EUR 30.1bn (29.2). Corporate lending was EUR 1.6bn (1.7).

The level of impaired loans decreased to EUR 223.0m from EUR 233.4m at year-end 2021.

Allowances amounted to EUR 61.9m (57.0), representing 0.19% (0.18) of total loans before allowances.

Off-balance sheet commitments

NMB's off-balance sheet items consist of credit commitments amounting to EUR 519.2m (522.9) at the end of June 2022.

Risks and uncertainties

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

NMB has maintained its strong financial position. The underlying business have remained strong in spite of the pandemic and the rise of inflation. 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 2022 ²	31 Dec 2021 ³	30 Jun 2021 ²
Calculation of own funds			
Equity	1,565.1	1,357.2	1,192.0
Proposed/actual dividend	-	-70.5	-
Common Equity Tier 1 capital before regulatory adjustments	1,565.1	1,286.7	1,192.0
Deferred tax assets	-	-	-
Intangible assets	-	-	-
IRB provisions shortfall (-)	-8.8	-19.4	-33.2
Deduction for investments in credit institutions (50%)	-	-	-
Pension assets in excess of related liabilities ¹	-	-	-
Other items, net	12.0	-9.6	-14.9
Total regulatory adjustments to Common Equity Tier 1 capital	3.2	-29.1	-48.1
Common Equity Tier 1 capital (net after deduction)	1,568.4	1,257.6	1,143.8
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)	1,568.4	1,257.6	1,143.8
Tier 2 capital before regulatory adjustments	0.0	0.0	200.0
IRB provisions excess (+)	20.5	21.9	22.2
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	20.5	21.9	22.2
Tier 2 capital	20.5	21.9	22.2
Own funds (net after deduction)	1,588.9	1,279.5	1,366.0

¹ Based on conditional FSA approval

² Excluding profit of the period

³ Including profit of the period

Capital ratios

Percentage	30 Jun 2022 ¹	31 Dec 2021 ²	30 Jun 2021 ¹
CRR/CRDIV			
Common Equity Tier 1 capital ratio	38.4	31.3	28.2
Tier 1 capital ratio	38.4	31.3	28.2
Total capital ratio	38.9	31.9	33.6

¹ Excluding profit of the period.

² Including profit of the period.

Leverage ratio

	30 Jun 2022 ¹	31 Dec 2021 ²	30 Jun 2021 ¹
Tier 1 capital, EURm	1,568.4	1,257.6	1,143.8
Leverage ratio exposure, EURm	33,143.7	34,590.7	31,621.3
Leverage ratio, percentage	4.7	3.6	3.6

¹ Excluding profit of the period.

² Including profit of the period.

Minimum capital requirement and risk exposure amount

	30 Jun 2022	30 Jun 2022	31 Dec 2021	31 Dec 2021	30 Jun 2021	30 Jun 2021
	Minimum Capital requirement	REA	Minimum Capital requirement	REA	Minimum Capital requirement	REA
Credit risk	296.3	3,704.4	294.1	3,676.7	297.9	3,723.9
IRB	293.1	3,664.3	292.0	3,650.5	296.1	3,701.8
- sovereign	-	-	-	-	-	-
- corporate	29.6	369.7	31.3	390.8	31.8	397.4
- <i>advanced</i>	29.6	369.7	31.3	390.8	31.8	397.4
- retail	263.2	3,290.1	260.3	3,253.6	263.8	3,296.9
- <i>secured by immovable property collateral</i>	189.1	2,364.3	188.2	2,352.5	190.9	2,385.7
- <i>other retail</i>	74.1	925.8	72.1	901.1	72.9	911.3
- other	0.4	4.6	0.5	6.1	0.6	7.4
Standardised	3.2	40.1	2.1	26.2	1.8	22.1
- sovereign	3.2	40.0	2.1	26.2	1.8	22.1
- other	0.0	0.0	0.0	0.0	0.0	0.0
Operational risk	29.4	367.2	26.2	327.4	26.2	327.4
Additional risk exposure amount related to Swedish RW floor due to Article 458 CRR	0.9	11.7	0.8	10.2	0.8	9.6
Total	326.7	4,083.3	321.1	4,014.2	324.9	4,060.8

Minimum Capital Requirement & Capital Buffers

Percentage	Minimum Capital requirement	Capital Buffers				Capital Buffers total ¹	Total
		CCoB	CCyB	SII	SRB		
Common Equity Tier 1 capital	4.5	2.5	0.0	-	-	2.5	7.0
Tier 1 capital	6.0	2.5	0.0	-	-	2.5	8.5
Own funds	8.0	2.5	0.0	-	-	2.5	10.5
EURm							
Common Equity Tier 1 capital	183.7	102.1	0.0	-	-	102.1	285.9
Tier 1 capital	245.0	102.1	0.0	-	-	102.1	347.1
Own funds	326.7	102.1	0.0	-	-	102.1	428.8

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

Changes in the management bodies

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

As from 1 January 2022 until 16 February 2022

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

As from 16 February 2022 until 31 May 2022

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

As from 31 May 2022 until 30 June 2022

- Jani Eloranta, Chair
- Kaj Blomster
- Marte Kopperstad, Deputy Chair
- Ola Littorin
- Minna Martikainen
- Timo Nyman
- Ilkka Salonen

Kaj Blomster, Minna Martikainen and Ilkka Salonen are independent of Nordea Mortgage Bank Plc.

Johanna Pölönen was appointed as the Head of Mortgage Products in February. Minna Ollilainen was appointed as Compliance Officer on 21 March 2022. Jussi-Petteri Lehtonen was appointed as the Chief Operating Officer and Deputy CEO on 23 May 2022.

Helsinki, 18 July 2022
Board of Directors

Income statement

EURm	Jan-Jun 2022	Jan-Jun 2021	Change %	Full year 2021
Net interest income	139.5	128.9	8	262.6
Net fee and commission income	1.9	1.7	12	3.7
Net result from items at fair value	15.6	5.2	200	9.8
Other operating income	0.0	0.0	..	0.1
Total operating income	157.0	135.8	16	276.2
Staff costs	-0.9	-0.8	13	-1.4
Other expenses	-83.1	-77.0	8	-146.5
Depreciation of tangible assets	0.0	0.0	..	0.0
Total operating expenses	-83.9	-77.8	8	-147.9
Profit before loan losses	73.1	58.0	26	128.3
Net loan losses	-7.9	-34.4	-77	-40.2
Operating profit	65.2	23.6	176	88.1
Income tax expense	-13.0	-4.7	177	-17.6
Net profit for the period	52.1	18.9	176	70.5

Business volumes, key items¹

EURm	30 Jun 2022	30 Jun 2021	Change %	31 Dec 2021	Change %
Loans to the public	31,690.8	29,804.8	6	30,903.4	3
Debt securities in issue	21,368.0	20,814.6	3	21,479.2	-1
Equity	1,617.3	1,210.8	34	1,286.7	26
Total assets	33,078.0	31,471.5	5	34,248.0	-3

¹ End of period

Ratios and key figures¹

	Jan-Jun 2022	Jan-Jun 2021	Full year 2021
Return on equity ² %	7.5	3.1	5.7
Cost/income ratio ² , %	54	57	54
Loan loss ratio, basis points ²	5.0	23.1	13.0
Common Equity Tier 1 capital ratio ² , %	38.4	28.2	31.3
Tier 1 capital ratio ² , %	38.4	28.2	31.3
Total capital ratio ² , %	38.9	33.6	31.9
Tier 1 capital ² , EURm	1,568.4	1,143.8	1,257.6
Risk exposure amount, EURm	4,083.3	4,060.8	4,014.2
Number of employees (full-time equivalents) ²	13	13	13

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 2022	Jan-Jun 2021	Full year 2021
Operating income				
Interest income		146.2	139.1	280.5
Interest expense		-6.7	-10.2	-17.9
Net interest income	2	139.5	128.9	262.6
Fee and commission income		5.9	5.7	11.4
Fee and commission expense		-4.0	-4.0	-7.7
Net fee and commission income	3	1.9	1.7	3.7
Net result from items at fair value	4	15.6	5.2	9.8
Other operating income		0.0	0.0	0.1
Total operating income		157.0	135.8	276.2
Operating expenses				
General administrative expenses:				
- Staff costs		-0.9	-0.8	-1.4
- Other expenses	5	-83.1	-77.0	-146.5
Depreciation of tangible assets		0.0	0.0	0.0
Total operating expenses		-83.9	-77.8	-147.9
Profit before loan losses		73.1	58.0	128.3
Net loan losses	6	-7.9	-34.4	-40.2
Operating profit		65.2	23.6	88.1
Income tax expense		-13.0	-4.7	-17.6
Net profit for the period		52.1	18.9	70.5
Attributable to:				
Shareholders of Nordea Mortgage Bank Plc		52.1	18.9	70.5
Total		52.1	18.9	70.5

Statement of comprehensive income

EURm	Jan-Jun 2022	Jan-Jun 2021	Full year 2021
Net profit for the period	52.1	18.9	70.5
Items that may be reclassified subsequently to the income statement			
Cash flow hedges:			
-Valuation gains/losses during the period, net of recycling	-27.1	-6.5	-13.1
-Tax on valuation gains/losses during the period	5.4	1.3	2.6
Items that may not be reclassified subsequently to the income statement			
Defined benefit plans:			
-Remeasurement of defined benefit plans	0.1	0.0	0.0
-Tax on remeasurement of defined benefit plans	0.0	0.0	0.0
Other comprehensive income, net of tax	-21.6	-5.2	-10.5
Total comprehensive income	30.5	13.7	60.0
Attributable to:			
Shareholders of Nordea Mortgage Bank Plc	30.5	13.7	60.0
Total	30.5	13.7	60.0

Balance sheet

EURm	Note	30 Jun 2022	31 Dec 2021	30 Jun 2021
Assets				
Cash and balances with central banks		320.0	1,821.3	222.3
Loans to credit institutions	7	914.0	923.1	619.0
Loans to the public	7	31,690.8	30,903.4	29,804.8
Derivatives		372.6	453.9	561.0
Fair value changes of the hedged items in portfolio hedge of interest rate risk		-320.1	55.8	141.3
Property and equipment		0.0	0.0	0.0
Deferred tax assets		16.0	10.5	8.8
Current tax assets		-	-	13.2
Other assets		73.1	76.1	87.5
Prepaid expenses and accrued income		11.6	3.9	13.6
Total assets		33,078.0	34,248.0	31,471.5
Liabilities				
Deposits by credit institutions		9,710.0	10,669.4	8,259.0
Debt securities in issue		21,368.0	21,479.2	20,814.6
Derivatives		525.4	211.0	261.3
Fair value changes of the hedged items in portfolio hedge of interest rate risk		-392.3	367.6	479.2
Current tax liabilities		4.2	3.5	-
Other liabilities		152.5	72.2	107.3
Accrued expenses and prepaid income		92.7	158.1	138.6
Retirement benefit obligations		0.2	0.2	0.2
Provisions		0.0	0.1	0.1
Subordinated liabilities		-	-	200.4
Total liabilities		31,460.7	32,961.3	30,260.7
Equity				
Share capital		250.0	250.0	250.0
Other reserves		1,187.3	908.9	814.1
Retained earnings		180.0	127.8	146.7
Total equity		1,617.3	1,286.7	1,210.8
Total liabilities and equity		33,078.0	34,248.0	31,471.5
Assets pledged as security for own liabilities		24,029.4	23,644.1	23,348.8
Credit commitments		519.2	522.9	488.3

Statement of changes in equity

Attributable to the shareholders of Nordea Mortgage Bank Plc						
EURm	Share capital ¹	Cash flow hedges	Other reserves:		Retained earnings	Total equity
			Invested unrestricted equity	Defined benefit plans		
Balance at 1 Jan 2022	250.0	8.8	900.0	0.0	127.8	1,286.7
Net profit for the period	-	-	-	-	52.1	52.1
Other comprehensive income, net of tax	-	-21.6	-	-	-	-21.6
Total comprehensive income	-	-21.6	-	-	52.1	30.5
Other changes			300.0			300.0
Balance at 30 Jun 2022	250.0	-12.8	1,200.0	0.0	180.0	1,617.3

Attributable to the shareholders of Nordea Mortgage Bank Plc						
EURm	Share capital ¹	Cash flow hedges	Other reserves:		Retained earnings	Total equity
			Invested unrestricted equity	Defined benefit plans		
Balance at 1 Jan 2021	250.0	19.4	800.0	0.0	127.8	1,197.2
Net profit for the period	-	-	-	-	70.5	70.5
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			100.0
Balance at 31 Dec 2021	250.0	8.8	900.0	0.0	127.8	1,286.7

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

¹ Total shares registered were 257.7 million (31 Dec 2021 257.7 million).

Cash flow statement, condensed

EURm	Jan-Jun 2022	Jan-Jun 2021	Full year 2021
Operating activities			
Operating profit	65.2	23.6	88.1
Adjustments for items not included in cash flow	-470.0	-121.8	-112.5
Income taxes paid	-12.5	-24.9	-21.4
Tax refund	-	-	-
Cash flow from operating activities before changes in operating assets and liabilities	-417.3	-123.1	-45.8
Changes in operating assets and liabilities	-1,301.1	203.0	2,134.4
Cash flow from operating activities	-1,718.4	79.9	-2,088.7
Financing activities			
Dividend paid	-70.5	-57.8	-57.8
Other changes	278.5	-5.2	-111.0
Cash flow from financing activities	208.0	-63.0	-168.8
Cash flow for the period	-1,510.4	16.9	1,919.9

Cash and cash equivalents

EURm	30 Jun 2022	30 Jun 2021	31 Dec 2021
Cash and cash equivalents at beginning of the period	2,184.2	264.2	264.2
Cash and cash equivalents at end of the period	673.7	281.1	2,184.2
Change	-1,510.4	16.9	1,919.9

The following items are included in cash and cash equivalents:

Cash and balances with central banks	320.0	222.3	1,821.3
Loans to credit institutions	353.7	58.8	362.8
Total cash and cash equivalents	673.7	281.1	2,184.2

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

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

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

Notes to the financial statements

Note 1 Accounting policies

Nordea Mortgage Bank's (referred as to NMB) interim condensed financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting", as endorsed by the European Union (EU).

The report includes a condensed set of financial statements and is to be read in conjunction with the audited financial statements for the year ended 31 December 2021. The accounting policies and methods of computation are unchanged in comparison with Note 1 in the Annual Report 2021. For more information see Note 1 in the Annual Report 2021.

This half-year report is unaudited.

Other amendments

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

- Amendments to International Financial Reporting Standard (IFRS) 3 Business Combinations: Reference to the Conceptual Framework

- Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use
- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts – Cost of Fulfilling a Contract
- Annual improvements to IFRS Standards 2018–2020

Critical judgements and estimation uncertainty

NMB applied significant critical judgements in the preparation of the half-year financial statements due to the uncertainties related to the effects of the COVID-19 pandemic and the Ukraine war on its financial statements. More information on where critical judgements are generally applied and where estimation uncertainty exists can be found in Note 1 in the Annual Report 2021.

Note 2 Net interest income

EURm	Jan-Jun 2022	Jan-Jun 2021	Full year 2021
Interest income			
Loans to credit institutions	1.7	1.6	2.6
Loans to the public	124.2	121.1	243.8
Other interest income	43.6	12.6	34.3
<i>Other</i>			
Interest income from derivatives	-23.3	3.7	-0.2
Interest income	146.2	139.1	280.5
- Of which negative yield on liabilities	20.3	6.4	15.8
Interest expense			
Deposits by credit institutions	-5.2	-5.3	-9.8
Debt securities in issue	-26.8	-33.0	-55.5
Subordinated liabilities	0.0	-0.9	-1.4
Other interest expenses	-8.1	-5.9	-15.5
<i>Other</i>			
Interest from derivatives	33.4	34.9	64.3
Interest expense	-6.7	-10.2	-17.9
- Of which negative yield on assets	-1.5	-1.5	-2.3
Net interest income	139.5	128.9	262.6

Note 3 Net fee and commission income

EURm	Jan-Jun 2022	Jan-Jun 2021	Full year 2021
Brokerage, securities issues and corporate finance	-0.2	0.0	-0.1
- of which expense	-0.2	0.0	-0.1
Lending products	5.9	5.7	11.4
- of which income	5.9	5.7	11.4
Guarantees and liquidity facility	-3.7	-4.0	-7.6
- of which expense	-3.7	-4.0	-7.6
Other	0.0	0.0	0.0
- of which income	0.0	0.0	0.0
- of which expense	0.0	0.0	0.0
Total	1.9	1.7	3.7

Note 4 Net result from items at fair value

EURm	Jan-Jun 2022	Jan-Jun 2021	Full year 2021
Interest related instruments and foreign exchange gains/losses	15.6	5.2	9.8
Total	15.6	5.2	9.8

Net result from categories of financial instruments

EURm	Jan-Jun 2022	Jan-Jun 2021	Full year 2021
Financial assets and liabilities mandatorily at fair value through profit or loss	-368.5	-144.5	-204.9
Financial assets at amortised cost	-332.3	-84.9	-236.4
Financial liabilities at amortised cost	716.2	234.6	451.0
Foreign exchange gains/losses excluding currency hedges	0.1	0.0	0.0
Total	15.6	5.2	9.8

Note 5 Other expenses

EURm	Jan-Jun 2022	Jan-Jun 2021	Full year 2021
Resolution fee	-8.9	-7.8	-7.8
Information technology	0.0	0.0	0.0
Marketing and representation	0.0	0.0	0.0
Postage, transportation, telephone and office expenses	0.0	0.0	0.0
Rents, premises and real estate	0.0	0.0	-0.1
Fees for the outsourced services provided by the parent company	-73.6	-68.3	-136.2
Other	-0.6	-0.9	-2.4
Total	-83.1	-77.0	-146.5

Note 6 Net loan losses

EURm	Jan-Jun 2022	Jan-Jun 2021	Full year 2021
Net loan losses, stage 1	-0.0	-3.1	-1.4
- of which off-balance sheet items	-0.0	-0.0	-0.0
Net loan losses, stage 2	-0.2	-12.2	-12.9
- of which off-balance sheet items	0.0	0.0	-0.1
Net loan losses, non-defaulted	-0.2	-15.3	-14.3
Stage 3, defaulted			
Net loan losses, individually assessed, model-based	-4.7	-15.1	-16.9
Realised loan losses	-3.1	-3.4	-6.9
Decrease of provisions to cover realised loan losses	0.0	0.1	0.2
Recoveries on previous realised loan losses	0.1	0.0	0.0
New/increase in provisions	-0.2	-0.6	-2.3
Reversal of provisions	0.1	0.0	0.0
Net loan losses, defaulted	-7.7	-19.1	-25.9
Net loan losses	-7.9	-34.4	-40.2

Key ratios

	Jan-Jun 2022	Jan-Jun 2021	Full year 2021
Loan loss ratio, basis points ¹	5.0	23.1	13.0
- of which stage 1	0.0	2.1	0.5
- of which stage 2	0.1	8.2	4.2
- of which stage 3	4.9	12.8	8.4

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 the pandemic and Russia's invasion of Ukraine, the credit quality of NMB's loan book was stable and strong throughout the first half of 2022. The Nordea Group level method for impairment is applied in NMB. Macro-economic scenarios have been updated. Furthermore, a thorough review of NMB's loan book has been concluded.

EURm	30 Jun 2022	31 Dec 2021	30 Jun 2021
Loans measured at amortised cost, not impaired (stage 1 and 2)	32,443.7	31,650.0	30,241.1
Impaired loans (stage 3)	223.0	233.4	237.4
- of which servicing	28.1	23.7	24.1
- of which non-servicing	194.9	209.7	213.3
Loans before allowances	32,666.7	31,883.4	30,478.5
- of which credit institutions	914.0	923.1	619.0
Allowances for impaired loans (stage 3)	-36.2	-31.5	-28.2
- of which servicing	-4.7	-4.0	-2.3
- of which non-servicing	-31.5	-27.5	-25.9
Allowances for impaired loans (stage 1 and 2)	-25.7	-25.4	-26.5
Allowances	-61.9	-56.9	-54.7
- of which credit institutions	-	-	-
Loans, carrying amount	32,604.8	31,826.5	30,423.8

Movements of allowance accounts for loans measured at amortised cost

EURm	Stage 1	Stage 2	Stage 3	Total
Balance at 1 Jan 2022	-4.8	-20.7	-31.5	-57.0
Changes due to origination and acquisition	-1.5	-	-	-1.5
Transfers from stage 1 to stage 2	0.8	-16.5	-	-15.8
Transfers from stage 1 to stage 3	0.1	-	-3.3	-3.2
Transfers from stage 2 to stage 1	-0.8	12.0	-	11.3
Transfers from stage 2 to stage 3	-	1.4	-7.7	-6.3
Transfers from stage 3 to stage 1	-0.1	-	1.8	1.7
Transfers from stage 3 to stage 2	-	-1.0	6.0	5.1
Changes due to change in credit risk (net)	1.2	2.3	-6.8	-3.2
Changes due to repayments and disposals	0.3	1.6	5.2	7.2
Balance at 30 Jun 2022	-4.8	-20.9	-36.3	-61.9

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

Key ratios¹	30 Jun 2022	31 Dec 2021	30 Jun 2021
Impairment rate (stage 3), gross, basis points	68	73	78
Impairment rate (stage 3), net, basis points	57	63	69
Total allowance rate (stage 1, 2 and 3), basis points	19	18	18
Allowances in relation to impaired loans (stage 3), %	16	13	12
Allowances in relation to loans in stage 1 and 2, basis points	8	8	9

¹ For definitions, see Glossary

Note 8 Classification of financial instruments

EURm	Amortised cost	Mandatorily at fair value through profit or loss	Non-financial assets	Total
Assets				
Cash and balances with central banks	320.0	-	-	320.0
Loans to credit institutions	914.0	-	-	914.0
Loans to the public	31,690.8	-	-	31,690.8
Derivatives	-	372.6	-	372.6
Fair value changes of the hedged items in hedges of interest rate risk	-320.1	-	-	-320.1
Property and equipment	-	-	0.0	0.0
Deferred tax assets	-	-	16.0	16.0
Other assets	68.5	-	4.5	73.1
Prepaid expenses and accrued income	11.6	-	-	11.6
Total 30 Jun 2022	32,684.8	372.6	20.5	33,078.0
Total 31 Dec 2021	33,782.0	453.9	12.0	34,247.9

EURm	Amortised cost	Mandatorily at fair value through profit or loss	Non-financial assets	Total
Liabilities				
Deposits by credit institutions	9,710.0	-	-	9,710.0
Debt securities in issue	21,368.0	-	-	21,368.0
Derivatives	-	525.4	-	525.4
Fair value changes of the hedged items in hedges of interest rate risk	-392.3	-	-	-392.3
Current tax liabilities	-	-	4.2	4.2
Other liabilities	1.3	-	151.3	152.5
Accrued expenses and prepaid income	0.1	-	92.6	92.7
Provisions	-	-	0.2	0.2
Retirement benefit obligations	-	-	0.0	0.0
Total 30 Jun 2022	30,687.1	525.4	248.3	31,460.7
Total 31 Dec 2021	32,516.7	211.0	233.7	32,961.4

Note 9 Assets and liabilities at fair value

Fair value of financial assets and liabilities

EURm	30 Jun 2022		31 Dec 2021	
	Carrying amount	Fair value	Carrying Amount	Fair value
Financial assets				
Cash and balances with central banks	320.0	320.0	1,821.3	1,821.3
Loans	32,270.9	32,558.1	31,882.3	32,384.1
Derivatives	372.6	372.6	453.9	453.9
Other assets	68.5	68.5	74.6	74.6
Total financial assets	33,032.0	33,319.2	34,232.1	34,733.9
Financial liabilities				
Deposits and debt instruments	30,685.7	30,805.2	32,516.2	32,767.1
Derivatives	525.4	525.4	211.0	211.0
Other liabilities	1.2	1.2	0.3	0.3
Accrued expenses and prepaid income	0.1	0.1	0.2	0.2
Total financial liabilities	31,212.5	31,331.9	32,727.7	32,887.6

The determination of fair value is described in the Annual Report 2021, Note 23 "Assets and liabilities at fair value". The fair value for loans has been estimated by discounting the expected future cash flows with an assumed customer interest rate that would have been used on the market if the loans had been issued at the time of the measurement. The assumed customer interest rate is calculated as the benchmark interest rate plus the average margin on new lending.

Assets and liabilities held at fair value

Derivatives are measured at fair value on a recurring basis at the end of each reporting period mainly through valuation technique using observable data (IFRS fair value hierarchy level 2). Level 2 in the fair value hierarchy consists of assets and liabilities that do not have directly quoted market prices available from active markets. The fair values are based on quoted prices for similar assets or liabilities in active markets or quoted prices for identical or similar assets or liabilities in markets that are not active. Alternatively, the fair values are estimated using valuation techniques or valuation models based on market prices or rates prevailing at the balance sheet date and where any unobservable inputs have had an insignificant impact on the fair values.

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.

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.