

Half-year financial report January-June 2023

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 half-year financial report is unaudited.

Result summary January-June 2023

Operating income in the first half of 2023 decreased by 12% compared to the same period last year and amounted to EUR 137.4m (January-June 2022 157.0). Operating expenses decreased by 11% to EUR 75.1m (83.9). Net loan losses amounted to EUR 7.9m (7.9).

NMB's operating profit was EUR 54.5m (65.2). Net profit decreased by 16% and totalled EUR 43.6m (52.1). Return on equity was 5.5% (7.5) and the cost/income ratio 55% (54).

Macroeconomic environment

The global economy got off to a good start in 2023. The energy prices are back in more normal price range and the demand in the service sector is strong. Manufacturing sector however is affected by the high inflation and rising interest rates. Unemployment is still record low and the demand for labour is high. Global GDP growth is expected to be 3.0% in 2023 as a whole.

In the Euro area, the positive development in the service sector will likely boost the labour market, which is already very tight. This, coupled with high inflation has led to significantly higher wage increases than the Euro area is used to.

Market performance in Finland in January–June 2023

In the first months of 2023, economic performance has been more positive compared to the end of 2022. Energy prices have fallen clearly, but nearly all other prices have

continued to rise. Demand for services has held up despite the drop in purchasing power with the level of employment remaining strong and the households spending their savings.

Nordea Research forecasts zero growth in Finland for 2023. Household purchasing power is expected to continue to decline. The slump in the housing market will result in a clear slowdown in residential construction. Backlogs in the manufacturing sector have also begun to dwindle due to sluggish global demand.

While the growth in domestic electricity generation and the new investment opportunities offered by clean energy will improve the long-term economic outlook, they are not sufficient to propel the economy to positive growth this year yet.

Mortgage business development in the first half of 2023

The Finnish mortgage market has been subdued since the end of 2022. Higher interest rates, decreasing house prices and the increase in other living costs have made home buyers consider their purchasing decisions for longer than before. The selling times have lengthened especially in growth centres, where dwellings have typically been sold quickly. The increase in selling times can be attributed to weaker demand as well as an increase in supply, as plenty of new apartments are still being completed. The decreased interest from property investors is particularly evident for small apartments.

In the whole country the prices of old apartments were down 7.4% in May compared to the previous year. In the larger cities, prices went down 8.6%, whereas in the rest of Finland the prices went down 5.0%. Prices of old single-family houses decreased by 3.1% in the larger cities in January to March compared to previous year and decreased by 7.0% in the whole country. The number of home sales has decreased by a third compared to 2022.

House sales are expected to pick up in the second half of the year as the rise in interest rates slows down and house prices stop declining. The oversupply in the housing market is still expected to continue until next year when the stock of unsold new homes will be off the market. The number of new residential construction starts has

fallen by 25% year-on-year. The stock of unsold new homes has grown considerably and new construction starts are not expected to begin growing again until next year.

Average loan maturities have increased rapidly during the previous 12 months, from 22 to 25 years. Nordea has earlier capped maturity at origination at 35 years and starting from 1 July 2023, the maturity at origination will be capped at 30 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 have given 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 and the volumes remain low compared to total lending. Also, there is currently no relevant impact of the higher inflation visible in the development of loans in arrears and the movements remain within the range of normal fluctuation.

Comments on the income statement

(Comparison figures in brackets refer to the corresponding period in 2022.)

Income

Net interest income in January-June 2023 was stable compared to last year, amounting to EUR 139.6m (139.5). Interest income was EUR 535.0m (146.2) and interest expenses were EUR 395.4m (6.7).

The interest rates have continued to rise, increasing significantly both the interest income from the mortgages and the funding costs for NMB's operations. The pressure towards mortgage margins has been high and the margins have again started to decrease.

Net fee and commission income was EUR 3.2m (1.9). Commission income relates mainly to lending and amounted to EUR 6.7m (5.9). Commission expenses relate mainly to the guarantee and liquidity facility provided by Nordea Bank Abp and were EUR 3.6m (4.0).

Net result from items at fair value was EUR -5.4m (15.6) representing the hedging inefficiency of financial instruments.

Expenses

Total operating expenses were EUR 75.1m (83.9) of which staff costs amounted to EUR 1.1m (0.9). The number of employees was 15 (13) at the end of June 2023.

Other operating expenses decreased to EUR 74.0m (83.1). These expenses consist mostly of payments for the intra-group outsourced services, as well as of the resolution fee of 7.1m (8.9) for the whole year 2023.

The cost/income ratio was 55% (54) in the first half of 2023.

Loan losses

Net loan losses totalled EUR 7.9m (7.9) corresponding to a loan loss ratio of 5.0 basis points (5.0). Realised loan losses were EUR 3.9m (3.0) during the first half of 2023. 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 2023 was 20% (20).

Net profit

Net profit amounted to EUR 43.6 (52.1), corresponding to a return on equity of 5.5% (7.5) in the first half of the year.

Comments on the balance sheet

(Comparison figures in brackets refer to year-end 2022 figures.)

NMB's balance sheet decreased by 1.4bn compared to year-end 2022. Total assets amounted to EUR 32.8bn (34.2).

Total lending to the public decreased 1.6% compared to the end of 2022, amounting to EUR 31.5bn (32.1).

Positive market values of derivatives amounted to EUR 0.5bn (0.7). NMB's derivatives mainly pertain to interest rate swaps.

Total liabilities amounted to EUR 31.2bn (32.7) and equity to EUR 1.6bn (1.6).

Deposits by credit institutions decreased to EUR 9.1bn (10.1).

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 2023 was EUR 21.3bn (21.6).

During the first half year of 2023 NMB issued one new covered bond amounting to EUR 1.0bn. One covered bond amounting to EUR 1.25bn was redeemed. The combined size of the cover pools at the end of June 2023 was EUR 26.2bn (24.3) and the overcollateralization 24.4% (12.4).

Capital position and capital management

At the end of June 2023, NMB's risk exposure amount (REA) was EUR 3.9bn, compared to EUR 3.9bn at year-end 2022.

Excluding profit, the Common Equity Tier 1 capital ratio stood at 39.7% and total capital ratio at 40.2% at the end of June 2023.

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 31.5bn (32.1) at the end of June 2023. Lending to households was 95% (95) of the total lending and totalled EUR 29.9bn (30.4). Corporate lending was EUR 1.6bn (1.7).

The level of impaired loans increased by 1.4% to EUR 237.4m from EUR 234.0m at year-end 2022.

Allowances amounted to EUR 75.3m (71.1), representing 0.23% (0.21) of total loans before allowances.

Off-balance sheet commitments

NMB's off-balance sheet items consist of credit commitments amounting to EUR 277.7m (421.2) at the end of June 2023.

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. 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 2023 ²	31 Dec 2022 ³	30 Jun 2022 ²
Calculation of own funds			
Equity	1,552.0	1,637.2	1,565.1
Anticipated/actual dividend	-	-87.1	-
Common Equity Tier 1 capital before regulatory adjustments	1,552.0	1,550.1	1,565.1
Deferred tax assets	-	-	-
Intangible assets	-	-	-
IRB provisions shortfall (-)	-19.9	-17.4	-8.8
Deduction for investments in credit institutions (50%)	-	-	-
Pension assets in excess of related liabilities ¹	-	-	-
Other items, net	24.7	27.0	12.0
Total regulatory adjustments to Common Equity Tier 1 capital	4.8	9.6	3.2
Common Equity Tier 1 capital (net after deduction)	1,556.7	1,559.8	1,568.4
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)	1,556.7	1,559.8	1,568.4
Tier 2 capital before regulatory adjustments	0.0	0.0	0.0
IRB provisions excess (+)	20.8	20.8	20.5
Deduction for investments in credit institutions (50%)	-	-	-
Deductions for investments in insurance companies	-	-	-
Pension assets in excess of related liabilities	-	-	-
Other items, net	-	-	-
Total regulatory adjustments to Tier 2 capital	20.8	20.8	20.5
Tier 2 capital	20.8	20.8	20.5
Own funds (net after deduction)	1,577.5	1,580.6	1,588.9

¹ Based on conditional FSA approval

² Excluding profit of the period

³ Including profit of the period

Capital ratios

Percentage	30 Jun 2023 ¹	31 Dec 2022 ²	30 Jun 2022 ¹
CRR/CRDIV			
Common Equity Tier 1 capital ratio	39.7	40.1	38.4
Tier 1 capital ratio	39.7	40.1	38.4
Total capital ratio	40.2	40.6	38.9

¹ Excluding profit of the period.

² Including profit of the period.

Leverage ratio

	30 Jun 2023 ¹	31 Dec 2022 ²	30 Jun 2022 ¹
Tier 1 capital, EURm	1,556.7	1,559.8	1,568.4
Leverage ratio exposure, EURm	32,541.8	34,006.5	33,143.7
Leverage ratio, percentage	4.8	4.6	4.7

¹ Excluding profit of the period.

² Including profit of the period.

Minimum capital requirement and risk exposure amount

	30 Jun 2023	30 Jun 2023	31 Dec 2022	31 Dec 2022	30 Jun 2022	30 Jun 2022
EURm	Minimum Capital requirement	REA	Minimum Capital requirement	REA	Minimum Capital requirement	REA
Credit risk	280.7	3,509.3	281.1	3,513.4	296.3	3,704.4
IRB	276.8	3,460.6	277.0	3,462.8	293.1	3,664.3
- sovereign	-	-	-	-	-	-
- corporate	28.8	359.7	29.5	368.6	29.6	369.7
- <i>advanced</i>	28.8	359.7	29.5	368.6	29.6	369.7
- retail	247.5	3,093.4	241.9	3,023.8	263.2	3,290.1
- <i>secured by immovable property collateral</i>	179.8	2,247.3	174.6	2,181.9	189.1	2,364.3
- <i>other retail</i>	67.7	846.1	67.4	841.9	74.1	925.8
- other	0.6	7.5	5.6 ¹	70.4 ¹	0.4	4.6
Standardised	3.9	48.7	4.0	50.5	3.2	40.1
- sovereign	3.9	48.7	4.0	50.5	3.2	40.0
- other	0.0	0.0	0.0	0.0	0.0	0.0
Operational risk	32.3	403.8	29.4	367.2	29.4	367.2
Additional risk exposure amount related to Swedish RW floor due to Article 458 CRR	1.0	12.0	0.9	11.2	0.9	11.7
Total	314.0	3,925.1	311.3	3,891.7	326.7	4,083.3

¹The EUR 70.4m under category Other is a receivable from Nordea Bank Abp, which has been included in the REA with a risk weight of 100%.

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	176.6	98.1	0.8	-	-	98.9	275.5
Tier 1 capital	235.5	98.1	0.8	-	-	98.9	334.4
Own funds	314.0	98.1	0.8	-	-	98.9	412.9

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 2023 until 31 March 2023

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

As from 31 March 2023 until 5 April 2023

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

As from 5 April 2023 until 30 June 2023

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

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

There were no changes in the Management Group.

Helsinki, 17 July 2023
Board of Directors

Income statement

EURm	Jan-Jun 2023	Jan-Jun 2022	Change %	Full year 2022
Net interest income	139.6	139.5	0	269.2
Net fee and commission income	3.2	1.9	65	4.0
Net result from items at fair value	-5.4	15.6	-134	10.9
Other operating income	0.0	0.0		0.0
Total operating income	137.4	157.0	-12	284.1
Staff costs	-1.1	-0.9	22	-1.7
Other expenses	-74.0	-83.1	-11	-153.2
Depreciation of tangible assets	0.0	0.0		0.0
Total operating expenses	-75.1	-83.9	-11	-154.9
Profit before loan losses	62.4	73.1	-15	129.2
Net loan losses	-7.9	-7.9		-20.3
Operating profit	54.5	65.2	-16	108.9
Income tax expense	-10.9	-13.0	-16	-21.8
Net profit for the period	43.6	52.1	-16	87.1

Business volumes, key items¹

EURm	30 Jun 2023	30 Jun 2022	Change %	31 Dec 2022	Change %
Loans to the public	31,541.1	31,690.8	0	32,061.7	-2
Debt securities in issue	21,062.6	20,975.7	0	21,305.1	-1
Equity	1,595.5	1,617.3	-1	1,550.1	3
Total assets	32,831.9	33,077.9	-1	34,209.4	-4

¹ End of period

Ratios and key figures¹

	Jan-Jun 2023	Jan-Jun 2022	Full year 2022
Return on equity ² %	5.5	7.5	5.7
Cost/income ratio ² , %	55	54	55
Loan loss ratio, basis points ²	5.0	5.0	6.3
Common Equity Tier 1 capital ratio ² , %	39.7	38.4	40.1
Tier 1 capital ratio ² , %	39.7	38.4	40.1
Total capital ratio ² , %	40.2	38.9	40.6
Tier 1 capital ² , EURm	1,556.7	1,568.4	1,559.8
Risk exposure amount, EURm	3,925.1	4,083.3	3,891.7
Number of employees (full-time equivalents) ²	15	13	14

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 2023	Jan-Jun 2022	Full year 2022
Operating income				
Interest income		535.0	146.2	414.8
Interest expense		-395.4	-6.7	-145.6
Net interest income	2	139.6	139.5	269.2
Fee and commission income		6.7	5.9	11.9
Fee and commission expense		-3.6	-4.0	-7.9
Net fee and commission income	3	3.2	1.9	4.0
Net result from items at fair value	4	-5.4	15.6	10.9
Other operating income		0.0	0.0	0.0
Total operating income		137.4	157.0	284.1
Operating expenses				
General administrative expenses:				
- Staff costs		-1.1	-0.9	-1.7
- Other expenses	5	-74.0	-83.1	-153.2
Depreciation of tangible assets		0.0	0.0	0.0
Total operating expenses		-75.1	-83.9	-154.9
Profit before loan losses		62.4	73.1	129.2
Net loan losses	6	-7.9	-7.9	-20.3
Operating profit		54.5	65.2	108.9
Income tax expense		-10.9	-13.0	-21.8
Net profit for the period		43.6	52.1	87.1
Attributable to:				
Shareholders of Nordea Mortgage Bank Plc		43.6	52.1	87.1
Total		43.6	52.1	87.1

Statement of comprehensive income

EURm	Jan-Jun 2023	Jan-Jun 2022	Full year 2022
Net profit for the period	43.6	52.1	87.1
Items that may be reclassified subsequently to the income statement			
Cash flow hedges:			
-Valuation gains/losses during the period, net of recycling	2.1	-27.1	-45.9
-Tax on valuation gains/losses during the period	-0.4	5.4	9.2
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	1.7	-21.6	-36.7
Total comprehensive income	45.3	30.5	50.4
Attributable to:			
Shareholders of Nordea Mortgage Bank Plc	45.3	30.5	50.4
Total	45.3	30.5	50.4

Balance sheet

EURm	Note	30 Jun 2023	31 Dec 2022	30 Jun 2022
Assets				
Cash and balances with central banks		0.1	155.9	320.0
Loans to credit institutions	7	813.9	1,812.9	914.0
Loans to the public	7	31,541.1	32,061.7	31,690.8
Interest bearing securities		305.6	-	-
Derivatives		546.3	654.2	372.6
Fair value changes of the hedged items in portfolio hedges of interest rate risk		-526.2	-630.9	-320.1
Property and equipment		0.0	0.0	0.0
Deferred tax assets		19.5	20.2	16.0
Other assets		125.7	133.6	73.1
Prepaid expenses and accrued income		6.1	1.8	11.6
Total assets		32,831.9	34,209.4	33,078.0
Liabilities				
Deposits by credit institutions		9,114.5	10,072.5	9,710.0
Debt securities in issue		21,062.6	21,305.1	20,975.7
<i>Of which Fair value changes of the hedged items in micro hedges of interest rate risk</i>		<i>-846.5</i>	<i>-899.4</i>	<i>-392.3</i>
Derivatives		964.5	1,016.5	525.4
Current tax liabilities		0.5	4.4	4.2
Other liabilities		63.8	90.8	152.5
Accrued expenses and prepaid income		30.3	169.7	92.7
Retirement benefit obligations		0.2	0.2	0.2
Provisions		0.0	0.1	0.0
Total liabilities		31,236.4	32,659.3	31,460.7
Equity				
Share capital		250.0	250.0	250.0
Other reserves		1,174.0	1,172.2	1,187.3
Retained earnings		171.5	127.9	180.0
Total equity		1,595.5	1,550.1	1,617.3
Total liabilities and equity		32,831.9	34,209.4	33,078.0
Assets pledged as security for own liabilities		26,241.2	24,284.5	24,029.4
Credit commitments		277.7	421.2	519.2

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 2023	250.0	-27.9	1,200.0	0.1	127.9	1,550.1
Net profit for the period	-	-	-	-	43.6	43.6
Other comprehensive income, net of tax	-	1.7	-	0.0	-	1.7
Total comprehensive income	0.0	1.7	0.0	0.0	43.6	45.3
Other changes	-	-	-	-	0.0	0.0
Balance at 30 Jun 2023	250.0	-26.2	1,200.0	0.1	171.5	1,595.5

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	-	-	-	-	87.1	87.1
Other comprehensive income, net of tax	-	-36.7	-	0.1	-	-36.6
Total comprehensive income	-	-36.7	-	0.1	87.1	50.4
Anticipated dividend	-	-	-	-	-87.1	-87.1
Other changes	-	-	300.0	-	0.1	300.1
Balance at 31 Dec 2022	250.0	27.9	1,200.0	0.1	127.9	1,550.1

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

¹ Total shares registered were 257.7 million (31 Dec 2022 257.7 million).

Cash flow statement, condensed

EURm	Jan-Jun 2023	Jan-Jun 2022	Full year 2022
Operating activities			
Operating profit	54.5	65.2	108.9
Adjustments for items not included in cash flow	-181.4	-470.0	-565.9
Income taxes paid	-14.5	-12.5	-21.5
Tax refund	-	-	-
Cash flow from operating activities before changes in operating assets and liabilities	-141.4	-417.3	-478.5
Changes in operating assets and liabilities	-934.1	-1,301.1	-516.4
Cash flow from operating activities	-1,075.5	-1,718.4	-994.9
Financing activities			
Dividend paid	-87.1	-70.5	-70.5
Other changes	1.8	278.5	263.4
Cash flow from financing activities	-85.3	208.0	193.0
Cash flow for the period	-1,160.7	-1,510.4	-801.9

Cash and cash equivalents

EURm	30 Jun 2023	30 Jun 2022	31 Dec 2022
Cash and cash equivalents at beginning of the period	1,382.3	2,184.2	2,184.2
Cash and cash equivalents at end of the period	221.5	673.7	1,382.3
Change	-1,160.7	-1,510.4	-801.9

The following items are included in cash and cash equivalents:

Cash and balances with central banks	0.1	320.0	155.9
Loans to credit institutions	221.4	353.7	1,226.4
Total cash and cash equivalents	221.5	673.7	1,382.3

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 half-year 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 2022. The accounting policies and methods of computation are unchanged from the 2022 Annual Report. For more information see Note 1 in the 2022 Annual Report.

This half-year report is unaudited.

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 impacts of 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 2022.

Note 2 Net interest income

EURm	Jan-Jun 2023	Jan-Jun 2022	Full year 2022
Interest income			
<i>Interest income from financial instruments calculated using the effective interest method</i>			
Loans to credit institutions	17.6	1.7	5.8
Loans to the public	415.1	124.2	337.3
Interest-bearing securities	1.2	-	-
Yield fees	5.8	6.0	11.9
Net interest paid or received on derivatives in accounting hedges of assets	89.1	-4.1	18.7
Other interest income	-	20.3	21.6
<i>Other</i>			
Net interest income from derivatives	4.1	-2.0	19.5
Interest income	535.0	146.2	414.8
- Of which negative yield on liabilities	-	20.3	21.6
Interest expense			
<i>Interest expense from financial instruments calculated using the effective interest method</i>			
Deposits by credit institutions	-130.7	-5.2	-42.8
Debt securities in issue	-202.6	-26.8	-114.1
Net interest paid or received on derivatives in hedges of liabilities	-55.4	33.4	31.2
Other interest expenses	-6.6	-8.1	-19.9
Interest expense	-395.4	-6.7	-145.6
- Of which negative yield on assets	-	-1.5	-1.7
Net interest income	139.6	139.5	269.2

Note 3 Net fee and commission income

EURm	Jan-Jun 2023	Jan-Jun 2022	Full year 2022
Securities issues	-0.1	-0.2	-0.4
- of which expense	-0.1	-0.2	-0.4
Lending products	6.7	5.9	11.9
- of which income	6.7	5.9	11.9
Guarantees and liquidity facility	-3.2	-3.7	-7.5
- of which expense	-3.2	-3.7	-7.5
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	3.4	1.9	4.0

Note 4 Net result from items at fair value

EURm	Jan-Jun 2023	Jan-Jun 2022	Full year 2022
Interest related instruments and foreign exchange gains/losses	-5.4	15.6	10.9
Total	-5.4	15.6	10.9
Net result from categories of financial instruments			
EURm	Jan-Jun 2023	Jan-Jun 2022	Full year 2022
Financial assets and liabilities mandatorily at fair value through profit or loss	-56.6	-368.5	-577.1
Financial assets at amortised cost	98.9	-332.3	-648.8
Financial liabilities at amortised cost	-47.7	716.2	1236.7
Foreign exchange gains/losses excluding currency hedges	0.1	0.1	0.1
Total	-5.4	15.6	10.9

Note 5 Other expenses

EURm	Jan-Jun 2023	Jan-Jun 2022	Full year 2022
Resolution fee	-7.1	-8.9	-8.9
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	0.0
Fees for the outsourced services provided by the parent company	-66.0	-73.6	-142.8
Other	-0.8	-0.6	-1.5
Total	-73.9	-83.1	-153.2

Note 6 Net loan losses

EURm	Jan-Jun 2023	Jan-Jun 2022	Full year 2022
Net loan losses, stage 1	0.5	-0.0	0.1
- of which off-balance sheet items	0.0	-0.0	0.0
Net loan losses, stage 2	-1.0	-0.2	-1.6
- of which off-balance sheet items	-0.0	0.0	0.1
Net loan losses, non-defaulted	-0.4	-0.2	-1.4
Stage 3, defaulted			
Net loan losses, individually assessed, model-based	-3.8	-4.7	-14.9
Realised loan losses	-3.9	-3.1	-6.5
Decrease of provisions to cover realised loan losses	0.0	0.0	0.1
Recoveries on previous realised loan losses	0.2	0.1	0.3
New/increase in provisions	0.0	-0.2	0.0
Reversal of provisions	0.0	0.1	2.1
Net loan losses, defaulted	-7.5	-7.7	-18.9
Net loan losses	-7.9	-7.9	-20.3

Key ratios

	Jan-Jun 2023	Jan-Jun 2022	Full year 2022
Loan loss ratio, basis points ¹	5.0	5.0	6.3
- of which stage 1	-0.3	0.0	0.0
- of which stage 2	0.6	0.1	0.5
- of which stage 3	4.7	4.9	5.9

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

Note 7 Loans and impairment

The credit quality of NMB's loan book was stable and strong throughout the first half of 2023. 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 2023	31 Dec 2022	30 Jun 2022
Loans measured at amortised cost, not impaired (stage 1 and 2)	32,192.8	33,711.7	32,443.7
Impaired loans (stage 3)	237.4	234.0	223.0
- of which servicing	24.5	30.5	28.1
- of which non-servicing	212.9	203.5	194.9
Loans before allowances	32,430.2	33,945.7	32,666.7
- of which credit institutions	813.9	1,812.9	914.0
Allowances for impaired loans (stage 3)	-48.0	-44.2	-36.2
- of which servicing	-3.5	-4.1	-4.7
- of which non-servicing	-44.5	-40.1	-31.5
Allowances for not impaired loans (stage 1 and 2)	-27.3	-26.9	-25.7
Allowances	-75.3	-71.1	-61.9
- of which credit institutions	-	-	-
Loans, carrying amount	32,354.9	33,874.5	32,604.8

Movements of allowance accounts for loans measured at amortised cost

EURm	Stage 1	Stage 2	Stage 3	Total
Balance at 1 Jan 2023	-4.6	-22.3	-44.2	-71.1
Changes due to origination and acquisition	-0.5	-	-	-0.5
Transfers from stage 1 to stage 2	0.5	-8.9	-	-8.4
Transfers from stage 1 to stage 3	0.0	-	-2.0	-1.9
Transfers from stage 2 to stage 1	-0.3	5.9	-	5.5
Transfers from stage 2 to stage 3	-	1.0	-6.1	-5.1
Transfers from stage 3 to stage 1	0.0	-	0.7	0.7
Transfers from stage 3 to stage 2	-	-0.6	4.8	4.2
Changes due to change in credit risk (net)	0.5	0.5	-3.1	-2.0
Changes due to repayments and disposals	0.2	1.1	1.9	3.2
Balance at 30 Jun 2023	-4.1	-23.2	-48.0	-75.3

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

Key ratios ¹	30 Jun 2023	31 Dec 2022	30 Jun 2022
Impairment rate (stage 3), gross, basis points	73	69	68
Impairment rate (stage 3), net, basis points	58	56	57
Total allowance rate (stage 1, 2 and 3), basis points	23	21	19
Allowances in relation to impaired loans (stage 3), %	20	19	16
Allowances in relation to loans in stage 1 and 2, basis points	8	8	8

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	0.1	-	-	0.1
Loans to credit institutions	813.9	-	-	813.9
Loans to the public	31,541.1	-	-	31,541.1
Interest-bearing securities	-	305.6	-	305.6
Derivatives	-	546.3	-	546.3
Fair value changes of the hedged items in portfolio hedges of interest rate risk	-526.2	-	-	-526.2
Property and equipment			0.0	0.0
Deferred tax assets			19.5	19.5
Other assets	30.1		95.7	125.7
Prepaid expenses and accrued income	6.1	-	-	6.1
Total 30 Jun 2023	31,865.0	851.8	115.2	32,831.9
Total 31 Dec 2022	33,464.6	654.2	90.6	34,209.4

EURm	Amortised cost	Mandatorily at fair value through profit or loss	Non-financial assets	Total
Liabilities				
Deposits by credit institutions	9,114.5	-	-	9,114.5
Debt securities in issue	21,062.6	-	-	21,062.6
Derivatives	-	964.5	0.0	964.5
Current tax liabilities			0.5	0.5
Other liabilities	0.3	-	63.5	63.8
Accrued expenses and prepaid income	0.1	-	30.2	30.3
Provisions			0.2	0.2
Retirement benefit obligations	-	-	0.0	0.0
Total 30 Jun 2023	30,177.4	964.5	94.4	31,236.4
Total 31 Dec 2022	31,379.1	1,016.5	263.8	32,659.4

Note 9 Assets and liabilities at fair value

Fair value of financial assets and liabilities

EURm	30 Jun 2023		31 Dec 2022	
	Carrying amount	Fair value	Carrying Amount	Fair value
Financial assets				
Cash and balances with central banks	0.1	0.1	155.9	155.9
Loans	31,774.7	32,095.1	33,243.7	33,533.8
Interest-bearing securities	305.6	305.6	-	-
Derivatives	546.3	546.3	654.2	654.2
Other assets	30.1	30.1	63.2	63.2
Total financial assets	32,656.7	32,977.1	34,117.0	34,407.1
Financial liabilities				
Deposits and debt instruments	31,023.5	31,066.2	32,277.0	32,274.8
Derivatives	964.5	964.5	1,016.5	1,016.5
Other liabilities	0.3	0.3	0.2	0.2
Accrued expenses and prepaid income	0.1	0.1	1.2	1.2
Total financial liabilities	31,988.4	32,031.2	33,294.9	33,292.7

The determination of fair value is described in the Annual Report 2022, Note 24 "Assets and liabilities at fair value". The fair value for loans has been estimated by discounting the expected future cash flows with an assumed customer interest rate that would have been used on the market if the loans had been issued at the time of the measurement. The assumed customer interest rate is calculated as the benchmark interest rate plus the average margin on new lending.

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.