

**Nordea**

**Nordea Mortgage Bank Covered Bonds**  
Q4 2019 Debt investor presentation



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# 1. In brief

# Nordea covered bond operations

Q4 2019

<p><i>Four aligned covered bond issuers with complementary roles</i></p>	<p>Nordea Eiendomskreditt</p> 	<p>Nordea Hypotek</p> 	<p>Nordea Kredit</p> 	<p>Nordea Mortgage Bank</p> 
Legislation	Norwegian	Swedish	Danish	Finnish
Cover pool assets	Norwegian residential mortgages	Swedish residential mortgages primarily	Danish residential & commercial mortgages	Finnish residential mortgages primarily
Cover pool size	EUR 16.9bn (eq.)	EUR 53.5bn (eq.)	Balance principle	EUR 21.9bn
Covered bonds outstanding	EUR 9.9bn (eq.)	EUR 31.8bn (eq.)	EUR 58.6bn (eq.)*	EUR 16.1bn
OC	71%	68%	8%*	37%
Issuance currencies	NOK, GBP, USD, CHF	SEK	DKK, EUR	EUR
Rating (Moody's / S&P)	Aaa / -	Aaa / AAA	Aaa / AAA	Aaa / -

- Covered bonds are an integral part of Nordea's long term funding operations
- Issuance in Scandinavian and international currencies
- ECBC Covered Bond Label on all Nordea covered bond issuance

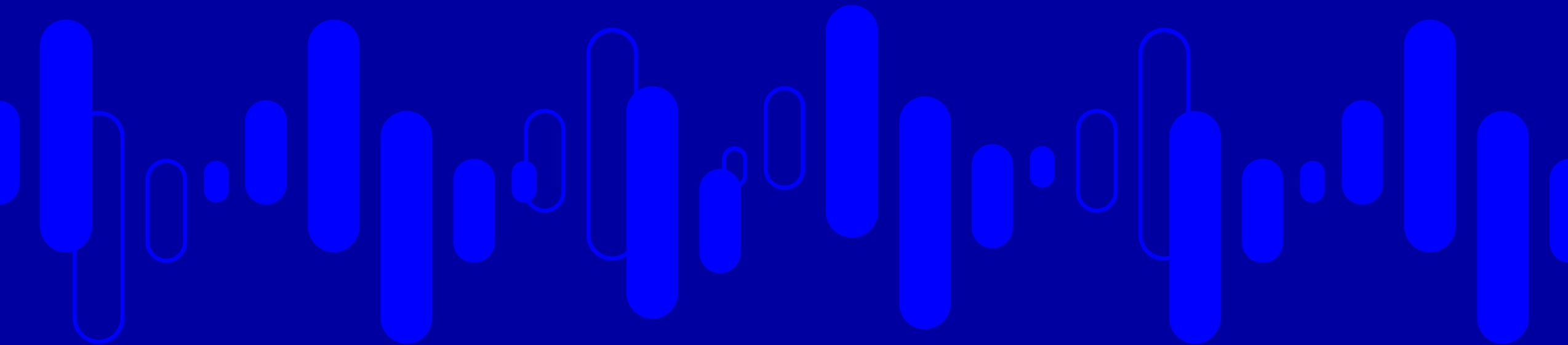


# Nordea Mortgage Bank Plc – overview

## Q4 2019

- 100% owned subsidiary of Nordea Bank Abp (as of October 1<sup>st</sup>) - the largest Nordic financial institution
- Operates as a mortgage credit institution with the main purpose of issuing covered bonds
- Licensed by the European Central Bank to issue covered bonds according to the Finnish covered bond legislation (Covered Bond Act (688/2010) or CBA)
- Market share of Nordea ~29% of the Finnish mortgage market (housing loans)
- Acting in a healthy and conservative Finnish housing market
- Dedicated liquidity line provided by Nordea Bank Abp to manage daily cash needs and ensure compliance with external and internal requirements regarding liquidity management
- Covered bonds rated Aaa by Moody's

## 2. Cover pool characteristics



# Cover pool key characteristics

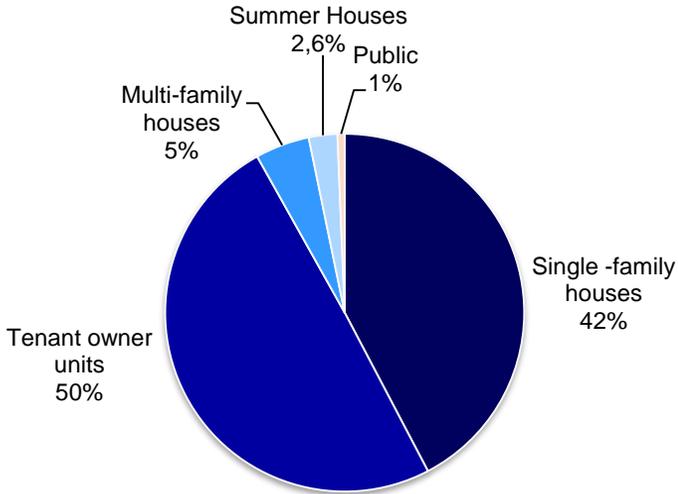
Q4 2019

Cover pool summary	
Pool notional	EUR 21.9bn
Outstanding Covered Bonds	EUR 16.1bn
Cover pool content	Mortgage loans secured by residential property. Loans guaranteed by public sector
Geographic distribution	Throughout Finland with concentration in urban areas
Asset distribution	99.3% residential, 0.7% public sector
Weighted average LTV*	49.8% (indexed, calculated per property)
Average loan size*	EUR 66.8k
Over collateralisation, OC	37%
Rate type**	Fixed rate 1.5%, Floating rate 98.5%
Amortisation**	Bullet/ interest only 5.2%, Amortising 94.8%
Substitute assets	None
Pool type	Dynamic
Loans originated by	Nordea Bank Abp (as of 1 October 2018)

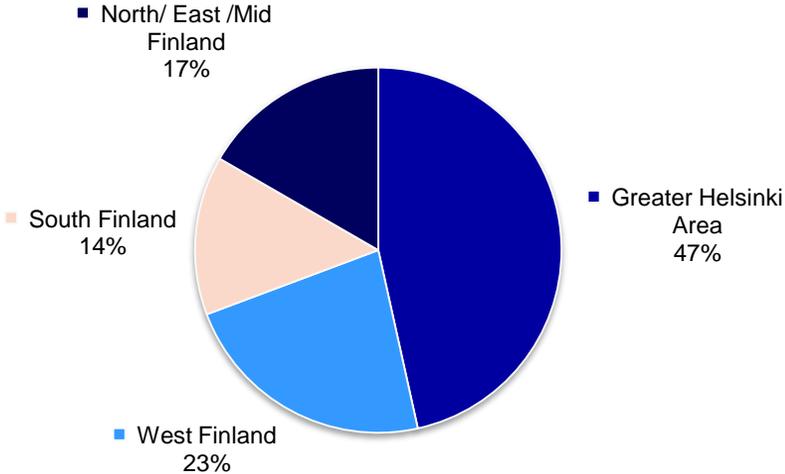
# Cover pool key characteristics (2)

Q4 2019

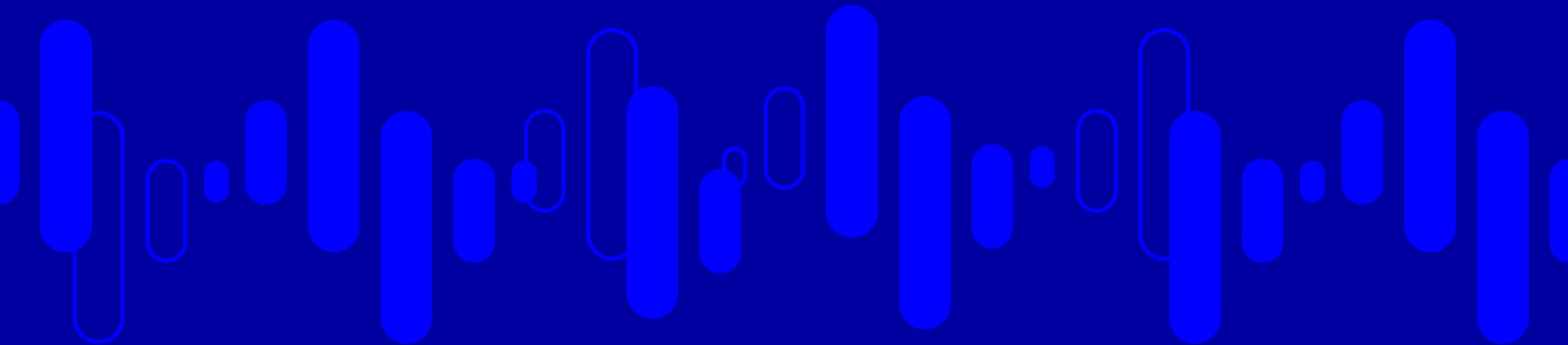
Cover pool balance by loan category



Cover pool balance by region



### 3. Asset quality



# Loan To Value (LTV)

Continuous distribution where each loan can exist in multiple buckets

Q4 2019

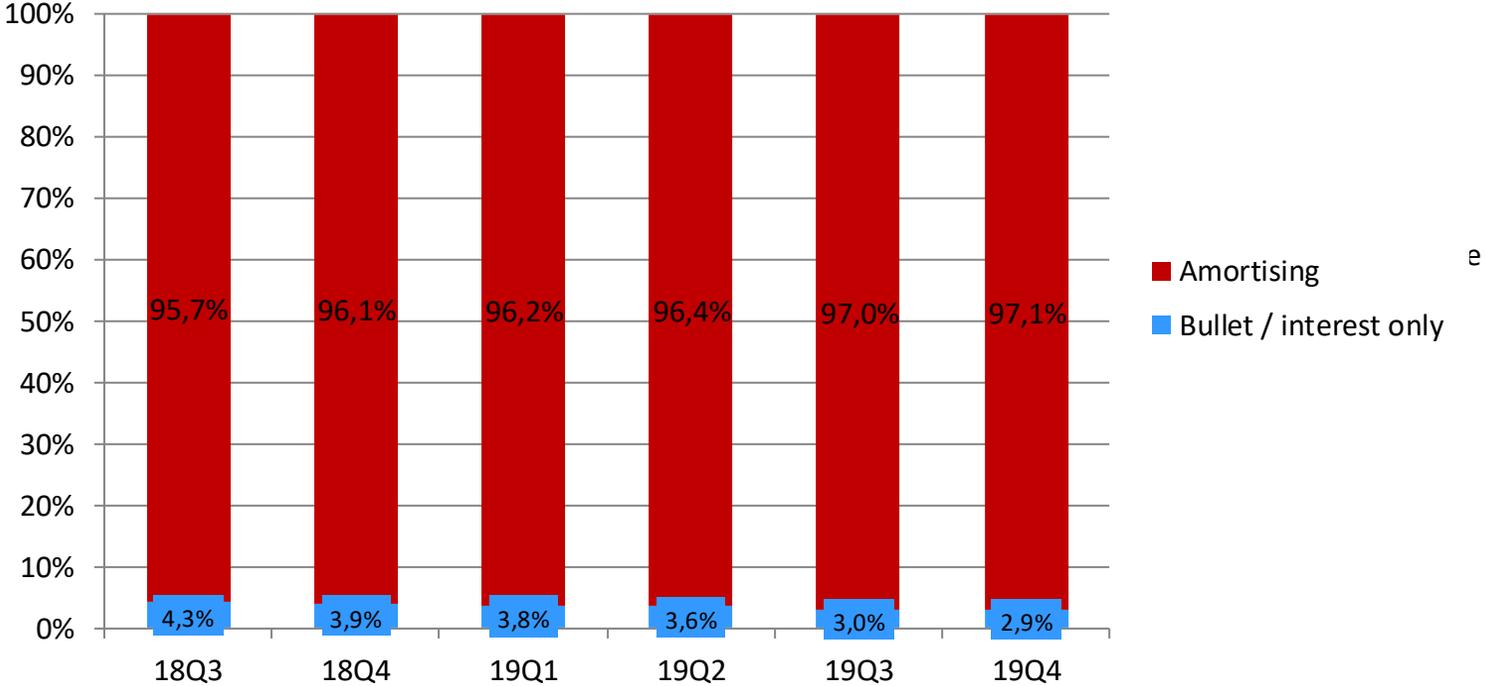
<b>Weighted Average LTV – Unindexed</b>		<b>51.1%</b>	
<b>LTV buckets</b>		<b>Nominal (EURm)</b>	<b>% Residential Loans</b>
>0 - <=40 %		16 568	76,00%
>40 - <=50 %		2 346	10,76%
>50 - <=60 %		1 746	8,01%
>60 - <=70 %		1 141	5,24%
Total		21 801	100%
<b>Weighted Average LTV - Indexed</b>		<b>49.8%</b>	
<b>LTV buckets</b>		<b>Nominal (EURm)</b>	<b>% Residential Loans</b>
>0 - <=40 %		16 843	77,26%
>40 - <=50 %		2 262	10,38%
>50 - <=60 %		1 642	7,53%
>60 - <=70 %		1 054	4,83%
Total		21 801	100%

# Loan structure

Q4 2019

## Rate type

## Repayment



# Underwriting criteria

## Q4 2019

- Residential mortgage loans
  - Nordea's credit decision is based on the borrower's repayment capacity and collateral is always taken
  - Collateral must be in the form of mortgages in real estate or in shares in housing companies
  - Repayment ability of borrowers is calculated using stressed scenarios
  - Credit bureau check is always conducted (Suomen Asiakastieto)
  - Individual valuation of property based on market value
  - Repayment schedules ranging from 20 to 35 years
- Multi-family residential mortgage loans
  - Borrowers with strong EBITDA/debt and cash flow based on e.g. long-term high quality lease contracts and adequate interest rate hedging
  - Individual credit decision based on credit policy and rating
  - An evaluation of all property-related commitments is performed in the ordinary annual review against a background of quality issues/risk factors regarding the property itself, the lease, the management, the long-term cash flow and -strength of balance sheet/gearing. The analysis focuses on the repayment capacity
  - Individual valuation of property based on market value

## 4. Covered Bond framework

# Finnish covered bond framework

## Q4 2019

- Legal framework
  - Finnish Covered Bond Act (statute 688/2010)
- Registration
  - Collateral assets remain on the balance sheet of the issuer
  - Covered bonds, collateral and relevant derivative contracts are entered in a separate register
- Limit on LTV ratio – based on the current value
  - 70% for housing loans (residential property)
  - 60% for commercial loans (commercial property)
- Matching cover requirements
  - Total value of the cover pool must be greater than the aggregate outstanding principal amount of the covered bonds
  - Net present value of the cover pool must be at least 2% above the net present value of the liabilities under the covered bonds
- Liquidity requirements
  - Average maturity of the covered bonds must not exceed the average maturity of the loans entered in the register
  - Total amount of interest accrued from the cover pool assets, during any 12-month period, must be sufficient to cover the total amount payable under covered bonds and derivatives transactions during the same period

## Finnish covered bond framework (2)

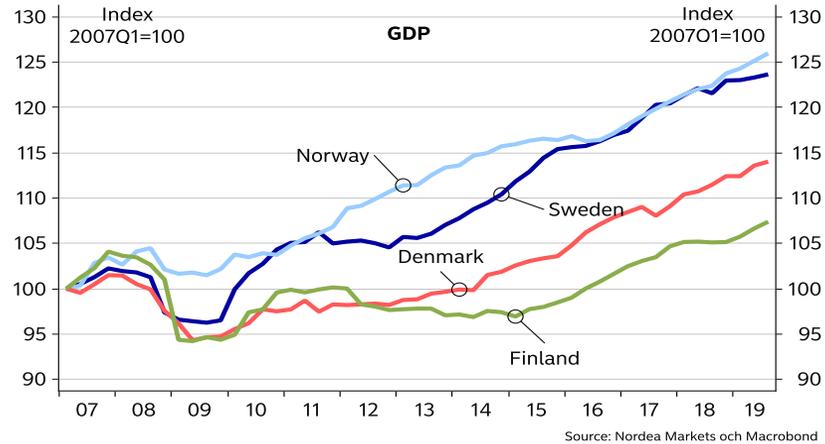
Q4 2019

- Bankruptcy remoteness and preferential claim
  - Isolation of registered collateral assets, registered derivatives from all other assets and liabilities of the insolvent issuer
  - Holders of covered bonds together with counterparties of registered derivatives and bankruptcy liquidity loans in bankruptcy would rank pari passu and have a preferential claim to the cover pool (subject to a maximum LTV ratio of 70% for residential loans and 60% for commercial loans)
- Post-bankruptcy procedures
  - A bankruptcy administrator is appointed by the court (administration of estate) and a supervisor is appointed by the Finnish FSA (protection of covered bond creditors' rights)
  - The cover pool, derivatives and covered bonds to be kept separated from the bankruptcy estate as long as stipulated matching and liquidity requirements are met
  - Covered bond creditors and counterparties of registered derivatives would rank pari passu and have a preferential claim on the proceeds of the liquidation of the cover pool

## 5. Macro

# Nordic economies – solid

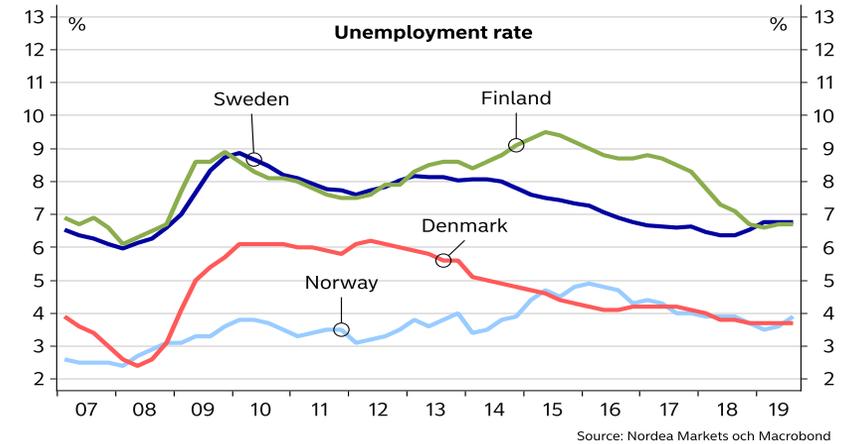
## GDP development



## Comments

- The Nordic economies are well equipped to handle the global slowdown. Sweden is set to recover in the end of 2020, and Denmark is headed for a soft landing after a six-year upswing. Norway will continue to show strength after a solid 2019, while growth is stalling in Finland
- Norway has seen three rate hikes in 2019 and, more surprisingly, the Riksbank hiked the repo rate in Sweden to 0% in December. Monetary policy in the Nordics will however be more cautious in 2020
- Swedish unemployment is set to increase further due to weakening domestic demand. The Danish labour market is expected to remain balanced as well as in Norway. Finnish unemployment is expected to hover at current levels if no structural reforms are implemented

## Unemployment rate



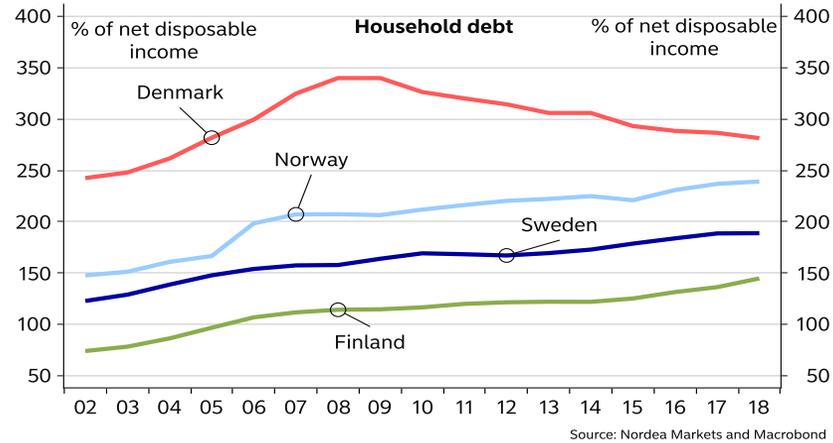
## GDP forecast, %

Country	2017	2018	2019E	2020E	2021E
Denmark	2.0	2.4	2.1	1.5	1.5
Finland	3.1	1.7	1.5	1.0	0.5
Norway	2.0	2.2	2.5	1.8	1.6
Sweden	2.7	2.3	1.1	0.8	1.8

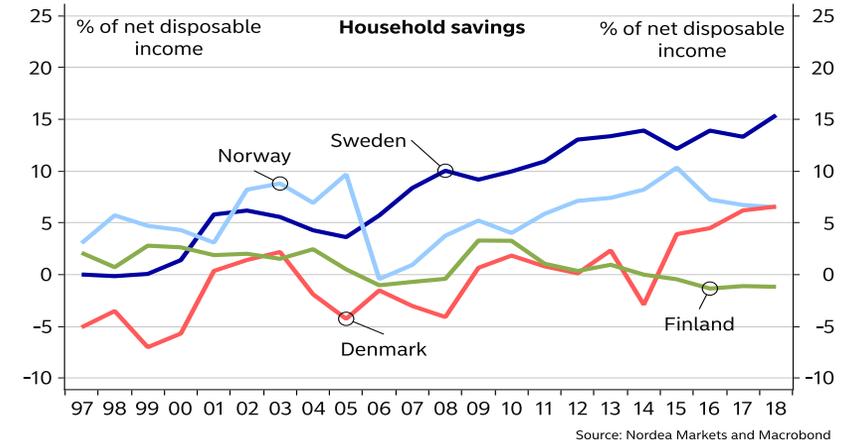
Source: Nordea Markets Economic Outlook January 2020, Macrobond and OECD.

# Household debt remains high, but so do private and public savings

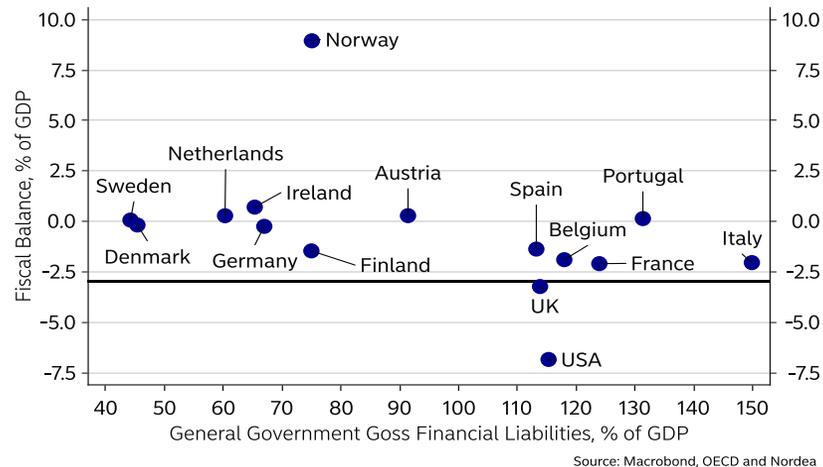
## Household debt



## Household savings



## Public balance/debt, % of GDP, 2020E

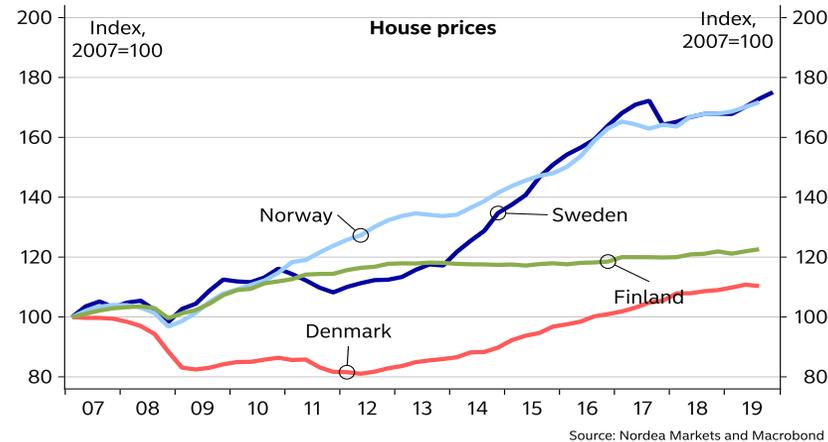


## Comments

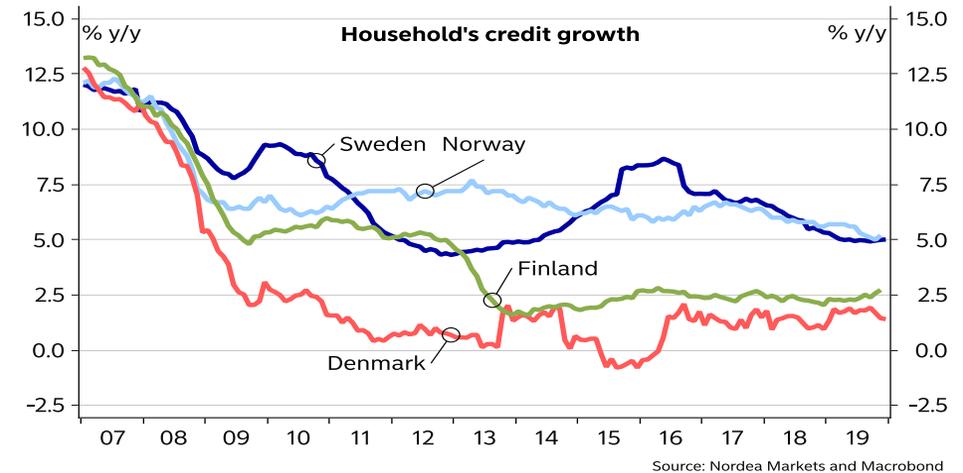
- Household debt continues to rise somewhat faster than income in Norway, Finland and Sweden. Denmark continues to move in the opposite trend
- Meanwhile, households' savings rates remain at high levels, and are increasing in Sweden and Denmark. Finnish savings have stabilised in recent years and are finally showing signs of picking up
- Nordic public finances are robust due to the overall economic recovery and firm fiscal policies. Norway is in a class of its own due to oil revenues

# House price development in the Nordics

## House prices



## Households' credit growth



## Comments

- Low interest rates continue to keep Nordic housing markets afloat and modest price increases are expected in the coming years. Prices continue to rise in Sweden and Norway. Danish home prices are still at a low level. The Finnish housing market was unusually active in 2019. However, uncertainty will remain while low interest rates will support prices in growing cities. Credit growth in the Nordics is moving sideways except for in Denmark
- Swedish house prices have exceeded the previous top in 2017. The Riksbank's rate hike in late 2019 may temporarily dampen the pick-up, but the prospect of low interest rates in the foreseeable future will likely be more important for housing prices than rising unemployment and the Riksbank's isolated rate hike
- Last year's increase in interest rates in Norway and good supply of new housing have contributed to keeping a lid on housing prices in Norway. The total rate hike was nonetheless modest, and interest rates are still very low. The housing market is thus well balanced and the risk of a significant turnaround in the market is considered to be very low
- 2019 was a good year for the Danish housing market and prices rose across most of the country. Housing prices are expected to continue to rise by around 3% annually – driven by persistently low interest rates and the expected stronger purchasing power of households

## 6. Further information

# Nordea Mortgage Bank – outstanding benchmark covered bonds

Q4 2019

Breakdown by ISIN				
ISIN	Currency	Amount (EURm)	Maturity	Coupon
XS0874351728	EUR	1 250	2020-01-15	1,375
XS1204134909	EUR	1 000	2020-06-17	0,125
XS0591428445	EUR	1 000	2021-02-10	4
XS1554271590	EUR	1 500	2022-01-24	0,025
XS1308350237	EUR	1 250	2022-10-19	0,625
XS1784067529	EUR	1 250	2023-02-28	0,25
XS1522968277	EUR	1 000	2023-11-21	0,25
XS1132790442	EUR	1 000	2024-11-05	1
XS1825134742	EUR	1 000	2025-05-23	0,625
XS1963717704	EUR	1 500	2026-03-18	0,25
XS1204140971	EUR	1 000	2027-03-17	0,625
XS2013525410	EUR	1 000	2027-06-18	0,125
XS1784071042	EUR	750	2033-02-28	1,375
	<b>Total</b>	<b>14 500</b>		

# Contacts

## Investor Relations

### Andreas Larsson

Head of Debt IR  
Nordea Bank AB  
Mobile: +46 709 70 75 55  
Tel: +46 10 156 29 61  
[andreas.larsson@nordea.com](mailto:andreas.larsson@nordea.com)

### Maria Caneman

Debt IR Officer  
Nordea Bank AB  
Mobile: +46 768 24 92 18  
Tel: +46 10 156 50 19  
[maria.caneman@nordea.com](mailto:maria.caneman@nordea.com)

## Group Treasury & ALM

### Juho-Pekka Jääskeläinen

Senior Treasury Manager  
Tel: +46 8 407 9027  
Mobile: +46 721 43 21 48  
[juho-pekka.jaaskelainen@nordea.com](mailto:juho-pekka.jaaskelainen@nordea.com)