Nordea

Annual Report 2019

Nordea Mortgage Bank Plc

Contents

Nordea Mortgage Bank Plc

Directors' Report

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

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

Macroeconomic environment

The Finnish economy has still continued to grow at a solid pace in the first three quarters of 2019. In Q3, GDP grew by 0.7% compared to previous quarter and by 2.2% compared to previous year. However, there have already been some signs of weaker growth and the global weakness and increasing uncertainty will hit Finland harder going forward.

Consumption is supported by recent years' employment growth and increasing earnings in real terms. But the deteriorating consumer confidence and increasing savings ratio will keep consumption growth moderate despite the solid income growth. In addition, the employment growth has halted during the past year, and unemployment rate has been practically unchanged at 6.7% since December 2018.We still expect consumption to be the growth driver in the coming years, but growing uncertainty can hurt consumption and increase savings even further.

Export sector has performed surprisingly well in 2019 despite the weakening global trade. Exports were especially strong in Q1 supported by temporary factors (e.g. big ship delivery), but the growth has recently slowed down. Growth is expected to decelerate further due to global weakness and struggles of important trade partners, especially German and Swedish economies.

Investment growth has been moderating for a while now and going forward investments will not provide any significant boost for the economy. Uncertainty is hurting companies' willingness to invest and the decline in housing permits and starts is indicating that housing construction will decrease significantly. The coronavirus may have an impact on global economy if the situation gets worse.

Mortgage business development in 2019

The mortgage business picked up during 2019 with overall demand and the mortgage lending volumes of the whole Finnish market have increased by 2.7% compared to previous year. Construction of new apartments in the capital region as well as in growth centres has been higher than in the past – supported by the gradual movement of population to growth centres from other parts of the country.

The sales of new mortgages have been strong especially in the growth centres where Nordea's mortgage business is mainly concentrated. Nordea Bank Abp, being the originator for the loans in the balance sheet of NMB, has been able to capture a fair share of this positive development, totalling to 24% increase in new mortgages in 2019 compared to previous year.

The division of the housing market continues with house prices increasing in growth centres and decreasing in other areas. Nationwide, housing prices of new apartments went up 1.9% compared to year-end 2018. In the capital region housing prices increased by 3.1% and in the rest of the country 0.7%.

The statistics for the prices of old apartments have not yet been published for Q4 2019 but based on the statistics from Q3 2019, the nationwide prices went up 1.1%, capital area prices went up 1.2% and prices in the rest of the country increased by 1.0% compared to year-end 2018.

The buy-to-let-market has been growing since 2018, driven by new capacity in small apartments as well as rising rent levels. Average loan maturities are longer, but Nordea caps maturity at origination at 35 years. The Finnish tradition of steady amortisation is likely to continue, with relatively short and few interest-only periods during the lifetime of the loan.

Income statement

EURm	2019	2018	2017
Net interest income	219.7	219.8	192.1
Net fee and commission income	-7.6	-9.5	-11.0
Net result from items at fair value	0.6	-1.8	-2.4
Other operating income	0.1	0.0	0.0
Total operating income	**212.8**	**208.5**	**178.7**
General administrative expenses:			
Staff costs	-1.9	-1.9	-1.9
Other expenses	-66.4	-52.2	-45.9
Depreciation of tangible assets	0.0	-	-
Total operating expenses	**-68.3**	**-54.1**	**-47.8**
Profit before loan losses	**144.5**	**154.4**	**130.9**
Net loan losses	10.3	-11.4	0.7
Operating profit	**154.8**	**143.0**	**131.6**
Income tax expense	-35.1	-29.6	-26.3
Net profit for the year	**119.7**	**113.4**	**105.3**

Balance sheet

EURm	31 Dec 2019	31 Dec 2018	31 Dec 2017
Cash and balances with central banks	1,694.4	1,696.4	198.2
Loans to central banks and credit institutions	666.1	899.5	647.6
Loans to the public	26,719.9	23,106.7	23,530.1
Derivatives	711.5	509.9	535.4
Other assets	229.7	179.2	113.9
Total assets	**30,021.6**	**26,391.7**	**25,025.2**
Deposits by credit institutions	11,560.4	7,667.6	7,557.6
Debt securities in issue	16,111.7	16,760.5	15,469.6
Derivatives	199.0	125.6	160.2
Subordinated liabilities	200.5	200.6	200.5
Other liabilities	815.4	459.6	456.8
Equity	1,134.6	1,177.8	1,180.5
Total liabilities and equity	**30,021.6**	**26,391.7**	**25,025.2**

Ratios and key figures[1]

	2019	2018	2017
Return on equity, %	10.4	9.6	9.3
Return on total assets, %	0.4	0.4	0.4
Cost/income ratio, %	32	26	27
Loan loss ratio, basis points	-3.9	4.9	-0.3
Common Equity Tier 1 capital ratio, excl. Basel I floor[2], %	23.5	24.1	32.7
Tier 1 capital ratio, excl. Basel I floor[2], %	23.5	24.1	32.7
Total capital ratio, excl. Basel I floor[2], %	27.9	29.1	39.2
Common Equity Tier 1 capital, incl. Basel I floor[2], EURm	1,083.2	1,049.6	1,042.8
Tier 1 capital[2], EURm	1,083.2	1,049.6	1,042.8
Risk exposure amount, excl. Basel I floor[2], EURm	4,613.1	4,347.6	3,184.4
Number of employees (full-time equivalents)[2]	18	17	20
Average number of employees	20	19	18
Salaries and remuneration, EURm	-1.5	-1.6	-1.4
Equity to total assets, %	3.8	4.5	4.7

[1] For more information regarding ratios and key figures as well as key figures defined as Alternative performance measures, see www.nordea.com/en/investor-relations/.
[2] End of the year

Business definitions

The definitions apply to the descriptions in the Annual Report

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

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

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

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

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

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

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

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

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

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

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

Comments on the income statement

The income statement figures refer to the period January-December 2019 and the figures in brackets to January-December 2018.

Operating profit was EUR 154.8m (143.0) and net profit EUR 119.7m (113.4), corresponding to a return on equity of 10.4% (9.6).

Income

Net interest income amounted to EUR 219.7m (219.8). Interest rates continued to stay on a very low level throughout the year and the pressure towards housing loan margins continued. On the positive side, lending volumes have steadily grown and funding costs decreased, securing NMB's income despite of decreased margins.

Net fee and commission income totalled EUR -7.6m (-9.5). Commission income relates mainly to lending, totalling to EUR 9.2m (7.8). Commission expenses amounting to EUR -16.8m (-17.3) relate mainly to the guarantee and the liquidity facility provided by Nordea Bank Abp.

Net result from items at fair value amounted to EUR 0.6m (-1.8) representing hedging inefficiencies.

Expenses

Total operating expenses amounted to EUR -68.3m (-54.1).

Staff costs were EUR -1.9m (-1.9). The number of employees was 18 at the end of 2019.

Other operating expenses increased to EUR -66.4m (-52.2), mainly explained by the additional service fees of EUR -15.2m related to the purchase of EUR 2.2bn loan portfolio in June 2019. Other operating expenses consist mostly of payments for the intra-group outsourced services and the resolution fees.

The cost/income ratio was 32% (26) in 2019.

Loan losses

Net loan losses totalled EUR 10.3m (-11.4) due to allowance reversals triggered by the change of parameters of statistical models for loan loss provisions. In total, loan loss provisions of EUR 35.8m were reversed, of which 25.5m was recognised through equity and the residual through the income statement. Realised loan losses were EUR -0.4m (-0.1) in 2019.

Comments on the balance sheet

NMB's total assets amounted to EUR 30.0bn (26.4).

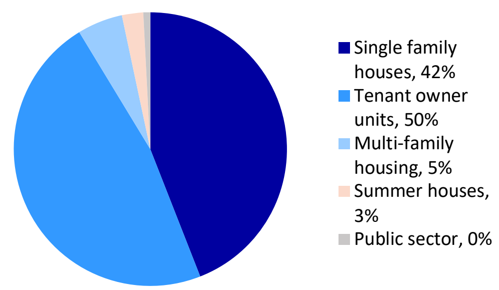
Lending

Lending to the public increased by 16% compared to previous year, amounting to EUR 26.7bn (23.1). The increase was mainly driven by the purchase of EUR 2.2bn loan portfolio from Nordea Bank Abp.

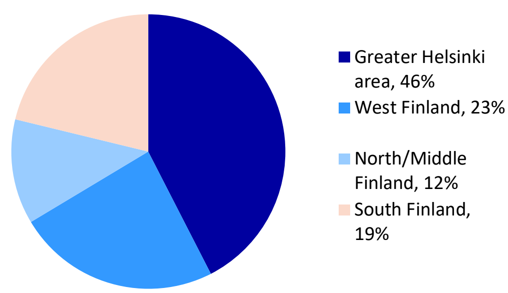
Lending to households was 93% (91) of the total lending and totalled EUR 24.8bn (21.2). Corporate lending amounted to EUR 1.9bn (1.9).

The level of impaired loans increased from EUR 193.6m at year-end 2018 to EUR 240.9m at year-end 2019.

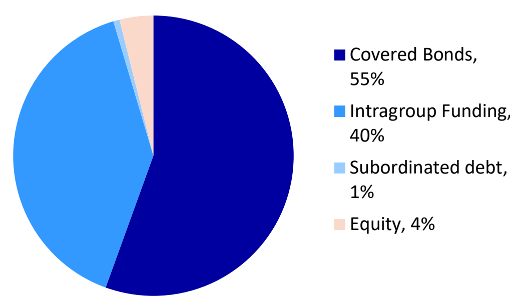
Breakdown of lending in cover pool



Geographical distribution of loans in cover pool



Nordea Mortgage Bank's funding structure



Funding
Covered bond funding at the end of 2019 was EUR 16.1bn (16.8). NMB issued two new covered bonds in 2019, amounting to EUR 2.5bn in total. Bonds amounting to EUR 3.1bn matured during the year. The size of the cover pool was EUR 21.9bn (19.8) and the overcollateralization 36.4% (18.5).

Besides long-term funding, NMB regularly arranged short-term funding from the parent company Nordea Bank Abp. Intra-group funding at the end of 2019 amounted to EUR 11.6bn (7.7). In addition, the company has an outstanding subordinated debenture loan with a nominal value of EUR 200m issued by Nordea Bank Abp.

Distribution of earnings
NMB's distributable funds were EUR 924.6m at the end of 2018, and EUR 814.6m after 2019 dividend payment of EUR 110m.

In 2019, collective provisions of EUR 25.5m were reversed through the equity and anticipated dividends of EUR 89.8m booked. Including the profit for the year, NMB's distributable funds were EUR 870.0m at the end of 2019.

Commitments
NMB's off-balance sheet items mainly consist of credit commitments. Credit commitments amounted to EUR 334.4m (196.8).

Derivatives
NMB's derivatives mainly pertain to interest rate swaps and forward currency exchange contracts (FX swaps). The nominal values of derivative contracts are provided in Note 12.

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

Rating
Moody's rating for the company's covered bonds was Aaa at year-end 2019.

Human resources

Nordea Mortgage Bank Plc follows Nordea Group's People policies. More information can be found in the Nordea Group's Annual Report.

Sustainability

At Nordea, we make sustainability concrete and real to our customers. Through our size and engagement, we can make a real difference by contributing in business and society. We want to lead the way by taking actions for a greater good by integrating sustainability throughout the bank. Services and offerings are continuously developed to enable our customers to make conscious sustainable choices. In NMB this includes for instance green mortgages for customer's energy-efficient buildings and green bonds.

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

Further information on our sustainability can be found on Nordea Sustainability Report 2019 (https://www.nordea.com/en/sustainability/).

Legal proceedings

By the end of 2019, Nordea Mortgage Bank Plc has not faced any claims in civil lawsuits or disputes.

Subsequent events

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.

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

Outlook 2020

We expect the economy to grow modestly through 2020, accompanied by a moderate demand in housing loans, especially in the growth centres.

However, the global weakness, deteriorating consumer confidence, growing uncertainty and declining housing permits are areas to be closely followed, as they indicate an upcoming decrease in housing construction and may affect the recent strong demand in housing loans and the level of loan losses.

Nordea Mortgage Bank's organisational structure

Definitions
NMB = Nordea Mortgage Bank Plc

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

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

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

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

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

Through the close cooperation with other Nordea units, it has been possible to limit the workforce of NMB to comprise only requisite staff for product and system development, management and risk management. As at year-end 2019, NMB had 18 employees.

Funding Nordea Mortgage Bank’s business

NMB funds its business mainly by issuing covered bonds under its EUR 25bn Covered Bond Programme. The European Central Bank has granted NMB an authorisation as a credit institution in accordance with the Finnish Credit Institutions Act (610/2014) and the Finnish Act on Mortgage Credit Bank Operations (688/2010). All NMB’s bonds outstanding at the end of 2019 have the status of covered bonds.

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

Nordea Mortgage Bank’s administrative and management bodies

The Board of Directors

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

As from 1 January 2019 until 7 March 2019

- Petri Nikkilä, Chairman
- Hanna-Maria Heikkinen
- Nicklas Ilebrand, Deputy Chairman
- Ola Littorin
- Sara Mella

As from 7 March 2019 until 5 April 2019

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

As from 5 April 2019 until 31 December 2019

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

Management Group at 31 December 2019

- Chief Executive Officer – Thomas Miller (born 1971)
- Chief Operating Officer and Deputy CEO – Tarja Ikonen (born 1959)
- Chief Risk Officer – Ville Pylkkänen (born 1979)
- Chief Financial Officer – Vesa Ruokokoski (born 1979)
- Head of Mortgage Products – Markus Joas (born 1986)
- Collateral Manager – Jussi-Petteri Lehtonen (born 1982).

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

Conflicts of interest

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

Auditors

PricewaterhouseCoopers Oy (re-elected by the Annual General Meeting 2019)

Auditor with main responsibility
Juha Wahlroos
Authorised Public Accountant.

Capital management

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

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

NMB uses internal rating based (IRB) approach for the majority of its exposures. At the end of 2019, 99.3% (99.6) of the company's total credit risk exposures were covered by the IRB approach.

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

Subordinated loans
At the end of 2019 NMB had a dated subordinated debenture loan with a nominal value of EUR 200m.

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

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

Capital adequacy ratios

	31 Dec 2019[1]	31 Dec 2018[2]
Excl. Basel I floor		
CET 1 capital ratio, %	23.5	24.1
Tier 1 capital ratio, %	23.5	24.1
Total capital ratio, %	27.9	29.1
Capital adequacy quotient (own funds/capital requirement)	3.5	3.6

[1] Including profit for the period
[2] Excluding profit for the period

Leverage ratio

	31 Dec 2019	31 Dec 2018
Tier 1 capital, transitional definition, EURm	1,083.2	1,049.6
Leverage ratio exposure, EURm	30,210.8	26,568.4
Leverage ratio, percentage	3.6	4.0

Summary of items included in own funds

EURm	31 Dec 2019[1]	31 Dec 2018[2]
Calculation of own funds		
Equity in the consolidated situation	1,224.4	1,064.4
Anticipated dividend	-89.8	-
Common Equity Tier 1 capital before regulatory adjustments	1,134.6	1,064.4
Deferred tax assets	-	-
Intangible assets	-	-
IRB provisions shortfall (-)	-35.7	-9.4
Deduction for investments in credit institutions (50%)	-	-
Pension assets in excess of related liabilities	-	-
Other items, net	-15.6	-5.4
Total regulatory adjustments to Common Equity Tier 1 capital	-51.4	-14.8
Common Equity Tier 1 capital (net after deduction)	**1,083.2**	**1,049.6**
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)	**1,083.2**	**1,049.6**
Tier 2 capital before regulatory adjustments	200.0	200.0
IRB provisions excess (+)	5.0	16.8
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	5.0	16.8
Tier 2 capital	205.0	216.8
Own funds (net after deduction)[3]	**1,288.3**	**1,266.4**

[1] Including profit for the period
[2] Excluding profit for the period
[3] Own funds adjusted for IRB provision. Own funds excluding IRB adjustments equal EUR 1,319.0m by 31 Dec 2019

Minimum capital requirement and REA

EURm	31 Dec 2019 Minimum capital requirement	31 Dec 2019 REA	31 Dec 2018 Minimum capital requirement	31 Dec 2018 REA
Credit risk	**278.9**	**3,486.1**	**272.6**	**3,407.9**
- of which counterparty credit risk	-	-	9.7	121.1
IRB	277.1	3,463.2	247.3	3,091.0
- sovereign	-	-	-	-
- corporate	36.8	459.7	34.6	433.1
- advanced	36.8	459.7	34.6	433.1
- retail	240.1	3,000.7	209.6	2,620.2
- secured by immovable property collateral	180.1	2,251.3	160.4	2,004.8
- other retail	60.0	749.4	49.2	615.4
- other	0.2	2.8	3.0	37.7
Standardised	1.8	23.0	25.3	316.8
- central governments or central banks	1.8	23.0	1.0	11.9
- institutions	0.0	0.0	24.4	304.9
Operational risk	**23.0**	**287.4**	**21.8**	**273.0**
Standardised	23.0	287.4	21.8	273.0
Additional risk exposure amount related to Finnish RW floor due to Article 458 CRR	**66.8**	**834.5**	**52.8**	**659.6**
Additional risk exposure amount related to Swedish RW floor due to Article 458 CRR	**0.4**	**5.1**	**0.6**	**7.2**
Additional risk exposure amount, Article 3 CRR	**-**	**-**	**-**	**-**
Total	**369.0**	**4,613.1**	**347.8**	**4,347.6**

New regulations
The Capital Requirement Directive IV (CRD IV) and Capital Requirement Regulation (CRR) entered into force on 1 January 2014 followed by the Bank Recovery and Resolution Directive (BRRD) on 15 May 2014. The CRR became applicable in all EU countries from 1 January 2014 while the CRD IV and BRRD were implemented through national law within all EU member states from 2014.

In June 2019, the 'banking package' containing revisions to the BRRD, the CRD and the CRR was adopted. The amendments to the CRR, being a regulation, will be directly applicable in all EU countries once implemented whereas the amendments to the CRD and BRRD, being directives, need to be implemented into national legislation before being applicable. The revisions include a review of the Minimum Requirement for own funds and Eligible Liabilities (MREL), a review of the market risk requirements (Fundamental Review of the Trading Book, FRTB), the introduction of a binding Net Stable Funding Ratio (NSFR), the introduction of a strict leverage ratio requirement of 3% to be met by Tier 1 capital and amendments to the Pillar 2 and macro prudential framework. The revised CRD (CRD V) and BRRD (BRRD II) are to be applied from 28 December 2020, while the majority of the changes in CRR II are to be applied from 28 June 2021.

The new European Covered Bond Directive and Regulation have been finalised. The Directive entered into force on 8 January 2020, the national transposition period will last until 8 July 2021 and national measures must be applied by July 2022. The Regulation will apply from 8 July 2022, in parallel with the deadline for the national measures of the Directive.

From 26 April 2019, an amendment to CRR as regards minimum loss coverage for non-performing exposures (NPE) (defined as past due 90 days, stage 3 or unlikeness to pay) entered into force and applies to exposures that are originated from this date and turn non-performing. The amendment includes mandatory and calendar-based minimum provisioning rules. The coverage requirements for banks increase gradually up to 100%, after three years for unsecured NPEs, after nine years for NPEs secured by immovable property and after seven years for NPEs secured by other eligible credit protection. Insufficient loss coverage will have to be deducted from the CET1 capital.

In June 2019, the Finnish FSA decided to maintain the systemic risk buffer requirement of 3% CET1 capital in respect of Nordea.

Finalisation of Basel III framework ("Basel IV")
Basel III is the global regulatory framework on bank capital adequacy, stress testing, and liquidity risk. In December 2017, the finalised Basel III framework, often called the Basel IV package, was published. The Basel IV package will be implemented in 2022 and includes revisions to credit risk, market risk, operational risk, credit valuation adjustment (CVA) risk, leverage ratio and introduces a new output floor.

On credit risk, the package includes revisions to both the IRB approach, where restrictions to the use of IRB for certain exposures are implemented, as well as to the standardised approach. Also, for market risk the internal model approach and the standardised approach have been revised. For operational risk, the three existing approaches will be removed and replaced by one standardised approach to be used by all banks. On CVA risk, the internally modelled approach is removed, and the standardised approach is revised. The package also includes the implementation of a minimum leverage ratio requirement of 3% to be met with Tier 1 capital with an additional leverage ratio buffer requirement for global systemically important banks (G-SIBs) of half the size of the G-SIB capital buffer requirement.

The output floor is to be set at 72.5% of the standardised approaches on an aggregate level, meaning that the capital requirement under the floor will be 72.5% of the total Pillar 1 REA calculated with the standardised approaches for credit-, market- and operational risk. The floor will be phased in, starting with 50% from 2022 to be fully implemented at 72.5% from 1 January 2027.

Before being applicable to Nordea, the Basel IV package needs to be implemented into EU regulations and will therefore be subject to negotiations between the European Commission, Council and Parliament which might change the implementation and potentially also the timetable. In October 2019 the European Commission issued a consultation on the implementation of the final Basel III reforms in the EU. It is expected that the Commission will publish its proposal in mid-2020 after which negotiations in the Council and Parliament will begin.

Nordea Mortgage Bank Plc

Financial statements

Income statement

EURm	Note	2019	2018
Operating income			
Interest income	4	267.0	269.3
Interest expense	4	-47.3	-49.5
Net interest income	4	**219.7**	**219.8**
Fee and commission income	5	9.3	7.8
Fee and commission expense	5	-16.9	-17.3
Net fee and commission income	5	**-7.6**	**-9.5**
Net result from items at fair value	6	0.6	-1.8
Other operating income		0.1	0.0
Total operating income		**212.8**	**208.5**
Operating expenses			
General administrative expenses:			
Staff costs	7	-1.9	-1.9
Other expenses	8	-66.4	-52.2
Depreciation of tangible assets		0.0	-
Total operating expenses		**-68.3**	**-54.1**
Profit before loan losses		**144.5**	**154.4**
Net loan losses	9	10.3	-11.4
Operating profit		**154.8**	**143.0**
Income tax expense	10	-35.1	-29.6
Net profit for the year		**119.7**	**113.4**
Attributable to:			
Shareholders of Nordea Mortgage Bank Plc		119.7	113.4
Non-controlling interests		-	-
Total		**119.7**	**113.4**

Statement of comprehensive income

EURm	2019	2018
Net profit for the year	**119.7**	**113.4**
Items that may be reclassified subsequently to the income statement		
Cash flow hedges:		
- Valuation gains/losses during the year	19.3	15.7
- Tax on valuation gains/losses during the year	-3.9	-3.1
- Transferred to the Income statement during the year	-5.0	-7.8
- Tax on transfers to the income statement during the year	1.0	1.6
Items that may not be reclassified subsequently to the income statement		
Defined benefit plans:		
- Remeasurement of defined benefit plans during the year	0.0	0.0
- Tax on remeasurement of defined benefit plans during the year	0.0	0.0
Other comprehensive income, net of tax	**11.4**	**6.3**
Total comprehensive income	**131.1**	**119.7**
Attributable to:		
Shareholders of Nordea Mortgage Bank Plc	131.1	119.7
Non-controlling interests	-	-
Total	**131.1**	**119.7**

Balance sheet

EURm	Note	31 Dec 2019	31 Dec 2018
Assets			
Cash and balances with central banks		1,694.4	1,696.4
Loans to credit institutions	11	666.1	899.5
Loans to the public	11	26,719.9	23,106.7
Derivatives	12	711.5	509.9
Fair value changes of the hedged items in portfolio hedge of interest rate risk		174.5	93.2
Property and equipment	13	0.0	-
Deferred tax assets	10	9.2	11.9
Current tax assets		-	4.3
Other assets	14	2.6	37.8
Prepaid expenses and accrued income	15	43.4	32.0
Total assets		**30,021.6**	**26,391.7**
Liabilities			
Deposits by credit institutions	16	11,560.4	7,667.6
Debt securities in issue	17	16,111.7	16,760.5
Derivatives	12	199.0	125.6
Fair value changes of the hedged items in portfolio hedge of interest rate risk		544.8	320.7
Current tax liabilities		9.4	-
Other liabilities	18	92.1	4.4
Accrued expenses and prepaid income	19	168.8	134.2
Provisions	20	0.1	0.2
Retirement benefit liabilities	21	0.2	0.1
Subordinated liabilities	22	200.5	200.6
Total liabilities		**28,887.0**	**25,213.9**
Equity			
Share capital		250.0	250.0
Other reserves		814.6	803.2
Retained earnings		70.0	124.6
Total equity		**1,134.6**	**1,177.8**
Total liabilities and equity		**30,021.6**	**26,391.7**
Assets pledged as security for own liabilities	23	21,943.2	19,759.8
Credit commitments	24	334.4	196.8

Other notes

Note 1	Accounting policies
Note 2	Risk and liquidity management
Note 3	Segment reporting
Note 25	Classification of financial instruments
Note 26	Assets and liabilities at fair value
Note 27	Financial instruments set off on balance or subject to netting agreements
Note 28	Maturity analysis for assets and liabilities
Note 29	Related-party transactions

Statement of changes in equity

EURm	Attributable to the shareholders of Nordea Mortgage Bank Plc	Other reserves				
	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 models for loan loss provisions	-	-	-	-	25.5	25.5
Restated opening balance	**250.0**	**3.2**	**800.0**	**0.0**	**150.1**	**1,203.3**
Net profit for the year	-	-	-	-	119.7	119.7
Items that may be reclassified subsequently to the income statement						
Cash flow hedges:						
- Valuation gains/losses during the year	-	19.3	-	-	-	19.3
- Tax on valuation gains/losses during the year	-	-3.9	-	-	-	-3.9
- Transferred to the income statement during the year	-	-5.0	-	-	-	-5.0
- Tax on transfers to the income statement during the year	-	1.0	-	-	-	1.0
Items that may not be reclassified subsequently to the income statement						
Defined benefit plans:						
- Remeasurement of defined benefit plans during the year	-	-	-	0.0	-	0.0
- Tax on remeasurement of defined benefit plans during the year	-	-	-	0.0	-	0.0
Other comprehensive income, net of tax	-	11.4	-	0.0	-	11.4
Total comprehensive income	-	11.4	-	0.0	119.7	131.1
Dividend for 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**

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

No decision was made during the financial year to issue equity warrants or convertible bonds entitling to subscription of shares in the NMB. At the end of 2019, NMB held no authorisations given by the General Meeting for issuance or buybacks of shares, equity warrants or convertible bonds.

Statement of changes in equity, cont.

EURm	Share capital[1]	Cash flow hedges	Other reserves	Defined benefit plans	Retained earnings	**Total equity**
	Attributable to the shareholders of Nordea Mortgage Bank Plc					
		Other reserves				
Balance at 1 Jan 2018	**250.0**	**-3.1**	**800.0**	**0.0**	**133.6**	**1,180.5**
Effect from changed accounting policies, net of tax	-	-	-	-	-20.4	-20.4
Restated opening balance	**250.0**	**-3.1**	**800.0**	**0.0**	**113.2**	**1,160.1**
Net profit for the year	-	-	-	-	113.4	113.4
Items that may be reclassified subsequently to the income statement						
Cash flow hedges:						
- Valuation gains/losses during the year	-	15.7	-	-	-	15.7
- Tax on valuation gains/losses during the year	-	-3.1	-	-	-	-3.1
- Transferred to the income statement during the year	-	-7.8	-	-	-	-7.8
- Tax on transfers to the income statement during the year	-	1.6	-	-	-	1.6
Items that may not be reclassified subsequently to the income statement						
Defined benefit plans:						
- Remeasurement of defined benefit plans during the year	-	-	-	0.0	-	0.0
- Tax on remeasurement of defined benefit plans during the year	-	-	-	0.0	-	0.0
Other comprehensive income, net of tax	-	6.3	-	0.0	-	6.3
Total comprehensive income	-	6.3	-	-	113.4	119.7
Dividend for 2017	-	-	-	-	-102.0	-102.0
Balance at 31 Dec 2018	**250.0**	**3.2**	**800.0**	**0.0**	**124.6**	**1,177.8**

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

No decision was made during the financial year to issue equity warrants or convertible bonds entitling to subscription of shares in the NMB. At the end of 2018, NMB held no authorisations given by the General Meeting for issuance or buybacks of shares, equity warrants or convertible bonds.

Cash flow statement

EURm	2019	2018
Operating activities		
Operating profit	154.9	143.0
Adjustments for items not included in cash flow	158.4	57.7
Income taxes paid	-26.8	-32.8
Tax refund	5.3	-
Cash flow from operating activities before changes in operating assets and liabilities	**291.8**	**167.9**
Changes in operating assets		
Change in loans to the public	-3,577.4	411.9
Change in derivatives, net	-128.0	-11.5
Change in other assets	35.0	-37.7
Changes in operating liabilities		
Change in deposits by credit institutions	3,892.8	110.0
Change in debt securities in issue	-648.8	1,290.9
Change in other liabilities	-2.1	-65.3
Cash flow from operating activities	**-136.7**	**1,866.2**
Financing activities		
Issued subordinated liabilities	-	-
Dividend paid	-110.0	-102.0
Other changes	11.3	-14.1
Cash flow from financing activities	**-98.7**	**-116.1**
Cash flow for the year	**-235.4**	**1,750.1**
Cash and cash equivalents at the beginning of year	2,035.9	285.8
Cash and cash equivalents at the end of year	1,800.5	2,035.9
Change	**-235.4**	**1,750.1**

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

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

EURm	2019	2018
Loan losses	-10.3	11.4
Unrealised gains/losses	-0.1	2.4
Change in accruals and provisions	25.9	60.1
Other	142.9	-16.2
Total	**158.4**	**57.7**

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

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

EURm	2019	2018
Interest payments received	266.4	276.3
Interest expenses paid	-42.4	-55.2

Cash flow statement, cont.

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

Cash and cash equivalents

The following items are included in Cash and cash equivalents:

EURm	31 Dec 2019	31 Dec 2018
Cash and balances with central banks	1,694.4	1,696.4
Loans to credit institutions, payable on demand	106.1	339.5
Total	**1,800.5**	**2,035.9**

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

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

Notes to the financial statements

Note 1 Accounting policies

1. Basis for presentation

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

The disclosures, required in the standards, recommendations and legislation above, have been included in the Capital management section of the Board of Director's report as well as in the notes or other parts of the "Financial statements".

On 17 February 2020 NMB's Board of Directors approved the financial statements, subject to final approval of the Annual General Meeting on 19 February 2020.

Nordea's accounting policies, basis for calculations and presentations are unchanged in comparison with the Annual Report 2018, except from changed accounting policies and presentation described below in the section "Changed accounting policies and presentation".

2. Changed accounting policies and presentation

The new accounting requirements implemented during 2019 and their impact on Nordea Group's financial statements are described below.

IFRS 16 "Leases"
The new standard IFRS 16 "Leases" changed the accounting requirements for lessees. All leases (except for short term- and small ticket leases) are accounted for on the balance sheet of the lessee as a right to use the asset and a corresponding liability, and the lease payments are recognised as amortisation and interest expense. The accounting requirements for lessors are mostly unchanged. Additional disclosures are also required. IFRS 16 were implemented by Nordea as from 1 January 2019. Nordea has applied the modified retrospective approach, which means that IFRS 16 has been applied from 1 January 2019 with no restatement of comparative figures. The right of use asset was recognised as the amount of the lease liability adjusted for any prepaid expensed and accrued lease payments.

The main impact on Nordea's financial statements comes from the accounting of property leases. Such leasing contracts will be accounted for on the balance sheet to a larger extent than under the earlier requirements. NMB has only an insignificant amount of leasing contracts regarding cars. The right of use asset, that is presented as "Properties and equipment" in the balance sheet is insignificant. Respectively, the increase of total assets is minor considering also a reclassification of already existing prepaid lease expenses. There was no impact on equity at transition. At transition, the standard was implemented based on a single discount rate applied on a portfolio of leases with similar characteristics. The future cash flows have been discounted using the incremental borrowing rate, and the weighted average incremental borrowing rate applied to the lease liabilities at transition was approximately 1%. The assessment of onerous leases according to IAS 37 has been applied as an alternative to performing an impairment review of the right-of-use assets. Initial direct costs have been excluded from the right-of use-asset and the right to use hindsight when determining the lease term has been used.

Amendments to IAS 39 and IFRS 7 "Interest rate benchmark reform"
In September 2019, IASB published amendments to IAS 39, IFRS 9 and IFRS 7 as a consequence of the coming reform of benchmark interest rates. The amendments give some relief in relation to hedge accounting. Under the amendments, the hedge accounting requirements should be evaluated assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate

benchmark reform. The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Early application is permitted, and Nordea has exercised this option. The amendments have resulted in Nordea's hedge relationships passing the effectiveness test and hedge accounting can thus continue as before during the relief period.

Change in presentation of resolution fees
NMB recognises resolution fees at the beginning of the year, when the legal obligation to pay arises, and presents the expense as "Other expenses". The earlier policy was to present the expense as "Interest expense".

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

	Full year 2019			Full year 2018		
EURm	Old policy	Change	New policy	Old policy	Change	New policy
Interest expenses	-51.5	4.2	-47.3	-55.2	5.7	-49.5
Other expenses	-62.1	-4.2	-66.3	-46.5	-5.7	-52.2

Other amended requirements
The following new or amended standards and interpretations were implemented by Nordea 1 January 2019 but have not had any significant impact on Nordea Group's or NMB's financial statements:

- Amendments to IFRS 9: Prepayment Features with Negative Compensation
- Amendments to IAS 19: Plan Amendments, Curtailment or Settlement
- Annual Improvements to IFRS Standards 2015-2017 Cycle.

3. Changes in IFRSs not yet applied

Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"
The IASB has amended the requirements in IFRS 10 and IAS 28 regarding sales and contributions of assets between an investor and its associated undertaking or joint venture due to inconsistent treatment of gains and losses of such transactions in those standards. The IASB has thereafter proposed to defer indefinitely the effective date and permit earlier application. The amendments are not yet endorsed by the EU-commission. Nordea does not currently intend to early adopt the amendments. The new requirements are not expected to have any impact on Nordea Group's or NMB's financial statements, capital adequacy, or large exposures in the period of initial application as the new requirements are in line with Nordea's current accounting policies.

Other changes in IFRS
The IASB has published the following new or amended standards that are assessed to have no significant impact on Nordea Group's or NMB's financial statements, capital adequacy or large exposures in the period of initial application:

- 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

4. Critical judgements and estimation uncertainty

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

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

Critical judgements and estimates are in particular associated with:

- the fair value measurement of certain financial instruments
- the classification of financial assets
- the derecognition of financial assets
- the impairment testing of loans to the public/credit institutions
- the effectiveness testing of cash flow hedges
- the actuarial calculations of pension liabilities and plan assets related to employees
- the assessment of expected lease terms and classification of leases
- the valuation of deferred tax assets
- claims in civil lawsuits and possible fines.

Fair value measurement of certain financial instruments
Nordea Group's and NMB's accounting policy for determining the fair value of financial instruments is described in section 9 "Determination of fair value of financial instruments" and Note 26 "Assets and liabilities at fair value". Critical judgements that have a significant impact on the recognised amounts for financial instruments are exercised when determining fair value of OTC derivatives and other financial

instruments that lack quoted prices or recently observed market prices. Those judgements relate to the following areas:

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

The critical judgements required when determining fair value of financial instruments that lack quoted prices or recently observed market prices also introduce a high degree of estimation uncertainty.

In all of these instances, decisions are based upon professional judgement in accordance with Nordea Group's accounting and valuation policies.

Sensitivity analysis disclosures covering fair values of financial instruments with significant unobservable inputs can be found in Note 26 "Assets and liabilities at fair value".

Impairment testing of loans to the public/credit institutions
Nordea Group's accounting policy for impairment testing of loans is described in section 12 "Loans to the public/credit institutions".

Management is required to exercise critical judgements and estimates when calculating loan impairment allowances. For more information, see Note 11 "Loans and impairment".

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

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

The statistical model used to calculate provisions are based on macro-economic scenarios, which requires management to exercise judgement when identifying such scenarios and when assigning the likelihood of the different scenarios occurring. Judgement is also exercised in the assessment of the extent to which the parameters for the different scenarios, based on historical experience, are relevant for estimating future losses.

Effectiveness testing of cash flow hedges
Nordea Group's accounting policies for cash flow hedges are described in section 8 "Hedge accounting".

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

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

Actuarial calculations of pension liabilities and plan assets related to employees
Nordea Group's accounting policy for post-employment benefits is described in section 17 "Employee benefits".

The defined benefit obligation for major pension plans is calculated by external actuaries using demographic assumptions based on the current population. As a basis for these calculations a number of actuarial and financial parameters are used.

The estimation of the discount rate is subject to uncertainty related to whether corporate bond markets are deep enough, of high quality and also in connection with the extrapolation of yield curves to relevant maturities. In Finland the discount rate is determined with reference to high-quality corporate bonds. Other parameters, like assumptions about salary increases and inflation, are based on the expected long-term development of these parameters and also subject to estimation uncertainty. The main parameters used at year-end are disclosed in Note 21 "Retirement benefit obligations" together with a description of the sensitivity to changes in assumptions.

Assessment of expected lease terms and classification of leases
Nordea's accounting policies for leases are described in section 13 "Leasing".

Critical judgement has to be exercised as a lessee when estimating the expected lease term by considering all facts and circumstances that create an economic incentive to exercise and extension or termination option. The expected lease term for contracts with no end date is estimated in the same way.

For a lessor, critical judgement has to be exercised when classifying lease contracts. A lease is classified as finance lease if it transfers substantially all the risks and rewards related to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards related to ownership.

More information on lease contracts can be found in Note 13 "Property and equipment".

Valuation of deferred tax assets
Nordea's accounting policy for the recognition of deferred tax assets is described in section 15 "Taxes" and Note 10 "Taxes".

The valuation of deferred tax assets is influenced by management's assessment of Nordea's future profitability and sufficiency of future taxable profits and future reversals of existing taxable temporary differences. These assessments are updated and reviewed at each balance sheet date, and are, if necessary, revised to reflect the current situation.

The carrying amount of deferred tax assets was EUR 9.2m (EUR 11.9m) at the end of the year.

5. Recognition of operating income and impairment

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

Interest income and expenses from financial instruments are, with the exceptions described below, classified as "Net interest income".

The interest component in FX swaps, and the interest paid and received in interest rate swaps plus changes in accrued interest, is classified as "Net result from items at fair value", apart for derivatives used for hedging, including economical hedges of NMB's funding, where such components are classified as "Net interest income".

Net fee and commission income
NMB earns commission income from different services provided to its customers. The recognition of commission income depends on the purpose for which the fees are received. Fees are either recognised as revenue when services are provided or in connection to the execution of a significant act.

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

Expenses for bought financial guarantees, are amortised over the duration of the instruments and classified as "Fee and commission expense" respectively.

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

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

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

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

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

"Net result from items at fair value" also includes losses from counterparty risk on instruments classified into the category Financial assets at fair value through profit or loss. Impairment losses from instruments within other categories are recognised in the item "Net loan losses".

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

Resolution fees are presented as "Other expenses" in the income statement. The earlier policy was to present the expense as "Interest expense".

Net loan losses

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

Counterparty losses on instruments classified into the category Financial assets at fair value through profit or loss, are reported under "Net result from items at fair value".

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

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

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

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

Financial liabilities are derecognised from the balance sheet when the liability is extinguished. Normally this occurs when NMB performs, for example when NMB repays a deposit to the counterpart, i.e. on settlement date. Financial liabilities under trade date accounting are generally derecognised and a liability is recognised as "Other liabilities" on the balance sheet on trade date.

7. Translation of assets and liabilities denominated in foreign currencies

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

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

8. Hedge accounting

As a part of Nordea's risk management policy, Nordea has identified a series of risk categories with corresponding hedging strategies using derivative instruments, as set out in Note 2 "Risk and liquidity management" (the Market risk section) and Note 12 "Derivatives and hedge accounting".

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

- Fair value hedge accounting
- Cash flow hedge accounting
- Hedges of net investments

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

The EU carve out version enables a group of derivatives (or proportions thereof) to be viewed in combination and be designated as the hedging instrument. It also removes some of the limitations in fair value hedge accounting relating to hedging core deposits and under-hedging strategies.

At inception, NMB formally documents how the hedging relationship meets the hedge accounting criteria, including the economic relationship between the hedged item and the hedging instrument, the nature of the risk, the risk management objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship on an ongoing basis.

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

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

NMB currently applies fair value hedge accounting and cash flow hedge accounting.

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

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

Fair value hedge accounting in NMB is performed mainly on a portfolio basis. Any ineffectiveness is recognised in the income statement under the item "Net result from items at fair value".

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

Hedging instruments
The hedging instruments used in NMB are predominantly interest rate swaps and cross currency interest rate swaps, which are always held at fair value.

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

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

Hedge ineffectiveness can arise from:

- Differences in timing of cash flows of hedged items and hedging instruments
- Different interest rate curves applied to discount the hedged items and hedging instruments
- The effect of changes in Nordea's or a counterparty's credit risk on the fair value of the hedging instrument or hedged items
- Disparity between expected and actual prepayments of the loan portfolio

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

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

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

Hedging instruments
The hedging instruments used in NMB are predominantly cross currency interest rate swaps, which are always held at fair value, where the currency component is designated as a cash flow hedge of currency risk and the interest component as a fair value hedge of interest rate risk. When hedging the interest

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

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

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

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

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

9. Determination of fair value of financial instruments

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

The existence of published price quotations in an active market is the best evidence of fair value and when they exist they are used to measure financial assets and financial liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an on-going basis. The absolute level for liquidity and volume required for a market to be considered active vary with the instrument classes. For some classes low price volatility is seen, also for those instruments within the class where the trade frequency is high. For instruments in such a class the liquidity requirements are lower and, correspondingly, the age limit for the prices used for establishing fair value is higher.

The trade frequency and volume are monitored regularly in order to assess if markets are active or non-active. NMB is predominantly using published price quotations to establish fair value for items disclosed under the following balance sheet items:

- Interest-bearing securities
- Derivatives (listed).

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

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

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

- Interest-bearing securities (when quoted prices in an active market are not available)
- Derivatives (OTC-derivatives).

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

Note 26 "Assets and liabilities at fair value" provides a breakdown of fair values of financial instruments measured on the basis of:

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

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

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

For further information, see Note 26 "Assets and liabilities at fair value".

10. Cash and balances with central banks

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 institutions is established
- The balance is readily available at any time.

11. Financial instruments

Classification of financial instruments

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

Financial assets:

- Amortised cost
- Financial assets at fair value through profit or loss:
  - Mandatorily measured at fair value through profit and loss
  - Designated at fair value through profit or loss (fair value option)
- Financial assets at fair value through other comprehensive income

Financial liabilities:

- Amortised cost
- Financial liabilities at fair value through profit or loss:
  - Mandatorily measured at fair value through profit and loss
  - Designated at fair value through profit or loss (fair value option)

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

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

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

All financial assets and liabilities are initially measured at fair value. The classification of financial instruments into different categories forms the basis for how each instrument is subsequently measured on the balance sheet and how changes in its value are recognised.

Amortised cost

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

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

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

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

The category consists of two sub-categories: mandatorily measured at fair value through profit and loss and designated at fair value through profit or loss (fair value option).

The sub-category mandatorily measured at fair value through profit and loss contains interest-bearing securities included in the liquidity buffer and derivative instruments.

Financial assets at fair value through other comprehensive income
Financial assets at fair value through other comprehensive income are measured at fair value plus transaction costs. Changes in fair values, except for interest, foreign exchange effects and impairment losses, are recognised in the fair value reserve in equity through other comprehensive income. Interest is recognised in the item “Interest income”, foreign exchange effects in “Net result from items at fair value” and impairment losses in the item “Net loan losses” in the income statement. When an instrument is disposed of, the fair value changes that previously have been accumulated in the fair value reserve in other comprehensive income are removed from equity and recognised in the income statement in the item “Net result from items at fair value”. For information about impairment under IFRS 9, see section 12 below.

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

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

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

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

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

12. Loans to the public/credit institutions

Scope
Financial instruments classified as Amortised cost or Fair value through other comprehensive income are in scope for recognising impairment due to credit risk. This includes assets recognised on the balance sheet as “Loans to credit institutions” and “Loans to the public”. These balance sheet lines also include assets classified as Fair value through profit or loss, which are not in scope for impairment calculations. See section 11 above and Note 25 on “Classification of financial instruments”.

Off-balance sheet commitments, contingent liabilities and loan commitments are also in scope for impairment calculations.

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

If the impairment loss is regarded as final, it is reported as a realised loss and the carrying amount of the loan and the related allowance for impairment loss are derecognised. An impairment loss is regarded as final when the obligor is filed for bankruptcy and the administrator has declared the economic outcome of the bankruptcy procedure, or when NMB forgives its claims either through a legal based or voluntary reconstruction, or when NMB, for other reasons, deem it unlikely that the claim will be recovered.

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

Assets classified as Fair value through other comprehensive income are recognised at fair value on the balance sheet. Impairment losses calculated in accordance with IFRS 9 are recognised in the income statement and classified as “Net result from items at fair value”. Any fair value adjustments are recognised in “Other comprehensive income”.

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

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

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

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

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

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

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

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

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

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

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

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

For assets where rating and scoring models are used, the change in rating/scoring notches is calibrated to match the significant increase in credit risk based on lifetime PD. In addition, customers with forbearance measures and customers with payments more than thirty days past due are also transferred to stage 2, unless already identified as credit impaired (stage 3). Exposures more than 90 days past due will normally be classified as stage 3, but this classification will be rebutted if there is evidence that the customer is not in default. Such exposures will be classified as stage 2.

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

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

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

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

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

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

13. Leasing

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

The right to use an asset in a lease contract is recognised on the commencement date as a right-of-use (ROU) asset and the obligation to pay lease payments is recognised as a lease liability. The ROU asset is initially measured as the present value of the lease payments, plus initial direct costs and the cost of obligations to refurbish the asset less any lease incentives received. Non-lease components are separated. The discount rate used to calculate the lease liability for each contract is the incremental borrowing rate at commencement of the contract.

The ROU assets are presented as similar owned assets and the lease liabilities as “Other liabilities” on the balance sheet. The depreciation policy is consistent with that of similar owned assets, but the depreciation period is normally capped at the end of the lease term. Impairment testing of the right-of-use assets is performed following the same principles as for similar owned assets. Interest expense on lease liabilities is presented as “Interest expense” in the income statement.

The assets are classified as Land and buildings and Equipment. Equipment comprise mainly vehicles and IT hardware. Nordea applies the practical expedient of short-term contracts (with a contract term of 12 months or less), both for Land and buildings and for Equipment. The practical expedient of low value assets is applied on Equipment. Short term and low value contracts are not recognised on the balance sheet and the payments are recognised as expenses in the income statement as “Other expenses” on a straight-line basis over the lease term unless another systematic way better reflects the time pattern of Nordea’s benefit.

In NMB leases are related to to company cars. The lease payments generally include fixed payments. Residual value guarantees, or purchase options are generally not used.

The lease term is the expected lease term. This comprises the non-cancellable period of lease contracts and any options that NMB is reasonably certain to exercise. The length of contracts with no end date is estimated by considering all facts and circumstances.

14. Properties and equipment

In NMB the balance sheet item Properties and equipment includes leased company cars.

15. Taxes

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

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

Deferred tax assets and liabilities are recognised, using the balance sheet method, for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences arising on initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, nor for differences relating to investments in group undertakings and associated undertakings to the extent that it is probable that they will not reverse in the foreseeable future.

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

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

Tax positions are regularly reviewed to identify situations where it is not probable that the relevant tax authorities will accept the treatment used in the tax filings. Uncertain tax positions are considered independently or as a group, depending on which approach better predicts the resolution of the uncertainty. If Nordea concludes that it is not probable that the taxation authority will accept an uncertain tax treatment the effect of uncertainty is reflected when determining the related taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates. This is done by using either the most likely amount or the expected value, depending on which method better predicts the outcome of the uncertainty. Uncertain tax treatment can affect both current tax and deferred tax.

16. Provisions

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

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

Provisions relating to Employee benefits are further described in section 17.

17. Employee benefits

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

Short-term benefits
Short term benefits consist mainly of fixed and variable salary. Both fixed and variable salaries are expensed in the period when the employees performed their services to Nordea Mortgage Bank. Nordea has also issued share-based payment programmes, which are further described in section 20 “Share-based payment”.

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

Post-employment benefits
Pension plans
The companies within Nordea Group have various pension plans, consisting of both defined benefit pension plans and defined contribution pension plans, reflecting national practices and conditions in the countries where the Group operates. The major defined benefit pension plans are funded schemes covered by assets in pension funds/foundations. If the fair value of plan assets, associated with a specific pension plan, is lower than the gross present value of the defined benefit obligation determined using the projected unit credit method, the net amount is recognised as a liability (“Retirement benefit obligation”). If not, the net amount is recognised as an asset (“Retirement benefit assets”). Non-funded pension plans are recognised as “Retirement benefit obligations “.

Most pensions are based on defined contribution arrangements that hold no pension liability for Nordea Group. All defined benefit pension plans are closed for new employees. The Group also contributes to public pension systems.

Pension costs
Obligations for defined contribution pension plans are recognised as an expense as the employee renders services to the entity and the contribution payable in exchange for these services becomes due. NMB’s net obligation for defined benefit pension plans is calculated separately for each plan by estimating the amount of the future benefit that the employee has earned for their service in the current and prior periods. That benefit is discounted to determine its present value.

Actuarial calculations including the projected unit credit method are applied to assess the present value of defined benefit obligations and related costs, based on several actuarial and financial assumptions (as disclosed in Note 21 “Retirement benefit obligations”).

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

When the calculation results in a benefit the recognised asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan.

Discount rate in defined benefit pension plans
The discount rate is determined by reference to high quality corporate bonds, where a deep enough market for such bonds exists. Covered bonds are in this context considered to be corporate bonds. In countries where no such market exists the discount rate is determined by reference to government bond yields. In Finland the discount rate is determined with reference to corporate bonds.

Termination benefits
As mentioned above termination benefits normally arise if an employment is terminated before the normal retirement date, or if the employee accepts an offer of voluntary redundancy. Termination benefits do not arise if the employees have to continue performing services and the termination benefits can be considered to be normal compensation for those services.

Termination benefits are expensed when NMB has an obligation to make the payment. An obligation arises when there is a formal plan committed to on the appropriate organisational level and when it is without not a realistic possibility for NMB to withdraw, which normally occurs when the plan has been communicated to the group affected or to their representatives.

Termination benefits can include both short-term benefits, for instance a number of months’ salary payments, and post-employment benefits, normally in the form of early retirement. Short-term benefits are classified as “Salaries and remuneration” and post-employment benefits as “Pension costs” in Note 7 “Staff costs”.

18. Equity

Other reserves
Other reserves comprise income and expenses, net after tax effects, which are reported in equity through other comprehensive income. These reserves include fair value reserves for cash flow hedges and accumulated remeasurements of defined benefit pension plans, as well as a reserve for translation differences.

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

19. Credit commitments

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

20. Share-based payment

Cash-settled programmes
NMB has to defer payment of variable salaries under the Nordic FSA's regulations and general guidelines, as is also the case with the Executive Incentive Programme (EIP). The deferred amounts are to some extent indexed using Nordea's TSR (Total Shareholders' Return) and these "programmes" are cash-settled share-based programmes. These programmes are fully vested when the payments of variable salaries are initially deferred, and the fair value of the obligation is remeasured on a continuous basis. The remeasurements are, together with the related social charges, recognised in the income statement in the item "Net result from items at fair value".

For more information see Note 7 "Staff costs".

21. Related party transactions

NMB defines related parties as:

- Shareholders with control over NMB
- Group undertakings
- Key management personnel
- Other related parties.

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

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

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

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

Key management personnel
Key management personnel include the following positions:

- The Board of Directors of Nordea Mortgage Bank Plc and Nordea Bank Abp
- The Chief Executive Officer (CEO) of Nordea Mortgage Bank Plc and the deputy to the CEO
- Management Group of Nordea Mortgage Bank Plc.

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

Other related parties
Other related parties comprise close family members to individuals in key management personnel. Other related parties also include companies significantly influenced by key management personnel in NMB as well as companies significantly controlled by close family members to these key management personnel.

Information concerning transactions between NMB and other related parties is found in Note 29 "Related party transactions".

22. Exchange rates

End of year rates as at 31 December 2019

EUR	1.00000	USD	1.12195
GBP	0.84900	CHF	1.08500
DKK	7.47170	SEK	10.45625
NOK	9.84625		

Note 2 Risk and liquidity management

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

Risk management

Risk management at the Nordea Group

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

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

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

The Board of Directors of Nordea Bank Abp has chosen to organise the Group's risk management into three lines of defence, with all business areas and group-wide functions making up the first line of defence. Group Risk & Compliance (GRC) constitutes the second line of defence and are the Group's control functions. Group Internal Audit (GIA) is the third line of defence, independent of the others.

The first line of defence is responsible for its own risk and for remaining within its risk limits and is working in accordance with the Group's internal control and risk management framework. The second line of defence, which is independent of the first line, is responsible for preparing the internal control and risk management framework. This task includes ensuring that the business functions efficiently and that the information and controls in place are sufficient and appropriate for identifying and managing the risks in the business. The third line of defence, which is independent of the first and second line, has the task of protecting the Group's assets, reputation and viability by verifying that all risks in the business are identified and reported to the management and the Group's risk control functions.

Risk management at Nordea Mortgage Bank

The majority of NMB's business is conducted by Nordea and its branch network, so it is inevitable that the majority of NMB's risk management is integrated with that of the Group. NMB's risk management has the same purpose and follows the same Nordea Internal Rules as the Group in general.

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

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

Board Risk Committee (BRIC) was established during Q1 2019 in NMB. BRIC shall assist the Board in fulfilling its oversight responsibilities concerning management and control of the risks, risk frameworks, controls and processes associated with NMB's operations, including credit, market, liquidity, business, operational risk, conduct and compliance, as well as related frameworks and processes.

The company operates in three lines of defence. The second line of defence consists of the CRO function responsible for the risk management framework and processes; and Compliance responsible for monitoring compliance with internal and external rules. The third line of defence consists of Internal Audit. All other functions in the company belong to the first line of defence.

The second line of defence is independent of and controls the first line of defence. The third line of defence is independent of and controls the first and second lines. Together, the second and third lines of defence form the internal control functions, which have access and provide reporting directly to NMB's Board of Directors. The CRO function is headed by the Chief Risk Officer and seconded by the Senior Operational Risk Officer. The services of the appointed Compliance Officer and the appointed Internal Auditor are purchased from the Nordea Bank Abp.

Since the majority of the company's business is conducted by Nordea's other units, NMB's risk management is strongly supported by the three lines of defence in the Nordea Group.

Risks associated with Nordea Mortgage Bank's business

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

Note 2 Risk and liquidity management, cont.

Credit risk
The risks in NMB's business are mainly attributable to credit risk. Credit risk occurs when a counterparty cannot or will not honour its payment obligations and pledged collateral does not suffice to cover the liability. Risks related to changes in the company's prospects of getting back funds invested in loans and other receivables from counterparties are risks which are inherent in the business operations. Negative changes to the credit quality of the company's borrowers and counterparties due to a general economic decline or systemic risks in the financial system, or due to declining collateral values, have a negative impact on the value of the company's assets. In such a situation, a necessary increase to the company's provisions for expected loan losses and realised loan losses, beyond provisioning already made, would have a considerable negative impact on the company's business, financial position and earnings.

Business areas have, together with Group Credit Risk Management, the primary responsibility for managing the credit risks in its operations within the established framework and limits, including risk identification, control and reporting. The responsibility is regulated in outsourcing agreements between Nordea Mortgage Bank and Nordea Bank Abp.

Group Risk & Compliance (GRC), as a second line of defence unit, is responsible for the overarching credit process í.e. guidelines, instructions and Nordea Internal Rules. GRC is also responsible for controlling and monitoring the quality of the credit portfolio and the credit process.

Within NMB, credit quality and adherence to guidelines, instructions and directives is monitored based on reporting from the Nordea Group and supplemented with controls performed by NMB's own staff. Reports are provided to the Management Group, BRIC and to the Board of Directors.

The classification, measurement and impairment requirements in IFRS 9 were implemented by Nordea as from 1 January 2018. Nordea has elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with the carve out version of IAS 39 (see further description in Note 1 section 8 Hedge accounting).

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

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

Forbearance is negotiated terms or restructuring due to the borrower experiencing or about to experience financial difficulties. The intention with granting forbearance for a limited period of time is to ensure full repayment of the outstanding debt. Examples of negotiated terms are changes in amortisation profile, repayment schedule or customer margin as well as ease of financial covenants.

Forbearance is undertaken on a selective and individual basis and followed by impairment testing. Loan loss provisions are recognised if necessary. Forborne rated customers without impairment charges are fully covered by either collateral and/or the net present value of future cash flows.

From 1 Jan 2018 Nordea has adhered to IFRS 9 for impairment of financial instruments. The impairment requirements in IFRS 9 are based on an expected credit loss model and replaced the IAS 39 incurred loss model. IFRS 9 introduces a three-stage model for impairment where Stage 1 is considered as the good book, Stage 2 as the deteriorated book, and Stage 3 as the bad book. Collective and individual credit loss provisions will be based on three scenarios. These scenarios will be probability weighted and forward looking.

Customer classification
Rating and scoring are the main components in the risk management system for credit risk. The common denominator for the rating/scoring models is the ability to rank customers and predict insolvency. While the rating models are used for corporate customers, scoring models are used for household customers and smaller companies. Ratings are normally assigned in connection with limit/credit proposals or annual reviews and are approved by the credit committees. Scoring models are purely statistical methods used to predict the probability of default among customers.

Note 2 Risk and liquidity management, cont.

Maximum exposure to credit risk

		31 Dec 2019		31 Dec 2018	
EURm	Note	Amortised cost and Fair value through other comprehensive income	Financial assets at fair value through profit or loss	Amortised cost and Fair value through other comprehensive income	Financial assets at fair value through profit or loss
Loans to central banks and credit institutions	11	666.1	-	899.5	-
Loans to the public	11	26,719.9	-	23,106.7	-
Derivatives	12	-	711.5	-	509.9
Off balance sheet items	24	334.4	-	196.8	-
Total		**27,720.4**	**711.5**	**24,203.0**	**509.9**

Allowances for credit risk

EURm	Note	31 Dec 2019	31 Dec 2018
Loans to central banks and credit institutions	11	-	-
Loans to the public	11	-11.7	-47.8
Off balance sheet items	20	-0.1	-0.2
Total		**-11.8**	**-48.0**

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

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

	31 Dec 2019	31 Dec 2018
Financial Collateral	1.3 %	1.8 %
Residential Real Estate	97.5 %	97.1 %
Commercial Real Estate	0.8 %	0.7 %
Other Physical Collateral	0.5 %	0.4 %
Total	**100.0 %**	**100.0 %**

Credit risk in figures
NMB's lending to the public increased 16% during 2019 and amounted to EUR 26.7bn (23.1). Out of lending to the public, corporate customers accounted for 7% (8) of the exposure and household customers for 93% (92). The distribution of lending on maturities is shown in Note 28. NMB only mortgages properties in Finland. Credit commitments amounted to 334.4m (196.8).

As in the previous year, NMB did not have any assets in the form of bonds or other interest-bearing securities. Lending to credit institutions amounted at the end of the year to 0.7bn (0.9), all of which was placed in Group companies.

Impaired loans, gross, amounted to EUR 240.9m (193.6) of which 96% refers to private individuals. Following a deduction of EUR 5.3m (16.2) for provisioning for individually valued impaired loans, the net amount was EUR 235.6m (177.4), equalling 86bps (74) of loans to the public before allowances. Allowances for collectively assessed loans amounted to EUR 6.4m (31.6). For more information, see also Note 11 "Loans and impairment".

Note 2 Risk and liquidity management, cont.

Impaired loans and ratios

	2019	2018
Gross impaired loans, EURm	240.9	193.6
- of which servicing	29.4	24.9
- of which non-servicing	211.5	168.7
Impairment rate, (stage 3) gross, basis points[1]	88	80
Impairment rate (stage 3), net, basis points[2]	86	74
Allowances in relation to loans in stage 1 and 2, basis points[3]	2	13
Total allowance rate (stage 1, 2 and 3), basis points[4]	4	20
Allowances in relation to impaired loans (stage 3), %[5]	2	8

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

Loan-to-value
At year end, the cover pool's unindexed weighted average loan-to-value was 51.1% (50.0), entailing that collateral covers roughly the double of lending.

Loan-to-value[1]

	31 Dec 2019		31 Dec 2018	
Retail mortgage exposure	EURm	%	EURm	%
<40%	16,710.2	62.5	15,260.1	66.0
40–50%	2,346.1	8.8	2,053.5	8.9
50–60%	1,745.6	6.5	1,497.8	6.5
60–70%	1,141.4	4.3	948.5	4.1
70-100%	4,776.6	17.9	3,346.9	14.5
Total	**26,719.9**	**100.0**	**23,106.7**	**100.0**

[1] Loan-to-value is calculated using market values. The residential collaterals in NMB's Cover Pool are capped at loans up to 70% of the market value.

Forbearance

EURm	31 Dec 2019	31 Dec 2018
Forborne loans	177.5	111.9
- of which defaulted	47.2	30.5
Allowances for individually assessed impaired and forborne loans	-1.1	-3.0
- of which defaulted	-0.8	-1.7

Key ratios	31 Dec 2019	31 Dec 2018
Forbearance ratio[1]	0.7 %	0.5 %
Forbearance coverage ratio[2]	0.2 %	0.1 %
- of which defaulted	0.1 %	0.2 %

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

Note 2 Risk and liquidity management, cont.

Rating/scoring information for loans measured at amortised cost

EURm	Nominal amount 31 Dec 2019				
Rating/scoring grade	Stage 1	Stage 2	Stage 3	**Total**	**Provisions**
7	-	-	-	-	-
6 / A	11,027.4	20.2	0.1	11,047.7	-0.2
5 / B	8,562.3	202.4	0.1	8,764.8	-0.7
4 / C	2,956.8	441.1	1.4	3,399.3	-1.2
3 / D	1,363.6	434.8	3.9	1,802.3	-1.5
2 / E	458.3	249.6	1.8	709.7	-1.0
1 / F	351.8	308.7	22.0	682.5	-2.0
Standardised / Unrated	-	-	-	-	-0.4
0+ / 0 / 0- (default)	51.6	64.9	211.6	328.1	-4.7
Internal[1]	663.3	-	-	663.3	-
Total	**25,435.1**	**1,721.7**	**240.9**	**27,397.7**	**-11.7**

[1] Exposures towards Nordea entities

EURm	Nominal amount 31 Dec 2018				
Rating/scoring grade	Stage 1	Stage 2	Stage 3	**Total**	**Provisions**
7	-	-	-	-	-
6 / A	9,312.2	102.6	-	9,414.8	-2.9
5 / B	7,107.9	441.8	0.0	7,549.7	-6.6
4 / C	2,551.5	524.0	2.7	3,078.2	-6.4
3 / D	1,034.6	462.4	2.5	1,499.5	-5.4
2 / E	376.4	273.6	2.8	652.8	-3.5
1 / F	307.6	355.2	16.2	679.0	-8.0
Standardised / Unrated	-	-	-	-	-0.2
0+ / 0 / 0- (default)	45.8	65.3	169.4	280.5	-14.8
Internal[1]	899.5	-	-	899.5	-
Total	**21,635.5**	**2,224.9**	**193.6**	**24,054.0**	**-47.8**

[1] Exposures towards Nordea entities

Rating/scoring information for off balance sheet items

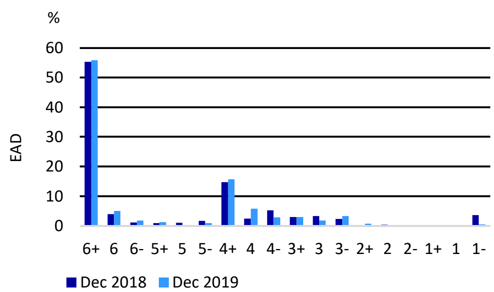
EURm	Nominal amount 31 Dec 2019				
Rating/scoring grade	Stage 1	Stage 2	Stage 3	**Total**	**Provisions**
7	-	-	-	-	-
6 / A	156.0	-	-	156.0	0.0
5 / B	93.1	0.3	-	93.4	0.0
4 / C	45.3	1.5	-	46.8	-0.1
3 / D	27.2	2.1	-	29.3	0.0
2 / E	3.0	0.9	-	3.9	0.0
1 / F	0.8	1.3	-	2.1	0.0
Standardised / Unrated	1.9	0.3	-	2.2	-
0+ / 0 / 0- (default)	-	-	0.7	0.7	-
Total	**327.3**	**6.4**	**0.7**	**334.4**	**-0.1**

Note 2 Risk and liquidity management, cont.

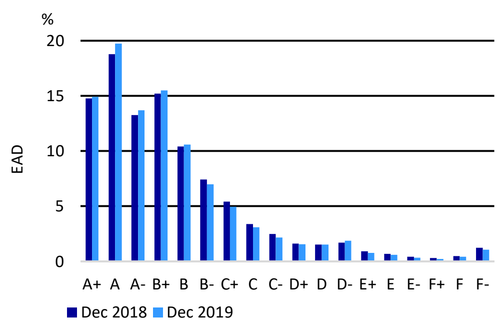
Rating/scoring information for off balance sheet items

EURm	Nominal amount 31 Dec 2018				
Rating/scoring grade	Stage 1	Stage 2	Stage 3	**Total**	**Provisions**
7	-	-	-	-	-
6 / A	88.6	0.9	-	89.5	0.0
5 / B	48.2	9.4	-	57.6	-0.1
4 / C	24.5	5.3	-	29.8	-0.1
3 / D	7.9	3.4	-	11.3	0.0
2 / E	1.0	1.0	-	2.0	0.0
1 / F	1.1	1.5	-	2.6	0.0
Standardised / Unrated	3.2	0.8	-	4.0	0.0
0+ / 0 / 0- (default)	-	-	-	-	-
Total	**174.5**	**22.3**	**-**	**196.8**	**-0.2**

Rating distribution, IRB Corporate customers
Out of corporate customers, 90% (87) were rated 4- or better (on a scale of 6+ to 1- where 6+ is the highest and 1- is the lowest rating). 1% (4) of corporate customers were rated 1+ or poorer.



Risk grade distribution, IRB Retail customers
Out of household customers, 48% (47) had a score of A- or better (on a scale of A+ to F- where A+ is the highest and F- the lowest score). 2% (2) of household customers had a score of F+ or lower.



Past due loans
The table below shows loans past due 6 days or more, split by corporate and household customers, totalling EUR 287.7m (238.1). Past due loans to corporate customers were 15.7m (14.1). Past due loans for households increased to EUR 272.0m (224.0) at the end of 2019.

	31 Dec 2019		31 Dec 2018[1]	
EURm	Corporate customers	Household customers	Corporate customers	Household customers
6-30 days	5.4	121.5	7.2	99.4
31-60 days	3.5	41.1	4.5	38.7
61-90 days	0.7	14.9	0.8	19.3
>90 days	6.1	94.5	1.5	66.6
Total	**15.7**	**272.0**	**14.1**	**224.0**
Past due loans divided by loans to the public after allowances, %	0.8	1.1	0.7	1.1

[1] Based on IFRS 9 regulation past due loans 2018 include impaired loans

Note 2 Risk and liquidity management, cont.

Net loan losses

Net loan losses totalled EUR 10.3m (-11.4) due to allowance reversals triggered by recalibration of IFRS 9 collective provision model. In total, loan loss provisions of EUR 35.8m were reversed, of which 25.5m was recognised through equity and the residual through the income statement.

Net loan losses and loan loss ratios

	2019	2018
Net loan losses, EURm	10.3	-11.4
Loan loss ratio, basis points	-3.9	4.9
- of which (Stage 3)	-1.3	2.6
- of which (Stage 1 & 2)	-2.6	2.3

Movements in risks and allowances

Carrying amount of loans measured at amortised cost, before allowances

	Central banks and credit institutions				The public			
EURm	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 Jan 2019	**899.5**	**-**	**-**	**899.5**	**20,736.0**	**2,224.9**	**193.6**	**23,154.5**
Origination and acquisition	-	-	-	-	6,701.7	279.7	17.0	6,998.4
Transfers between stage 1 and stage 2, (net)	-	-	-	-	412.6	-412.6	-	-
Transfers between stage 2 and stage 3, (net)	-	-	-	-	-	-40.5	40.5	-
Transfers between stage 1 and stage 3, (net)	-	-	-	-	-25.7	-	25.7	-
Repayments and disposals	-233.4	-	-	-233.4	-3,232.6	-314.7	-34.2	-3,581.5
Write-offs	-	-	-	-	-	-	-0.4	-0.4
Other changes	-	-	-	-	177.0	-15.1	-1.3	160.6
Translation differences	-	-	-	-	-	-	-	-
Closing balance at 31 Dec 2019	**666.1**	**-**	**-**	**666.1**	**24,769.0**	**1,721.7**	**240.9**	**26,731.6**

	Total			
EURm	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 Jan 2019	**21,635.5**	**2,224.9**	**193.6**	**24,054.0**
Origination and acquisition	6,701.7	279.7	17.0	6,998.4
Transfers between stage 1 and stage 2, (net)	412.6	-412.6	-	-
Transfers between stage 2 and stage 3, (net)	-	-40.5	40.5	-
Transfers between stage 1 and stage 3, (net)	-25.7	0.0	25.7	-
Repayments and disposals	-3,466.0	-314.7	-34.2	-3,814.9
Write-offs	-	-	-0.4	-0.4
Other changes	177.0	-15.1	-1.3	160.6
Translation differences	-	-	-	-
Closing balance at 31 Dec 2019	**25,435.1**	**1,721.7**	**240.9**	**27,397.7**

Note 2 Risk and liquidity management, cont.

Carrying amount of loans measured at amortised cost, before allowances

	Central banks and credit institutions				The public			
EURm	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 Jan 2018	**647.6**	**-**	**-**	**647.6**	**21,785.7**	**1,610.9**	**144.6**	**23,541.2**
Origination and acquisition	-	-	-	-	2,606.6	380.0	12.1	2,998.7
Transfers between stage 1 and stage 2, (net)	-	-	-	-	-266.4	269.1	-	2.7
Transfers between stage 2 and stage 3, (net)	-	-	-	-	-	-33.5	33.7	0.2
Transfers between stage 1 and stage 3, (net)	-	-	-	-	-25.1	-	25.6	0.5
Repayments and disposals	-	-	-	-	-3,517.4	-280.0	-24.3	-3,821.7
Write-offs	-	-	-	-	-	-	-0.1	-0.1
Other changes	251.9	-	-	251.9	152.6	278.4	2.0	433.0
Translation differences	-	-	-	-	-	-	-	-
Closing balance at 31 Dec 2018	**899.5**	**-**	**-**	**899.5**	**20,736.0**	**2,224.9**	**193.6**	**23,154.5**

	Total			
EURm	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 Jan 2018	**22,433.3**	**1,610.9**	**144.6**	**24,188.8**
Origination and acquisition	2,606.6	380.0	12.1	2,998.7
Transfers between stage 1 and stage 2, (net)	-266.4	269.1	-	2.7
Transfers between stage 2 and stage 3, (net)	-	-33.5	33.7	0.2
Transfers between stage 1 and stage 3, (net)	-25.1	-	25.6	0.5
Repayments and disposals	-3,517.4	-280.0	-24.3	-3,821.7
Write-offs	-	-	-0.1	-0.1
Other changes	404.5	278.4	2.0	684.9
Translation differences	-	-	-	-
Closing balance at 31 Dec 2018	**21,635.5**	**2,224.9**	**193.6**	**24,054.0**

Note 2 Risk and liquidity management, cont.

Movement of allowance accounts for loans measured at amortised cost

	Central banks and credit institutions				The public			
EURm	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 Jan 2019	**-**	**-**	**-**	**-**	**-5.5**	**-26.1**	**-16.2**	**-47.8**
Origination and acquisition	-	-	-	-	-3.9	-4.2	-1.5	-9.6
Transfers from stage 1 to stage 2	-	-	-	-	0.6	-10.5	-	-9.9
Transfers from stage 1 to stage 3	-	-	-	-	0.1	-	-2.8	-2.7
Transfers from stage 2 to stage 1	-	-	-	-	-1.2	11.9	-	10.7
Transfers from stage 2 to stage 3	-	-	-	-	-	1.7	-5.2	-3.5
Transfers from stage 3 to stage 1	-	-	-	-	-0.1	-	1.4	1.3
Transfers from stage 3 to stage 2	-	-	-	-	-	-0.6	2.2	1.6
Changes in credit risk without stage transfer	-	-	-	-	-0.1	-1.0	-0.6	-1.7
Repayments and disposals	-	-	-	-	0.4	2.5	1.9	4.8
Write-off through decrease in allowance account	-	-	-	-	-	-	-	-
Changes due to changes in credit risk without stage transfer	-	-	-	-	7.6	22.0	15.8	45.4
Other changes	-	-	-	-	0.0	0.0	-0.3	-0.3
Translation differences	-	-	-	-	-	-	-	-
Closing balance at 31 Dec 2019	**-**	**-**	**-**	**-**	**-2.1**	**-4.3**	**-5.3**	**-11.7**

	Total			
EURm	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 Jan 2019	**-5.5**	**-26.1**	**-16.2**	**-47.8**
Origination and acquisition	-3.9	-4.2	-1.5	-9.6
Transfers from stage 1 to stage 2	0.6	-10.5	-	-9.9
Transfers from stage 1 to stage 3	0.1	-	-2.8	-2.7
Transfers from stage 2 to stage 1	-1.2	11.9	-	10.7
Transfers from stage 2 to stage 3	-	1.7	-5.2	-3.5
Transfers from stage 3 to stage 1	-0.1	-	1.4	1.3
Transfers from stage 3 to stage 2	-	-0.6	2.2	1.6
Changes in credit risk without stage transfer	-0.1	-1.0	-0.6	-1.7
Repayments and disposals	0.4	2.5	1.9	4.8
Write-off through decrease in allowance account	-	-	-	-
Changes due to changes in credit risk without stage transfer	7.6	22.0	15.8	45.4
Other changes	0.0	0.0	-0.3	-0.3
Translation differences	-	-	-	-
Closing balance at 31 Dec 2019	**-2.1**	**-4.3**	**-5.3**	**-11.7**

Note 2 Risk and liquidity management, cont.

Movement of allowance accounts for loans measured at amortised cost

	Central banks and credit institutions				The public			
EURm	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 Jan 2018	**0.0**	**-**	**-**	**0.0**	**-5.8**	**-20.6**	**-10.0**	**-36.4**
Origination and acquisition	-	-	-	-	-1.1	-2.7	-1.0	-4.8
Transfers from stage 1 to stage 2	-	-	-	-	0.5	-11.9	-	-11.4
Transfers from stage 1 to stage 3	-	-	-	-	0.1	0.0	-3.3	-3.2
Transfers from stage 2 to stage 1	-	-	-	-	-0.5	6.7	-	6.2
Transfers from stage 2 to stage 3	-	-	-	-	-	1.1	-4.4	-3.3
Transfers from stage 3 to stage 1	-	-	-	-	-0.1	0.0	0.8	0.7
Transfers from stage 3 to stage 2	-	-	-	-	-	-0.5	1.4	0.9
Changes in credit risk without stage transfer	-	-	-	-	1.0	0.4	-0.6	0.8
Repayments and disposals	0.0	-	-	0.0	0.4	1.4	0.9	2.7
Write-off through decrease in allowance account	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-	-
Translation differences	-	-	-	-	-	-	-	-
Closing balance at 31 Dec 2018	**-**	**-**	**-**	**-**	**-5.5**	**-26.1**	**-16.2**	**-47.8**

	Total			
EURm	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 Jan 2018	**-5.8**	**-20.6**	**-10.0**	**-36.4**
Origination and acquisition	-1.1	-2.7	-1.0	-4.8
Transfers from stage 1 to stage 2	0.5	-11.9	-	-11.4
Transfers from stage 1 to stage 3	0.1	-	-3.3	-3.2
Transfers from stage 2 to stage 1	-0.5	6.7	-	6.2
Transfers from stage 2 to stage 3	0.0	1.1	-4.4	-3.3
Transfers from stage 3 to stage 1	-0.1	-	0.8	0.7
Transfers from stage 3 to stage 2	0.0	-0.5	1.4	0.9
Changes in credit risk without stage transfer	1.0	0.4	-0.6	0.8
Repayments and disposals	0.4	1.4	0.9	2.7
Write-off through decrease in allowance account	-	-	-	-
Other changes	-	-	-	-
Translation differences	-	-	-	-
Closing balance at 31 Dec 2018	**-5.5**	**-26.1**	**-16.2**	**-47.8**

Note 2 Risk and liquidity management, cont.

Movements in provisions for off balance sheet items

EURm	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 Jan 2019	**0.0**	**-0.2**	**-**	**-0.2**
Origination and acquisition	0.0	-0.1	-	-0.1
Transfers from stage 1 to stage 2	0.0	0.0	-	0.0
Transfers from stage 1 to stage 3	-	-	-	-
Transfers from stage 2 to stage 1	0.0	0.1	-	0.1
Transfers from stage 2 to stage 3	-	0.0	-	0.0
Transfers from stage 3 to stage 1	-	-	-	-
Transfers from stage 3 to stage 2	-	-	-	-
Changes in credit risk without stage transfer	0.0	0.1	-	0.1
Repayments and disposals	0.0	0.0	-	0.0
Write-off through decrease in allowance account	-	-	-	-
Other changes	0.0	-	-	0.0
Translation differences	-	-	-	-
Closing balance at 31 Dec 2019	**0.0**	**-0.1**	**-**	**-0.1**

EURm	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 Jan 2018	**-0.1**	**-0.1**	**-**	**-0.2**
Origination and acquisition	0.0	-0.1	-	-0.1
Transfers from stage 1 to stage 2	0.0	0.0	-	0.0
Transfers from stage 1 to stage 3	0.0	-	-	0.0
Transfers from stage 2 to stage 1	0.0	0.0	-	0.0
Transfers from stage 2 to stage 3	-	0.0	-	0.0
Transfers from stage 3 to stage 1	-	-	-	-
Transfers from stage 3 to stage 2	-	-	-	-
Changes in credit risk without stage transfer	0.1	0.0	-	0.1
Repayments and disposals	0.0	0.0	-	0.0
Write-off through decrease in allowance account	-	-	-	-
Other changes	-	-	-	-
Translation differences	-	-	-	-
Closing balance at 31 Dec 2018	**0.0**	**-0.2**	**-**	**-0.2**

Market risk

Market risk is defined as the risk of losses related to NMB's financial exposures resulting from changes in market rates and related assumptions that affect the market value. These include changes to interest rates, foreign exchange rates and credit spreads. Market risk in NMB is mainly in the form of interest rate risk inherent in loans granted, and in the form of funding from the market and Nordea Bank Abp.

Group Treasury & Asset Liability Management (TALM) is responsible for managing market risk on NMB's behalf, within the Group Internal Rules and risk strategy and risk limits established by NMB. The responsibility is regulated through outsourcing agreements. The business is largely integrated into the Group's risk management so as to attain the most efficient management of market risk within the Group as a whole. TALM and GRC are responsible for identifying, controlling and reporting the progression of risks.

Market-risk-related risk appetite and risk limits are based on co-operation between the CRO function and GRC. Risk appetite limits are approved by NMB's Board of Directors.

Structural Interest Income Risk (SIIR)

SIIR is the amount by which NMB's accumulated net interest income would change during the next 12 months if all interest rates were to change by +/-50 basis points. SIIR reflects the mismatches in the balance sheet and the off-balance sheet items due to differences in the interest rate repricing periods, volumes or reference rates of assets, liabilities and derivatives.

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

A SIIR limit has been set aiming to optimise financial structure, balanced risk taking and reliable earnings growth. TALM has the responsibility for the operational management of SIIR. At the end of the year, the SIIR for increasing market rates was EUR -15m (-16) and the SIIR for decreasing market rates was EUR 40m (44). These figures imply that the net interest income would decrease if interest rates rise and increase if interest rates fall.

Economic value Stress test (EV stress test)
EV stress loss was introduced in NMB in June 2019 within RAF 2019 update replacing as IR delta as market risk measurement.

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

Using the same 6 BCBS scenarios as for the EV stress tests, the earnings metric measures the change in net interest income relative to a base scenario, creating a Structural Interest Income Risk (SIIR) value over a one-year horizon. The model uses a constant balance sheet assumption and realized forward curves with behavioural modelling for the non-maturing deposits and prepayments.

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

The management of operational risk includes all activities aimed at identifying, assessing, mitigating, monitoring and reporting risks. Risk exposures are governed by limits set within the boundaries of the risk appetite. Operational risks are mainly identified during incident reporting, during the risk management of proposed changes and as well as during regular risk assessments.

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

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

NMB has in 2LoD CRO function an in-house Operational Risk Officer (ORO), responsible for identifying, monitoring and reporting of operational risks. ORO also has a role for supporting 1LoD. ORO reports to NMB CRO.

Risks are identified in accordance with the Group's operational risk policy with an emphasis on two primary activities, Risk and Control Self-Assessment (RCSA) and Business Impact Analysis (BIA). RCSA is performed annually. In the 2019 RCSA process, business-relevant operational and compliance risks were identified and prioritised, and several mitigating actions for managing them were launched.

BIA is conducted at minimum annually, aiming at identifying the most critical processes for the satisfactory functioning of NMB's business. Because a large part of NMB's processes are conducted by Nordea Bank Abp, identification processes is done in consultation between NMB, Nordea's service providing units and GRC. Besides these two primary activities, the following are also performed: Change Risk Management and Approval (CRMA) and Quality and Risk Analysis (QRA), follow-up of incidents and Third-Party Risk Assessment.

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

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

Critical processes
Through Business Impact Analyses, five critical processes have been identified in NMB and these have been addressed through Business Continuity Plans (BCP) for each process. These plans include responsibilities and instructions to guide the organisation on how to respond, recover, resume and restore to a predefined level of operation following a disruption. Testing of plans has been done annually to secure credibility and to discover prioritised development needs. NMB has also been controlling that other units responsible for critical processes have up-to-date, high-quality continuity plans in place.

Losses related to operational risks remain very low and in 2019 no incidents occurred that materially affected NMB.

Money laundering
Nordea Mortgage Bank Plc is dependent on Nordea Bank Abp in money laundering activities. Monitoring of Nordea Bank Abp's performance in Anti-Money Laundering (AML), Counter Terrorism Financing (CTF) and sanctions screening obligations are key control measures for NMB. To secure fit for purpose in-house competencies NMB has been during 2019 running enhanced AML training activities per job description for its personnel. During 2019 NMB has also driven enhancements to Financial Crime Risk Management related to mortgage loans in NMB's balance sheet, including reporting of High Risk customers and transaction monitoring of mortgage repayments.

AML/FC -risk level of NMB is assessed by the Company annually.

Note 2 Risk and liquidity management, cont.

Compliance risk
Compliance risk is defined as the risk of failure to comply with applicable laws, regulations, standards, supervisory requirements and related internal rules governing Nordea's activities in any jurisdiction where Nordea operates.

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

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

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

Liquidity risk
Liquidity risk is the risk of NMB being able to meet liquidity commitments only at increased costs or, ultimately, being unable to meet obligations as they fall due. Liquidity risk in NMB is mainly associated with funding the operations through borrowings from the market and Nordea Bank Abp.

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

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

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

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

The target for the net balance of stable funding (NBSF) is to ensure long-term assets are funded by long-term liabilities. For NMB, long-term liabilities mainly consist of funding from the Nordea Group, bonds and equity, while long-term assets mainly consist of lending to the public.

At the end of 2019 the internal survival horizon for NMB was 406 days (122), liquidity coverage ratio was 158% (151) and the net balance of stable funding was EUR -0.3bn (-0.8).

Note 3 Segment reporting

Measurement of Operating segments' performance

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

Operating segments

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

Income statement

	Mortgage Banking	
EURm	2019	2018
Net interest income	219.7	219.8
Net fee and commission income	-7.6	-9.5
Net result from items at fair value	0.6	-1.8
Other income	0.1	0.0
Total operating income	**212.8**	**208.5**
Staff costs	-1.9	-1.9
Other expenses	-66.4	-52.2
Depreciation of tangible assets	0.0	-
Total operating expenses	**-68.3**	**-54.1**
Profit before loan losses	**144.5**	**154.4**
Net loan losses	10.3	-11.4
Operating profit	**154.8**	**143.0**
Income tax expense	-35.1	-29.6
Net profit for the year	**119.7**	**113.4**

Balance sheet

EURm	31 Dec 2019	31 Dec 2018
Loans to the public	26,719.9	23,106.7
Debt securities in issues	16,111.7	16,760.5

Total operating income split on product groups

EURm	2019	2018
Mortgage Banking products	212.8	208.5
Total	**212.8**	**208.5**

Geographical information

	Total operating income		Assets	
EURm	2019	2018	31 Dec 2019	31 Dec 2018
Finland	212.8	208.5	30,021.6	26,391.7
Total	**212.8**	**208.5**	**30,021.6**	**26,391.7**

Note 4 Net interest income

EURm	2019	2018
Interest income		
Loans to credit institutions	2.6	2.2
Loans to the public	249.8	244.6
Other interest income	14.6	22.5
Interest income	**267.0**	**269.3**
Interest expense		
Deposits by credit institutions	-5.4	-8.7
Debt securities in issue	-170.5	-218.9
Subordinated liabilities	-2.2	-2.2
Other interest expenses[1]	130.8	180.4
Interest expense	**-47.3**	**-49.5**
Net interest income	**219.7**	**219.8**

[1] The net interest income from derivatives, measured at fair value, related to Nordea Mortgage Bank's funding. This can have both a positive and negative impact on other interest expense, for further information see Note 1.

Interest income from financial instruments not measured at fair value through profit and loss amounted to EUR 267.0m (269.3). Interest expenses from financial instruments not measured at fair value through profit and loss amounted to EUR -182.9m (-229.8).

All interest income is calculated using the effective interest rate method amounted.

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

Note 5 Net fee and commission income

EURm	2019	2018
Brokerage, securities issues and corporate finance	-0.4	-0.3
- of which income	-	-
- of which expense	-0.4	-0.3
Custody and issuer services	-	-
- of which income	-	-
- of which expense	-	-
Lending Products	9.0	7.8
- of which income	9.0	7.8
- of which expense	-	-
Guarantees	-16.5	-17.0
- of which income	-	-
- of which expense	-16.5	-17.0
Other	0.3	0.0
- of which income	0.3	0.0
- of which expense	0.0	0.0
Total	**-7.6**	**-9.5**

Fee income, not included in determining the effective interest rate, from financial assets and liabilities not measured at fair value through profit or loss amounted to EUR 9.0m (7.8).

Note 6 Net result from items at fair value

EURm	2019	2018
Interest related instruments and foreign exchange gains/losses	0.6	-1.8
Total	**0.6**	**-1.8**

Net result from categories of financial instruments

EURm	2019	2018
Financial assets and liabilities mandatorily at fair value through profit or loss	143.3	-18.5
Financial assets at amortised cost[1]	81.7	12.1
Financial liabilities at amortised cost	-224.4	4.6
Foreign exchange gains/losses excluding currency hedges	0.0	0.0
Non-financial assets and liabilities	0.0	0.0
Total	**0.6**	**-1.8**

[1] Gain recognised in the income statement arising from derecognition of financial assets measured at amortised cost amounts to EUR 0.4m (0.6). The reasons for derecognition is that the assets have been prepaid by the customer.

Note 7 Staff costs

EURm	2019	2018
Salaries and remuneration	-1.5	-1.6
Pension costs (specification below)	-0.3	-0.2
Social security contributions	0.0	0.0
Allocation to profit-sharing foundation	0.0	0.0
Other staff costs	-0.1	-0.1
Total	**-1.9**	**-1.9**

EURm	2019	2018
Pension costs:		
Defined benefit plans (Note 21)	0.0	0.0
Defined contribution plans	-0.3	-0.2
Total	**-0.3**	**-0.2**

Additional disclosures on remuneration under Nordic FSAs' regulation and general guidelines
The qualitative disclosures under these regulations can be found in the separate section on remuneration in the Board of Director's Report, while the quantitative disclosures will be published in a separate report on Nordea's homepage (www.nordea.com) no later than one week before the Annual General Meeting of Nordea on 25 March 2020.

Compensation etc. to the Board of Directors and Chief Executive Officer
As at 31 December 2019 four members of the Board of Directors of Nordea Mortgage Bank Plc were employed by Nordea Bank Abp and three members were external. Fees paid to external members of the Board amounted to 76,000 euros in 2019 (22,250). Salaries, fees and other staff related expenses to the other members of the Board were paid by Nordea Bank Abp. Salaries, fees, pensions and other staff related expenses paid to the Chief Executive Officer in 2019 are presented below.

Remuneration to the Chief Executive Officer of Nordea Mortgage Bank Plc

EUR	Fixed salary 2019	Executive Incentive Programme 2019	Benefits 2019	**Total 2019**
Deputy Chief Executive Officer of NMB[1]:				
Tarja Ikonen	18,375	-	1,070	19,445
Former Chief Executive Officer of NMB:				
Thomas Miller	130,514	-	18,060	148,573

[1] Deputy CEO Tarja Ikonen was appointed as interim CEO in November 2019. The reported figures are based on the salary from November and December 2019

Note 7 Staff costs, cont.

Remuneration to the Chief Executive Officer of Nordea Mortgage Bank Plc

EUR	Fixed salary 2018	Executive Incentive Programme 2018	Benefits 2018	**Total 2018**
Chief Executive Officer of NMB:				
Thomas Miller	133,521	23,975	5,820	**163,316**

There was no pension obligation for the Chief Executive Officer of Nordea Mortgage Bank Plc at the year-end 2019 or 2018.

Loans granted to the Chief Executive Officer of Nordea Mortgage Bank Plc and members of the Board of Directors of Nordea Mortgage Bank Plc

EUR	Loans in the balance sheet of Nordea Mortgage Bank Plc 2019	Paid interest to Nordea Mortgage Bank Plc 2019	Loans in the balance sheet of Nordea Mortgage Bank Plc 2018	Paid interest to Nordea Mortgage Bank Plc 2018
Chief Executive Officer of NMB:				
Tarja Ikonen	141,339	297	n/a	n/a
Former Chief Executive Officer of NMB:				
Thomas Miller	-	-	-	-
To members of the Board of Directors of NMB	965,556	5,642	1,470,093	6,071
Total	**1,106,895**	**5,939**	**1,470,093**	**6,071**

Loans to key management personnel as defined in Note 1 section 21 amounted to EUR 1,692,197 in 2019 (1,854,412). Interest income on these loans amounted to EUR 7,638 in 2019 (7,372).

Loans to other related parties amounted to EUR 817,434 in 2019 (952,263). Interest on these loans amounted to EUR 4,863 in 2019 (4,952).

In Finland the employee interest rate for loans corresponds to Nordea's funding cost with a margin of 30 basis points.

Loans to family members of key management personnel are granted on normal market terms, as well as loans to key management personnel who are not employed by Nordea.

Guarantees and other off-balance-sheet commitments
NMB has not pledged any assets or other collateral or committed to contingent liabilities on behalf of any key management personnel or auditors.

The members of the administrative and controlling boards have no holdings of shares, equity warrants or convertible bonds issued by Nordea Mortgage Bank Plc.

Cash-settled share-based payment transactions
Nordea operates share-linked deferrals on parts of variable compensation for certain employee categories, indexed with Nordea Total Shareholder Returns (TSR) and either transferred after three years or transferred in equal instalments over a three to five-year period. Since 2011 Nordea also operates TSR-linked retention on part of variable compensation for certain employee categories. As the allocation of variable compensation is not finally decided during the current year, the deferred amount during the year relates to variable compensation earned the previous year.

In addition, Nordea introduced in 2013 the Executive Incentive Programme ("EIP") which aims to strengthen Nordea's capability to retain and recruit the best talents. The aim is further to stimulate the managers and key employees whose efforts have direct impact on Nordea's result, profitability and long-term value growth. EIP reward performance meeting agreed predetermined targets on Group, business unit and individual level. The effect on the long-term result is to be considered when determining the targets. The EIP shall not exceed the fixed salary. EIP shall be paid in the form of cash and be subject to TSR-indexation, deferral, forfeiture clauses and retention as per relevant remuneration regulations. Participation in the programme is offered to up to 400 managers and key employees, except GLT who are instead offered a GLT EIP (further information about the GLT EIP can be found in the Annual Report of Nordea Bank Abp), within the Nordea Group. EIP is offered instead of Nordea's LTIP and VSP for the invited employees. 80% of the allocated amount will be subject to TSR-indexation.

Number of employees

Average number of employees	31 Dec 2019	31 Dec 2018
Full-time employees	20	19
Part-time employees	-	-
Total	**20**	**19**
Total number of employees (FTEs), end of period	**18**	**17**

Note 8 Other expenses

EURm	2019	2018
Resolution fees	-4.2	-5.7
Information technology	0.0	0.0
Marketing and representation	-0.1	0.0
Postage, transportation, telephone and office expenses	0.0	0.0
Rents, premises and real estate	0.0	0.0
Other[1]	-62.1	-46.5
Total	**-66.4**	**-52.2**

[1] Relates mainly to services bought from Nordea Group companies.

Auditor's fees

EURm	2019	2018
PricewaterhouseCoopers Oy		
Auditing assignments	-0.2	-0.2
Audit-related services	-0.0	-0.0
Tax advisory services	-	-
Other assignments	-0.0	-0.0
Total	**-0.2**	**-0.2**

Note 9 Net loan losses

2019, EURm	Loans to the public[2]	Off balance sheet items[3]	**Total**
Net loan losses, stage 1	-0.6	-0.1	-0.7
Net loan losses, stage 2	7.4	0.1	7.5
Net loan losses, non-defaulted	**6.8**	**0.0**	**6.8**
Stage 3, defaulted			
Net loan losses, individually assessed, model-based[1]	4.3	-	4.3
Realised loan losses	-0.4	-	-0.4
Decrease of provisions to cover realised loan losses	-	-	-
Recoveries on previous realised loan losses	0.0	-	0.0
New/increase in provisions	-0.4	-	-0.4
Reversals of provisions	-	-	-
Net loan losses, defaulted	**3.5**	**-**	**3.5**
Net loan losses	**10.3**	**0.0**	**10.3**

[1] Includes individually identified assets where the provision has been calculated based on statistical models.
[2] Provisions included in Note 11 "Loans and impairment".
[3] Provisions included in Note 20 "Provisions"

2019, EURm	Net loan losses, individually assessed	Net loan losses, collectively assessed	Reversals of provisions	Recoveries on previous realised loan losses	Write-offs	**Total in Income Statement**
Loans to the public	3.9	6.8	-	0.0	-0.4	**10.3**
Guarantees and other off-balance sheet items	-	0.0	-	-	-	**0.0**
Net loan losses from loans measured at amortised cost	**3.9**	**6.8**	**0.0**	**0.0**	**-0.4**	**10.3**

Note 9 Net loan losses, cont.

2018, EURm	Loans to the public[2]	Off balance sheet items[3]	**Total**
Net loan losses, stage 1	0.3	0.0	0.3
Net loan losses, stage 2	-5.5	0.0	-5.5
Net loan losses, non-defaulted	**-5.2**	**0.0**	**-5.2**
Stage 3, defaulted			
Net loan losses, individually assessed, model based[1]	-6.0	-	-6.0
Realised loan losses	-0.1	-	-0.1
Decrease of provisions to cover realised loan losses	0.0	-	0.0
New/increase in provisions	-0.1	-	-0.1
Reversals of provisions	0.0	-	0.0
Net loan losses, defaulted	**-6.2**	-	**-6.2**
Net loan losses	**-11.4**	-	**-11.4**

[1] Includes individually identified assets where the provision has been calculated based on statistical models.
[2] Provisions included in Note 11 "Loans and impairment".
[3] Provisions included in Note 20 "Provisions"

2018, EURm,	Net loan losses, individually assessed	Net loan losses, collectively assessed	Reversals of provisions	Write-offs	**Total in Income Statement**
Loans to the public	-6.1	-5.2	0.0	-0.1	**-11.4**
Guarantees and other off-balance sheet items	-	0.0	-	-	**0.0**
Net loan losses from loans measured at amortised cost	**-6.1**	**-5.2**	**0.0**	**-0.1**	**-11.4**

Note 10 Taxes

Income tax expense

EURm	2019	2018
Current tax	-35.2	-29.1
Deferred tax	0.1	-0.5
Total	**-35.1**	**-29.6**

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

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

EURm	2019	2018
Profit before tax	154.8	143.0
Tax calculated at a tax rate of 20 %	-31.0	-28.6
Non-deductible expenses	-5.1	-
Adjustments relating to prior years	0.9	-1.0
Tax charge	**-35.1**	**-29.6**
Average effective tax rate	23%	21%

Note 10 Taxes, cont.

EURm	Deferred tax assets 31 Dec 2019	Deferred tax assets 31 Dec 2018	Deferred tax liabilities 31 Dec 2019	Deferred tax liabilities 31 Dec 2018
Deferred tax related to:				
Loans to the public	12.8	12.7	3.7	0.8
Retirement benefit assets/obligations	0.1	0.0	-	-
Netting between deferred tax assets and liabilities	-3.7	-0.8	-3.7	-0.8
Total	**9.2**	**11.9**	**0.0**	**0.0**

There were no unrecognised deferred tax assets in 2019 or 2018.

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

Note 11 Loans and impairment

EURm	31 Dec 2019	31 Dec 2018
Loans measured at fair value through profit and loss	-	-
Loans measured at amortised cost, not impaired (stage 1 and 2)	27 156.8	23,860.4
Impaired loans (stage 3)	240.9	193.6
- of which servicing	29.4	24.9
- of which non-servicing	211.5	168.7
Loans before allowances	**27,397.7**	**24,054.0**
-of which credit institutions	666.1	899.5
Allowances for impaired loans (stage 3)	-5.3	-16.2
- of which servicing	-0.9	-2.3
- of which non-servicing	-4.4	-13.9
Allowances for impaired loans (stage 1 and 2)	-6.4	-31.6
Allowances	**-11.7**	**-47.8**
-of which credit institutions	-	-
Loans, carrying amount	**27 386.0**	**24,006.2**
- of which Loans to credit institutions	666.1	899.5
- of which Loans to the public	26,719.9	23,106.7

Note 12 Derivatives and hedge accounting

31 Dec 2019, EURm	Fair value Positive	Negative	Total nominal amount
Derivatives held for trading			
Interest rate derivatives			
Interest rate swaps	6.4	9.3	18,125.0
Options			
Total	6.4	9.3	18,125.0
Total derivatives held for trading	6.4	9.3	18,125.0
Derivatives used for hedge accounting			
Interest rate derivatives	612.8	189.7	32,117.6
Foreign exchange derivatives	29.2	-	116.2
Other derivatives	63.1	-	13,277.9
Total derivatives used for hedge accounting	**705.1**	**189.7**	**45,511.7**
- of which cash flow hedges	42.2	-	656.3
- of which fair value hedges	662.9	-	44,855.4
Total derivatives	**711.5**	**199.0**	**63,636.7**

Periods when hedged cash-flows are expected to occur and when they are expected to affect the income statement

31 Dec 2019, EURm	<3 months	3-12 months	1-5 years	Over 5 years
Cash inflows (assets)	-	-	-	-
Cash outflows (liabilities)	1,828.8	2,648.9	22,531.8	18,502.2
Net cash outflows	**1,828.8**	**2,648.9**	**22,531.8**	**18,502.2**

31 Dec 2018, EURm	Fair value Positive	Negative	Total nominal amount
Derivatives held for trading			
Interest rate derivatives			
Interest rate swaps	-	1.1	11,680.0
Options	17.3	17.3	9,666.6
Total	**17.3**	**18.4**	**21,346.6**
Total derivatives held for trading	**17.3**	**18.4**	**21,346.6**
Derivatives used for hedge accounting			
Interest rate derivatives	465.6	107.2	27,899.6
Foreign exchange derivatives	27.0	-	116.2
Total derivatives used for hedge accounting	**492,6**	**107,2**	**28 015,8**
- of which cash flow hedges	22.6	-	676.2
- of which fair value hedges	470.0	107.2	27,339.6
Total derivatives	**509.9**	**125.6**	**49,362.4**

Periods when hedged cash-flows are expected to occur and when they are expected to affect the income statement

31 Dec 2018, EURm	<3 months	3-12 months	1-5 years	Over 5 years
Cash inflows (assets)	-	-	-	-
Cash outflows (liabilities)	1,749.0	3,029.3	14,689.4	8,548.2
Net cash outflows	**1,749.0**	**3,029.3**	**14,689.4**	**8,548.2**

Note 13 Property and equipment

NMB has only an insignificant amount of leased company cars. At year-end 2019 the book value was 4 thousand euros. During the year 2019 depreciations relating to the leased assets amounted to 17 thousand euros.

Note 14 Other assets

EURm	31 Dec 2019	31 Dec 2018
Other	2.6	37.8
Total	**2.6**	**37.8**

Note 15 Prepaid expenses and accrued income

EURm	31 Dec 2019	31 Dec 2018
Accrued interest income	13.8	13.2
Other accrued income[1]	29.6	18.8
Total	**43.4**	**32.0**

[1]Unsettled debt between Nordea Bank Abp and Nordea Mortgage Bank. Consists of customer's interest payments and amortisations.

Note 16 Deposits by credit institutions

EURm	31 Dec 2019	31 Dec 2018
Banks	11,560.4	7,667.6
Total	**11,560.4**	**7,667.6**

Note 17 Debt securities in issue

EURm	31 Dec 2019	31 Dec 2018
Covered bonds	16,111.7	16,760.5
Total	**16,111.7**	**16,760.5**

Note 18 Other liabilities

EURm	31 Dec 2019	31 Dec 2018
Accounts payable	-0.8	0.0
Dividends payable	89.8	-
Other	3.1	4.4
Total	**92.1**	**4.4**

Note 19 Accrued expenses and prepaid income

EURm	31 Dec 2019	31 Dec 2018
Accrued interest	4.8	-
Other accrued expenses	97.2	70.4
Prepaid income	66.8	63.8
Total	**168.8**	**134.2**

Note 20 Provisions

EURm	31 Dec 2019	31 Dec 2018
Guarantees/commitments	0.1	0.2
Total	**0.1**	**0.2**

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

Note 21 Retirement benefit obligations

EURm	31 Dec 2019	31 Dec 2018
Defined benefit plans. Net	0.2	0.1
Total	**0.2**	**0.1**

NMB has both defined benefit plans and defined contribution plans. Defined benefit plans are arranged in Nordea Pension Foundation. IAS 19 ensures that the pension obligations net of plan assets backing these obligations are reflected on the company's balance sheet. The defined benefit plans are closed to new employees and instead. pensions for new employees are based on defined contribution (DCP) arrangements. Defined contribution plans are not reflected on the balance sheet except when earned pension rights have not yet been paid for.

The plans are structured in accordance with local regulations. legislations and local practice and where applicable collective agreements. Plan assets are generally held in a separate pension fund or foundation. Minimum funding requirement differ between plans but generally the pension obligation measured using local requirements shall be covered in full or with a predetermined surplus.

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

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

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

Assumptions[1]	Finland
2019	
Discount rate[2]	0.60%
Salary increase	1.75%
Inflation	1.25%
Mortality	Gompertz
Increase in income base amount	1.70%
2018	
Discount rate[2]	1.58%
Salary increase	1.75%
Inflation	1.25%
Mortality	Gompertz
Increase in income base amount	1.70%

[1] The assumptions disclosed for 2019 had an impact on the liability calculation by year-end 2019, while the assumptions disclosed for 2018 were used for calculating the pension expense in 2019.

[2] More information on the discount rate can be found in Note 1. section 17. The sensitivities to changes in discount rate are provided in the table below.

Note 21 Retirement benefit obligations, cont.

Sensitivities - Impact on Defined Benefit Obligation (DBO) %	2019	2018
Discount rate - Increase 50bps	-11.0%	-10.6 %
Discount rate - Decrease 50bps	12.9%	12.3 %
Salary increase - Increase 50bps	3.8%	4.0 %
Salary increase - Decrease 50bps	-3.7%	-3.9 %
Inflation - Increase 50bps	11.2%	10.9 %
Inflation - Decrease 50bps	-9.8%	-9.7 %
Mortality - Increase 1 year	3.7%	3.2 %
Mortality - Decrease 1 year	-3.7%	-3.1 %

The sensitivity analyses are prepared by changing one actuarial assumption while keeping the other assumptions unchanged. This is a simplified approach because the actuarial assumptions are usually correlated. However, it enables isolating one effect from another. The method used for calculating the impact on the obligation is the same as when calculating the obligation accounted for in the financial statements.

Net retirement benefit liabilities/assets

EURm	31 Dec 2019	31 Dec 2018
Obligations	0.6	0.5
Plan assets	0.4	0.4
Net liability(-)/asset (+)	**-0.2**	**-0.1**
- of which retirement benefit liabilities	-0.2	-0.1
- of which retirement benefit assets	-	-

Movements in the obligation

EURm	2019	2018
Opening balance	0.5	0.2
Current service cost	0.0	0.0
Interest expense	0.0	0.0
Remeasurement from changes in financial assumptions	0.1	0.0
Remeasurement from changes experience adjustments	0.0	0.3
Closing balance	**0.6**	**0.5**

The average duration of the obligation is 24 years (22). The duration is based on discounted cash flows. The fact of the defined benefit plans being closed for new entrants gives a lower duration.

Movements in the fair value of plan assets

EURm	2019	2018
Opening balance	0.4	0.2
Interest income (calculated using the discount rate)	0.0	0.0
Refund from the Pension Foundation	0.0	-
Remeasurement (actual return less interest income)	0.0	0.2
Closing balance	**0.4**	**0.4**

Note 21 Retirement benefit obligations, cont.

Asset composition

The combined return on assets in 2019 was 3%. At the end of the year, the equity exposure in pension foundation represented 26% (27) of total assets.

Asset composition in funded schemes	31 Dec 2019	31 Dec 2018
Bonds	58%	54 %
- sovereign	29%	29 %
- covered bonds	9%	5 %
- corporate bonds	20%	20 %
- of which issued by Nordea entities	-	-
- with quoted market price in an active market	*58%*	*54 %*
Equity	26%	27 %
- domestic	8%	7 %
- European	6%	6 %
- US	6%	8 %
- emerging	6%	6 %
- of which Nordea shares	-	-
- with quoted market price in an active market	*26%*	*27 %*
Real Estate[1]	15%	15 %
- occupied by Nordea	5%	5 %
Cash and cash equivalents	1%	3 %

[1] The geographical location of the real estate follows the geographical location of the relevant pension plan.

The company is not expected to pay contribution to its defined benefit plans in 2020.

Defined benefit pension cost

Only a minor pension cost related to defined benefit plans has been recognised in the income statement (as staff costs) in 2019. Total pension costs comprise defined benefit pension costs as well as costs related to defined contribution plans (see specification in Note 7).

Recognised in other comprehensive income, EURm	2019	2018
Remeasurement from changes in financial assumptions	0.1	0.0
Remeasurement from experience adjustments	0.0	0.3
Remeasurement of plan assets (actual return less interest income)	0.0	-0.2
Pension cost on defined benefit plans (expense+. income-)	**0.1**	**0.1**

Net retirement benefit asset//liability, EURm	2019	2018
Opening balance	0.1	0.0
Pension cost in the income statement	0.0	0.0
Remeasurements in other comprehensive income	0.1	0.1
Refund from the Pension Foundation	0.0	-
Closing balance	**0.2**	**0.1**

Key management personnel

As at 31 December 2019 four members of the Board of Directors of Nordea Mortgage Bank Plc were employed by Nordea Bank Abp and three members were external.

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

Note 22 Subordinated liabilities

EURm	31 Dec 2019	31 Dec 2018
Dated subordinated debenture loans	200.5	200.6
Total	**200.5**	**200.6**

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

Issued by	Year of issue / maturity	Nominal value. EURm	Carrying amount. EURm	Interest rate (coupon)
Nordea Bank Abp[1]	2016/2026	200.0	200.5	Floating 3-month EURIBOR +1.42%

[1] Call date 1 October 2021

Note 23 Assets pledged as security for own liabilities

EURm	31 Dec 2019	31 Dec 2018
Assets pledged for own liabilities		
Loans to the public	21,943.2	19,759.8
Total	**21,943.2**	**19,759.8**
The above pledges pertain to the following liabilities		
Debt securities in issue	16,111.7	16,760.5
Total	**16,111.7**	**16,760.5**

Loans to the public amounting to EUR 21,943.2m (19,759.8) have been registered as collateral for issued Finnish covered bonds amounting to EUR 16,111.7m (16,760.5) In the event of the company's insolvency, the holders of these bonds have priority to the assets registered as collateral. Collaterals are valuated up to the first 70% of the market value of the property.

Note 24 Commitments

EURm	31 Dec 2019	31 Dec 2018
Loan commitments	334.4	196.8
Total	**334.4**	**196.8**

Note 25 Classification of financial instruments

31 Dec 2019, EURm	Amortised cost	Fair value through profit or loss: Mandatorily	Fair value through profit or loss: Derivatives used for hedging	Non-financial assets	Total
Assets					
Cash and balances with central banks	1,694.4	-	-	-	1,694.4
Loans to credit institutions	666.1	-	-	-	666.1
Loans to the public	26,719.9	-	-	-	26,719.9
Derivatives	-	6.4	705.1		711.5
Fair value changes of the hedged items in portfolio hedge of interest rate risk	174.5	-	-	-	174.5
Property and equipment	-	-	-	0.0	0.0
Deferred tax assets	-	-	-	9.2	9.2
Current tax assets	-	-	-	-	-
Other assets	-	-	-	2.6	2.6
Prepaid expenses and accrued income	13.8	-	-	29.6	43.4
Total	**29,268.7**	**6.4**	**705.1**	**41.4**	**30,021.6**

31 Dec 2019, EURm	Amortised cost	Fair value through profit or loss: Mandatorily	Fair value through profit or loss: Derivatives used for hedging	Non-financial liabilities	Total
Liabilities					
Deposits by credit institutions	11,560.4	-	-	-	11,560.4
Debt securities in issue	16,111.7	-	-	-	16,111.7
Derivatives	-	9.3	189.7	-	199.0
Fair value changes of the hedged items in portfolio hedge of interest rate risk	544.8	-	-	-	544.8
Current tax liabilities	-	-	-	9.4	9.4
Other liabilities	-0.8	-	-	92.9	92.1
Accrued expenses and prepaid income	71.6	-	-	97.2	168.8
Provisions	-	-	-	0.1	0.1
Retirement benefit liabilities	-	-	-	0.2	0.2
Subordinated liabilities	200.5	-	-	-	200.5
Total	**28,488.2**	**9.3**	**189.7**	**199.8**	**28,887.0**

Note 25 Classification of financial instruments, cont.

31 Dec 2018, EURm	Amortised Cost	Fair value through profit or loss Mandatorily	Derivatives used for hedging	Non-financial assets	Total
Assets					
Cash and balances with central banks	1,696.4	-	-	-	1,696.4
Loans to credit institutions	899.5	-	-	-	899.5
Loans to the public	23,106.7	-	-	-	23,106.7
Derivatives	-	17.3	492.6	-	509.9
Fair value changes of the hedged items in portfolio hedge of interest rate risk	93.2	-	-	-	93.2
Deferred tax assets	-	-	-	11.9	11.9
Current tax assets	-	-	-	4.3	4.3
Other assets	-	-	-	37.8	37.8
Prepaid expenses and accrued income	13.2	-	-	18.8	32.0
Total	**25,809.0**	**17.3**	**492.6**	**72.8**	**26,391.7**

31 Dec 2018, EURm	Amortised cost	Fair value through profit or loss Mandatorily	Derivatives used for hedging	Non-financial liabilities	Total
Liabilities					
Deposits by credit institutions	7,667.6	-	-	-	7,667.6
Debt securities in issue	16,760.5	-	-	-	16,760.5
Derivatives	-	18.4	107.2		125.6
Fair value changes of the hedged items in portfolio hedge of interest rate risk	320.7	-	-	-	320.7
Other liabilities	0.0	-	-	4.4	4.4
Accrued expenses and prepaid income	63.8	-	-	70.4	134.2
Provisions	-	-	-	0.2	0.2
Retirement benefit liabilities	-	-	-	0.1	0.1
Subordinated liabilities	200.6	-	-	-	200.6
Total	**25,013.1**	**18.4**	**107.2**	**75.0**	**25,213.9**

Note 26 Assets and liabilities at fair value

Fair value of financial assets and liabilities

EURm	31 Dec 2019 Carrying amount	31 Dec 2019 Fair value	31 Dec 2018 Carrying amount	31 Dec 2018 Fair value
Financial assets				
Cash and balances with central banks	1,694.4	1,694.4	1,696.4	1,696.4
Loans	27,560.5	28,499.2	24,099.4	24,635.8
Derivatives	711.5	711.5	509.9	509.9
Prepaid expenses and accrued income	13.8	13.8	13.2	13.2
Total financial assets	**29,980.2**	**30,918.9**	**26,318.9**	**26,855.3**
Financial liabilities				
Deposits and debt instruments	28,417.4	28,541.9	24,949.4	25,087.4
Derivatives	199.0	199.0	125.6	125.6
Other liabilities	-0.8	-0.8	0.0	0.0
Accrued expenses and prepaid income	71.6	71.6	63.8	63.8
Total financial liabilities	**28,687.2**	**28,811.7**	**25,138.8**	**25,276.8**

For information about the valuation of items measured at fair value on the balance sheet, see Note 1 and the section "Determination of fair values for items measured at fair value on the balance sheet" in this note. For information about valuation of items not measured at fair value on the balance sheet, see the section "Financial assets and liabilities not held at fair value on the balance sheet" in this note.

Note 26 Assets and liabilities at fair value, cont.

Assets and liabilities held at fair value on the balance sheet

Categorisation into the fair value hierarchy

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

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

31 Dec 2018, EURm	Quoted prices in active markets for same instrument (Level 1)	Valuation technique using observable data (Level 2)	Valuation technique using non-observable data (Level 3)	Total
Assets at fair value on the balance sheet[1]				
Derivatives	-	509.9	-	509.9
Total	-	**509.9**	-	**509.9**
Liabilities at fair value on the balance sheet[1]				
Derivatives	-	125.6	-	125.6
Total	-	**125.6**	-	**125.6**

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

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

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

Level 2 in the fair value hierarchy consists of assets and liabilities that do not have directly quoted market prices available from active markets. The fair values are based on quoted prices for similar assets or liabilities in active markets or quoted prices for identical or similar assets or liabilities in markets that are not active. Alternatively, the fair values are estimated using valuation techniques or valuation models based on market prices or rates prevailing at the balance sheet date and where any unobservable inputs have had an insignificant impact on the fair values. This is the case for the majority of Nordea’s OTC derivatives and other instruments where active markets supply the input to the valuation techniques or models.

Note 26 Assets and liabilities at fair value, cont.

Level 3 in the fair value hierarchy consists of those types of assets and liabilities for which fair values cannot be obtained directly from quoted market prices or indirectly using valuation techniques or models supported by observable market prices or rates. NMB does not have any Level 3 instruments.

All valuation models, both complex and simple models, make use of market prices and inputs. These markets prices and inputs comprise interest rates, volatilities, correlations etc. Some of these prices and inputs are observable while others are not. For most non-exotic currencies the interest rates are all observable, and the implied volatilities and the correlations of the interest rates and FX rates may be observable through option prices up to a certain maturity. Implied volatilities and correlations are may also be observable for the most liquid equity instruments in the short end. For less liquid equity instruments the option market is fairly illiquid, and hence the volatilities and correlations are unobservable. For each instrument the sensitivity towards unobservable parameters is measured. If the impact from unobservable parameters on the valuation is significant the instrument is categorised as Level 3 in the fair value hierarchy.

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

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

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

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

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

31 Dec 2019, EURm	Carrying amount	Fair value	Level in fair value hierarchy
Assets not held at fair value on the balance sheet			
Cash and balances with central banks	1,694.4	1,694.4	3
Loans	27,560.5	28,499.2	3
Prepaid expenses and accrued income	13.8	13.8	3
Total	**29,268.7**	**30,207.4**	
Liabilities not held at fair value on the balance sheet			
Deposits and debt instruments	28,417.4	28,541.9	3
Other liabilities	-0.8	-0.8	3
Accrued expenses and prepaid income	71.6	71.6	3
Total	**28,488.2**	**28,612.7**	

Note 26 Assets and liabilities at fair value, cont.

31 Dec 2018, EURm	Carrying amount	Fair value	Level in fair value hierarchy
Assets not held at fair value on the balance sheet			
Cash and balances with central banks	1,696.4	1,696.4	3
Loans	24,099.4	24,635.8	3
Prepaid expenses and accrued income	13.2	13.2	3
Total	**25,809.0**	**26,345.4**	
Liabilities not held at fair value on the balance sheet			
Deposits and debt instruments	24,949.4	25,087.4	3
Other liabilities	0.0	0.0	3
Accrued expenses and prepaid income	63.8	63.8	3
Total	**25,013.2**	**25,151.2**	

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

Loans
The fair value of "Loans to credit institutions" and "Loans to the public" have been estimated by discounting the expected future cash flows with an assumed customer interest rate that would have been used on the market if the loans had been issued at the time of the measurement. The assumed customer interest rate is calculated as the benchmark interest rate plus the average margin on new lending.

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

Prepaid expenses and accrued income
The balance sheet items "Prepaid expenses and accrued income" consist of short receivables, mainly accrued interest receivables. The fair value is therefore considered to equal the carrying amount and is categorised into Level 3 in the fair value hierarchy.

Deposits and debt instruments
The fair value of “Deposits by credit institutions”, “Debt securities in issue” and “Subordinated liabilities” has been calculated as the carrying amount adjusted for fair value changes in interest rate risk and in own credit risk. The fair value is categorised into Level 3 in the fair value hierarchy. The fair value changes related to interest rate risk is based on changes in relevant interest rates compared with the corresponding nominal interest rate in the portfolios. The fair value changes in the credit risk is calculated as a difference between the credit spread in the nominal interest rate compared with the current spread that is observed in the market. This calculation is performed on an aggregated level for all long-term issuances recognised in the balance sheet items “Debt securities in issue” and “Subordinated liabilities”. As the contractual maturity is short for “Deposits by credit institutions” and “Deposits and borrowing from the public” the changes in Nordea´s own credit risk related to these items is assumed not to be significant. This is also the case for short term issuances recognised in the balance sheet items “Debt securities in issue” and “Subordinated liabilities”.

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

Note 27 Financial instruments set off on balance or subject to netting agreements

31 Dec 2019, EURm	Gross recognised financial assets[1]	Gross recognised financial liabilities set off on the balance sheet	Net carrying amount on the balance sheet	Amounts not set off but subject to master netting agreements and similar agreements: Financial instruments	Financial collateral received	Cash collateral received	Net amount
Assets							
Derivatives	711.5	-	711.5	-96.7	-	-	614.7
Total	**711.5**	**-**	**711.5**	**-96.7**	**-**	**-**	**614.7**

31 Dec 2019, EURm	Gross recognised financial liabilities[1]	Gross recognised financial assets set off on the balance sheet	Net carrying amount on the balance sheet	Amounts not set off but subject to master netting agreements and similar agreements: Financial instruments	Financial collateral pledged	Cash collateral pledged	Net amount
Liabilities							
Derivatives	199.0	-	199.0	-96.7	-	-	102.3
Total	**199.0**	**-**	**199.0**	**-96.7**	**-**	**-**	**102.3**

[1] All amounts are measured at fair value.

31 Dec 2018, EURm	Gross recognised financial assets[1]	Gross recognised financial liabilities set off on the balance sheet	Net carrying amount on the balance sheet	Amounts not set off but subject to master netting agreements and similar agreements: Financial instruments	Financial collateral received	Cash collateral received	Net amount
Assets							
Derivatives	509.9	-	509.9	-27.6	-	-	482.2
Total	**509.9**	**-**	**509.9**	**-27.6**	**-**	**-**	**482.2**

31 Dec 2018, EURm	Gross recognised financial liabilities[1]	Gross recognised financial assets set off on the balance sheet	Net carrying amount on the balance sheet	Amounts not set off but subject to master netting agreements and similar agreements: Financial instruments	Financial collateral pledged	Cash collateral pledged	Net amount
Liabilities							
Derivatives	125.6	-	125.6	-27.6	-	-	97.9
Total	**125.6**	**-**	**125.6**	**-27.6**	**-**	**-**	**97.9**

[1] All amounts are measured at fair value.

Enforceable master netting arrangements and similar agreements

The fact that financial instruments are being accounted for on a gross basis on the balance sheet, would not imply that the financial instruments are not subject to master netting agreements or similar arrangements. Generally financial instruments (derivatives, repos and securities lending transactions), would be subject to master netting agreements, and as a consequence Nordea would be allowed to benefit from netting both in the ordinary course of business and in the case of default towards its counter parties, in any calculations involving counterparty credit risk. The reason why the netted exposures are not reflected under assets and liabilities on the balance sheet, would in most instances depend on the limited application of net settlement of financial transactions.

Note 28 Maturity analysis for assets and liabilities

Expected maturity

EURm	Note	31 Dec 2019 Expected to be recovered or settled: Within 12 months	After 12 months	Total	31 Dec 2018 Expected to be recovered or settled: Within 12 months	After 12 months	Total
Cash and balances with central banks		1,694.4	-	1,694.4	1,696.4	-	1,696.4
Loans to credit institutions	11	106.1	560.0	666.1	899.5	-	899.5
Loans to the public	11	403.5	26,316.4	26,719.9	235.0	22,871.7	23,106.7
Derivatives	12	28.0	683.5	711.5	49.4	460.5	509.9
Fair value changes of the hedged items in portfolio hedge of interest rate risk		0.9	173.6	174.5	0.2	93.0	93.2
Property and equipment	13	-	0.0	0.0	-	-	0.0
Deferred tax assets	10	-	9.2	9.2	11.9	-	11.9
Current tax assets		-	-	-	4.3	-	4.3
Other assets	14	2.6	-	2.6	37.8	-	37.8
Prepaid expenses and accrued income	15	43.4	-	43.4	32.0	-	32.0
Total assets		**2 278,9**	**27 742,7**	**30,021.6**	**2,966.5**	**23,425.2**	**26,391.7**
Deposits by credit institutions	16	-	11,560.4	11,560.4	-	7,667.6	7,667.6
Debt securities in issue	17	2,429.9	13,681.8	16,111.7	3,152.0	13,608.5	16,760.5
Derivatives	12	12.3	186.7	199.0	21.3	104.3	125.6
Fair value changes of the hedged items in portfolio hedge of interest rate risk		47.3	497.5	544.8	15.2	305.5	320.7
Current tax liabilities		9.4	-	9.4	-	-	-
Other liabilities	18	92.1	-	92.1	4.4	-	4.4
Accrued expenses and prepaid income	19	168.7	0.1	168.8	134.2	-	134.2
Provisions	20	0.0	0.1	0.1	0.0	0.2	0.2
Retirement benefit liabilities	21	-	0.2	0.2	0.1	-	0.1
Subordinated liabilities	22	-	200.5	200.5	-	200.6	200.6
Total liabilities		**2,759.7**	**26,127.3**	**28,887.0**	**3,327.2**	**21,886.7**	**25,213.9**

Contractual undiscounted cash flows

31 Dec 2019, EURm	On Demand	0-3 months	3-12 Months	1-5 years	>5 Years	**Total**
Interest bearing financial assets	1,800.5	597.0	1,895.7	8,773.9	19,128.6	**32,195.7**
Non-interest-bearing assets	-	-	-	-	188.3	**188.3**
Non-financial assets	-	-	-	-	41.5	**41.5**
Total assets	**1,800.5**	**597.0**	**1,895.7**	**8,773.9**	**19,358.4**	**32,425.5**
Interest bearing financial liabilities	-	1,384.6	1,178.2	19,159.9	6,837.0	**28,559.7**
Non-interest-bearing liabilities	-	-	4.0	-	611.5	**615.5**
Non-financial liabilities and equity	97.0	93.1	9.8	-	1,134.6	**1,334.5**
Total liabilities and equity	**97.0**	**1,477.7**	**1,192.0**	**19,159.9**	**8,583.1**	**30,509.7**
Derivatives. cash inflow	-	78.7	-6.6	480.4	177.0	**729.5**
Derivatives. cash outflow	-	-8.0	-33.7	253.8	97.8	**309.9**
Net exposure	**-**	**86.7**	**27.1**	**226.6**	**79.2**	**419.6**
Exposure	**1,703.5**	**-794.0**	**730.8**	**-10,159.4**	**10,854.5**	**2,335.4**
Cumulative exposure	**1,703.5**	**909.5**	**1,640.3**	**-8,519.1**	**2,335.4**	

Note 28 Maturity analysis for assets and liabilities, cont.

Contractual undiscounted cash flows

31 Dec 2018, EURm	On Demand	0-3 months	3-12 Months	1-5 years	>5 Years	Total
Interest bearing financial assets	2,035.9	516.7	1,645.1	8,141.8	17,366.6	**29,706.1**
Non-interest-bearing assets	-	-	-	-	106.4	**106.4**
Non-financial assets	-	-	-	-	72.8	**72.8**
Total assets	**2,035.9**	**516.7**	**1,645.1**	**8,141.8**	**17,545.9**	**29,885.3**
Interest bearing financial liabilities	-	1,633.2	1,696.8	16,633.9	5,546.8	**25,510.7**
Non-interest bearing liabilities	-	-	-	-	384.5	**384.5**
Non-financial liabilities and equity	-	-	-	-	1,253.0	**1,253.0**
Total liabilities and equity	**-**	**1,633.2**	**1,696.8**	**16,633.9**	**7,184.3**	**27,148.2**
Derivatives. cash inflow	-	98.3	56.8	543.8	224.3	**923.3**
Derivatives. cash outflow	-	3.3	-1.7	320.1	245.8	**567.5**
Net exposure	**-**	**95.0**	**58.5**	**223.7**	**-21.5**	**355.8**
Exposure	**2,035.9**	**-1,021.5**	**6.8**	**-8,268.4**	**10,340.2**	**3,093.0**
Cumulative exposure	**2,035.9**	**1,014.4**	**1,021.2**	**-7,247.2**	**3,093.0**	

The table is based on contractual maturities for the balance sheet items. For derivatives, the expected cash inflows and outflows are disclosed for both derivative assets and derivative liabilities, as derivatives are managed on a net basis. In addition to the instruments on the balance sheet items. NMB has credit commitments amounting to EUR 334.4m (196.7). which could be drawn on at any time.

Note 29 Related-party transactions

EURm	Group undertakings 31 Dec 2019	Group undertakings 31 Dec 2018
Assets		
Loans	663.3	899.5
Derivatives	712.1	511.3
Prepaid expenses and accrued income	29.9	19.1
Total assets	**1,405.3**	**1,430.0**
Liabilities		
Deposits	11,560.4	7 667.6
Debt securities in issue	0.1	20.7
Derivatives	200.2	109.9
Subordinated liabilities	200.5	200.6
Other liabilities	2.4	-28.3
Accrued expenses and deferred income	167.8	132.4
Total liabilities	**12,131.4**	**8,102.9**
Off balance[1]	**334.4**	**196.8**

[1] Excluding nominal values on derivatives.

Income statement

EURm	2019	2018
Net interest income	138.4	184.4
Net fee and commission income	-16.5	-17.0
Net result from items at fair value	139.5	-5.6
Total operating expenses	-67.2	-44.3
Profit before loan losses	**194.2**	**117.5**

Compensations and loans to Key management personnel are specified in Note 7.

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

The distributable funds on 31 December 2019 before anticipated dividend were EUR 959,812,938.78 of which the profit for the year was EUR 119,702,988,96. The Board of Directors proposes that a dividend of EUR 89,777,242.72 equivalent to the anticipated dividend will be paid, corresponding to 75 percent of the year-end profits, whereafter the distributable funds will be EUR 870,035,696.06 of which the distributable earnings are 70,035,696.06.

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

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

Helsinki, 17 February 2020

Sara Mella	Marte Kopperstad
Kaj Blomster	Hanna-Maria Heikkinen
Erja Ketko	Ola Littorin
Timo Nyman	Jussi Pajala Chief Executive Officer

The Auditor's Note

A report on the audit has been has been issued today.

Helsinki, 19 February 2020

PricewaterhouseCoopers Oy
Authorised Public Accountants

Juha Wahlroos
Authorised Public Accountant (KHT)

Auditor’s Report (Translation from the Finnish Original)

To the Annual General Meeting of Nordea Mortgage Bank Plc

Report on the Audit of the Financial Statements

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

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

What we have audited
We have audited the financial statements of Nordea Mortgage Bank Plc (business identity code 2743219-6) for the year ended 31 December 2019. The financial statements comprise the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies.

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

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

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

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

Our Audit Approach

Overview

- Overall materiality: € 70 million, which represents 0.24 % of total assets

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

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

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

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

Overall materiality	€ 70 million (previous year € 79 million)
How we determined it	0.24 % of total assets
Specific materiality	€ 7.7 million (previous year 7 million)
How we determined it	5 % of profit before tax
Rationale for the materiality benchmark applied	We chose total assets as the benchmark because, in our view, key driver of the business and determinants of the mortgage bank's profit potential are best reflected in the balance sheet. A number of key performance indicators of the bank are driven by income statement items; therefore, we have applied a specific materiality to all income statement items after Net interest income. The benchmarks determined are within the range of acceptable quantitative materiality thresholds in auditing standards.

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

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

Key audit matter in the audit of the company	How our audit addressed the key audit matter
Impairment of loans to customers *Refer to the Note 1 Accounting policies (Critical judgements and estimation uncertainty). Note 9 Net loan losses and Note 11 Loans and impairment to the financial statements* A high level of judgement is involved in determining the appropriate impairment loss to be recognised. Expected credit losses (ECL) are calculated as a function of the probability of default, the exposure at default and the loss given default, as well as the timing of the loss.	Our audit included a combination of testing of internal controls over financial reporting and substantive testing. We obtained an understanding of the loan origination process, credit risk management and the impairment allowances for loans and advances to customers. For ECL models, we involved our modelling specialists to assess the methodology, challenge the underlying assumptions and to independently reperform the calculation for a sample of loans.

<table>
<tr><th>Key audit matter in the audit of the company</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>IFRS 9 categorises loans into three stages depending on the level of credit risk or changes in credit risk for each individual loan. For loans without significant increase in credit risk, stage 1, expected credit losses are calculated for estimated defaults within 12 months. For loans where there is a significant increase in credit risk, stage 2, or loans in default, stage 3, a lifetime of expected losses are calculated.</td><td></td></tr>
<tr><td>Valuation of certain Level II financial instruments held at fair value

Refer to the Note 1 Accounting policies (Critical judgements and estimation uncertainty), Note 12 Derivatives and hedge accounting, Note 25 Classification of financial instruments and Note 26 Assets and liabilities at fair value to the financial statements.

Given the ongoing volatility and macro-economic uncertainty, valuation of financial instruments continues to be an area of inherent risk.

The valuation of Level II financial instruments utilises observable inputs for recurring fair value measurements.

Important areas in valuation of financial instruments held at fair value relate to:
• Framework and policies relating to models and valuation;
• Internal controls relating to fair value hierarchy, fair value adjustments, price testing and model control & governance; and
• Disclosures of financial instruments.</td><td>We assessed and tested the design and operating effectiveness of the controls over:
• The identification, measurement and oversight of valuation of financial instruments
• Fair value hierarchy, fair value adjustments and independent price verification
• Model control and governance.

We examined the Company’s independent price verification processes, model validation and approval processes, controls over data feeds and inputs to valuation and the Company’s governance and reporting processes and controls.

We performed an independent valuation of a sample of positions.

In respect of fair value adjustments for derivatives, we assessed the methodology applied.</td></tr>
<tr><td>IT systems supporting processes over financial reporting

The Company’s financial reporting is highly dependent on IT systems supporting automated accounting and reconciliation procedures. To ensure complete and accurate financial records it is important that the IT general controls are designed properly, and they operate effectively.</td><td>We have tested the design and operating effectiveness for controls related to the IT systems relevant for financial reporting. Our assessment included, access to program and data as well as program development and changes.

For logical access to program and data, audit activities included testing of addition of access rights, removal of access rights and monitoring of appropriateness as well as appropriate segregation of duties.

Other areas tested included monitoring of IT systems and controls over changes to IT-systems.</td></tr>
</table>

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

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

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

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

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

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

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

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

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

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

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

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

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

Other Reporting Requirements

Appointment
Our appointment represents a total period of uninterrupted engagement of 4 years.

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

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

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

In our opinion

- the information in the report of the Board of Directors is consistent with the information in the financial statements
- the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

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

Helsinki 19 February 2020

PricewaterhouseCoopers Oy
Authorised Public Accountants

Juha Wahlroos
Authorised Public Accountant (KHT)

Corporate Governance Report 2019

Application by Nordea Mortgage Bank Plc

Nordea Mortgage Bank Plc (NMB) is a Finnish public limited company and a wholly owned subsidiary of Nordea Bank Abp, the listed parent company of the whole Nordea Group. In this report the Nordea Group is referred to as "Nordea". A description of corporate governance in Nordea is included in the 2019 Annual Report of Nordea Bank Abp.

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

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

Nordea Mortgage Bank Plc submits this Corporate Governance Report as an issuer of bonds. This report has been prepared following the guideline on Corporate Governance Statement in the Finnish Corporate Governance Code 2015 where applicable. This report is submitted as a separate report from the Annual Report 2019 and it is available on www.nordea.com.

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

On Internal Governance in Nordea Mortgage Bank Plc

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

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

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

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

Members of the Board of Directors of NMB until 7 March 2019 were Petri Nikkilä (Chairman), Hanna-Maria Heikkinen, Nicklas Ilebrand (Deputy Chairman), Ola Littorin and Sara Mella.

As from 7 March 2019 the members of the Board were Sara Mella (Chairman), Kaj Blomster, Hanna-Maria Heikkinen, Nicklas Ilebrand (Deputy Chairman), Erja Ketko, Ola Littorin and Timo Nyman.

As from 5 April 2019 the members of the Board were Sara Mella (Chairman), Kaj Blomster, Hanna-Maria Heikkinen, Erja Ketko, Marte Kopperstad (Deputy Chairman), Ola Littorin and Timo Nyman.

Further information on the members of the Board of Directors can be found in the section "Nordea Mortgage Bank's administrative and management bodies" in the Board of Director's report of Nordea Mortgage Bank Plc and on www.nordea.com.

The term of office of the members of the Board of Directors is not limited. The retirement age for members of the Board of Directors shall be 70.

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

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

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

It is particularly incumbent upon the Board of Directors to:

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

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

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

Work of the Board of Directors

In 2019, the Board of Directors held 15 meetings. Four meetings were held in Helsinki while three meetings were phone meetings and eight meetings were held per capsulam.

Meeting attendance in 2019:

As from 1 January 2019 until 7 March 2019

Petri Nikkilä, Chairman	4/5
Hanna-Maria Heikkinen	5/5
Nicklas Ilebrand, Deputy Chairman	4/5
Ola Littorin	3/5
Sara Mella	5/5

As from 7 March 2019 until 5 April 2019

Sara Mella, Chairman	1/1
Kaj Blomster	1/1
Hanna-Maria Heikkinen	0/1
Nicklas Ilebrand, Deputy Chairman,	1/1
Erja Ketko	1/1
Ola Littorin	1/1
Timo Nyman	1/1

As from 5 April 2019 until 31 December 2019

Sara Mella, Chairman	9/9
Kaj Blomster	9/9
Hanna-Maria Heikkinen	7/9
Erja Ketko	9/9
Marte Kopperstad, Deputy Chairman	9/9
Ola Littorin	9/9
Timo Nyman	8/9

The Board regularly follows up on the strategy, financial position and development as well as risks. The financial targets and the strategy will be reviewed on an annual basis. In 2019, the Board discussed issues related to the risk strategy and risk appetite framework, AML, internal control and compliance, recovery planning details, housing loan and covered bond market etc.

The Secretary of the Board of Directors is Tarja Ikonen, Chief Operating Officer of Nordea Mortgage Bank Plc. In November and December Jouni Mikkonen and Teemu Aikasalo have been responsible for the secretarial tasks of the Board of Directors.

Board committees
The Board of Directors of Nordea Mortgage Bank Plc has two Board committees: The Audit Committee (AC) and the Risk Committee (BRIC or Committee).

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

The members of the Audit Committee were Hanna-Maria Heikkinen (Chairman) and Nicklas Ilebrand until 7 March 2019. As from 7 March until 5 April 2019 the composition of the Audit Committee was Hanna-Maria Heikkinen (Chairman), Nicklas Ilebrand and Kaj Blomster. As from 5 April 2019 the composition of the Audit Committee was Hanna-Maria Heikkinen (Chairman), Kaj Blomster and Marte Kopperstad.

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

The majority of the members of the AC are to be independent of NMB and its shareholder. The AC assists the Board in ensuring the quality of NMB’s financial reporting process and in that connection reviews and monitors NMB’s quarterly financial reporting and the external auditors’ reports on key matters arising from their audit of NMB’s financial statements and reviews NMB’s annual and interim reports. The AC shall review the external audit plan. Further the Committee shall assess in discussions with the external auditor the threats to their independence and the safeguards applied to mitigate those threats as documented by them, to monitor on the provision of other services in addition to audit that the external auditor is allowed to provide to NMB, and annually review the external auditor’s disclosure of such other services and shall assess and ensure that the internal and external auditors annually confirm in writing their impartiality and independence. The AC shall review Group Internal Audit’s (GIA) audit plan as well as GIA’s periodic reports, including the audit log. The AC shall prepare the election of the external auditor prior to the Annual General Meeting and shall annually review the Company Directive for Audit Committee. In 2019, the AC held five meetings.

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

The members of the Committee were Kaj Blomster (Chairman), Erja Ketko and Timo Nyman.

The majority of the members of the BRIC are to be independent of NMB and its shareholder. BRIC assists the Board in fulfilling its oversight responsibilities concerning management and control of the risks, risk frameworks, controls and processes associated with NMB's operations, including credit, market, liquidity, business, operational risk, conduct and compliance, as well as related frameworks and processes. BRIC shall take appropriate actions in response to Group Risk & Compliance (GRC) and Group Internal Audit (GIA) reports on significant deficiencies and risks presented to BRIC. In 2019, the BRIC held five meetings.

Chief Executive Officer (CEO), Deputy CEO and Management Group
Nordea Mortgage Bank Plc has a Chief Executive Officer (CEO) and a Deputy CEO. The CEO of Nordea Mortgage Bank was Thomas Miller until 13 November 2019 when he resigned from the company. As from 13 November 2019 Tarja Ikonen has acted as a deputy CEO.

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

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

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

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

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

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

Chief Risk Officer
NMB has a Chief Risk Officer (CRO). The CRO is an independent second line of defence risk management function within NMB. The CRO shall provide a complete view of the whole range of risks in NMB to the Board of Directors and ensure the coordination of risk management activities and adequate risk management set-up in the legal entity. The CRO also reports to Group Risk & Compliance (GRC) which is responsible for identifying, measuring, monitoring and reporting on all risks on the Nordea Group level.

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

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

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

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

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

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

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

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

Leading officials
Members of the Board of Directors, the CEO and the Deputy CEO of NMB are considered to hold positions in which they discharge managerial responsibilities in NMB and are thus classified as Leading Officials.

Other persons in such leading positions that they are to be considered as Leading Officials, are members of NMB's Management Group following decision and notification by the Group Compliance Officer. The same will apply to other persons in such leading positions in NMB, or with other qualified duties of a permanent nature, that would normally involve access to undisclosed information regarding circumstances that may affect the price of covered bonds issued by NMB who have the power to take managerial decisions affecting the future developments and business prospects of the company.

Insider lists
The Group Compliance identifies and notifies the persons who due to their position or employment have access either regularly or on an occasional basis to Inside Information regarding NMB and who thereby are to be included on the specific insider lists. Such persons are required to separately acknowledge in writing the duties related to their position as insiders and are aware of the sanctions applicable to insider dealing and unlawful disclosure of Inside Information.

Employees who receive Inside Information relating to NMB in connection with a project, a transaction or the support of their legitimate role must be entered on a case-based insider list. The person heading the project or unit where the Inside Information is at hand shall always assess the need to establish a case-based insider list and report the case to the unit's Compliance Officer.

Trading in Securities issued by Nordea Mortgage Bank Plc
Leading Officials are restricted from trading in Financial Instruments issued by NMB during a period of 30 calendar days before (and including) the date of the publication of an interim financial report or a year-end report by NMB (the "Closed Period"). For avoidance of doubt, the Closed Period ends on the day after the publication of the report, i.e. the trading restriction continues to apply on the day of publishing.

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

Leading Officials employed by the Nordea Group are subject to the one-month-rule. This means that the time between the acquisition and disposal of a financial instrument and correspondingly between the disposal and acquisition of a financial instrument cannot be less than one month. Nordea employees are not permitted to carry out any short-term trading in Financial Instruments in such a way that the investment, or a combination of investments results in the stay out/holding period being circumvented.

Report on the key aspects of the systems for internal control and risk management regarding financial reports for the financial year 2019
Nordea Mortgage Bank Plc is part of the Nordea Group. The internal control and risk management systems in relation to the financial reporting process are organised at Nordea level but the risk management is performed at an entity level. Financial reporting processes are fully integrated within Nordea. The Board of Directors of Nordea Mortgage Bank Plc monitors financial and risk reporting at Nordea Mortgage Bank Plc level and has dealt with the risk reports at Nordea Mortgage Bank Plc level. Nordea Mortgage Bank Plc complies with the Group Internal Rules and supporting instructions to the extent applicable.

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

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

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

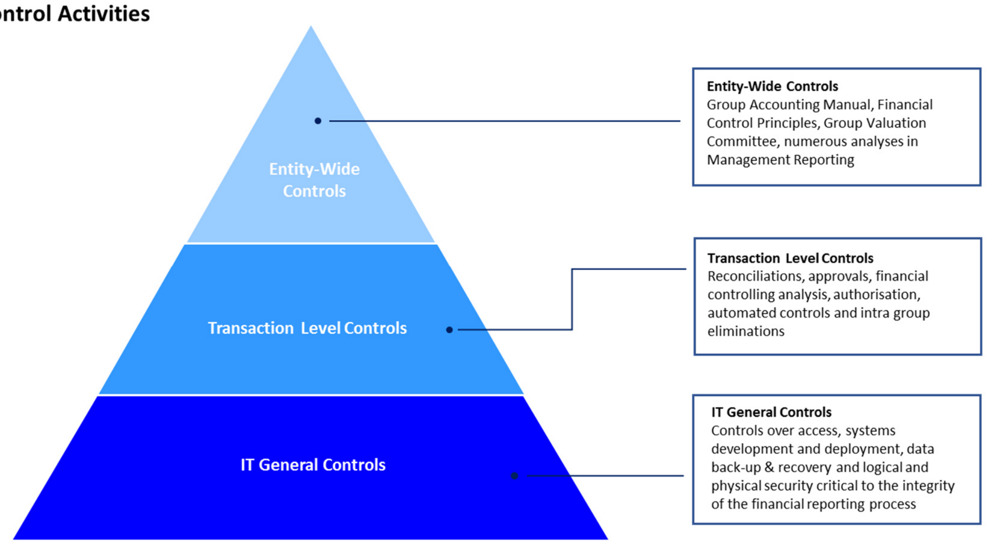
Clear roles and responsibilities are critical in the governance of the internal control of financial reporting where the risk owners in the business areas and Group Finance are are responsible for the risk management activities. A risk management function supports the Group CFO in maintaining a Group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

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

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

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

Control Activities



The heads of the respective units are primarily responsible for managing the risks associated with the units' operations and financial reporting processes. This responsibility is primarily supported by the Group Accounting Manual (GAM), the Financial Control Principles and various governing bodies, such as the Group Valuation Committee. The GAM includes a standard reporting package used by all entities to ensure consistent use of Nordea's principles and coordinated financial reporting. Fundamental internal control principles at Nordea are the segregation of duties and the four-eyes principle when approving, for instance, transactions and authorisations.

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

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

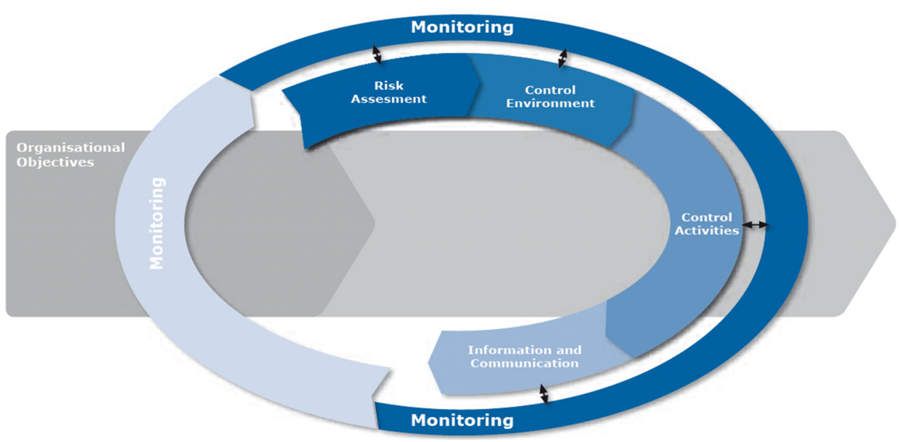
Information & Communication
Group Finance is responsible for ensuring that the Group Accounting Manual and the Financial Control Principles are up-to-date and that changes are communicated with the responsible units. These governing documents are broken down into guidelines and standard operating procedures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

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

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

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

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



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

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

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

Auditors
According to the Articles of Association, the auditor must be elected by the General Meeting for a term of one year. NMB's auditors were elected by the Annual General Meeting of Nordea Mortgage Bank Plc on 7 March 2019. The auditor must be an audit firm authorised by the Finnish Chamber of Commerce.

The current auditor:

PricewaterhouseCoopers Oy
Authorised Public Accountants

Auditor with main responsibility
Juha Wahlroos
Authorised Public Accountant

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

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