Frequently asked questions and corona impact on Nordea

Balance sheet

- Nordea is a well-capitalised bank with a strong balance sheet that amounted to EUR 555bn at the end of 2019.
- Nordea is soundly funded and does not need to issue either senior unsecured funding or capital instruments for some time ahead. Nordea is well positioned for senior unsecured long-term funding during the rest of 2020. Net stable funding ratio (NSFR) at year-end 2019 was 108.6% according to the revised Capital Requirements Directive and Regulation (CRR2) and Liquidity Cover Ratio (LCR) 166%.
- Assets under management stood at all-time high EUR 324bn on 31 Dec 2019.
- Nordea's Common Equity Tier 1 ratio (CET1) was at the end of 2019 16.3%, 320 basis points (bps) above regulatory demand.

Net interest income (NII) – approx. 50 % of total revenues

- NII is the difference between revenues generated by interest-bearing assets (such as mortgages, commercial loans) and the cost of servicing (interest-burdened) liabilities (such as bonds, deposits). At the end of 2019, Nordea's total NII was EUR 4,318m.
- Generally lower rates have a negative impact on NII. If rates were cut by 50bp Nordea's NII sensitivity is approximately EUR -300m, assuming full pass-through on the asset and liability side.

Net Commission Income (NCI) – approx. 35 % of total revenues

- Net Commission Income derives from fees from savings and investments, payments, cards and lending related commissions. At the end of 2019, Nordea's total NCI was EUR 3,011m.
- The business area (BA) contribution to NCI is the following; Personal Banking 20%, Business Banking 17%, Large Corporates & Institutions 13% and Asset & Wealth Management 50%. Accordingly, the Assets under management (AuM) have a large impact on NCI income.

- Of Nordea's AuM of EUR 324bn (year-end 2019), approximately 40% was in equities. A good proxy to track the development is to look at the world index, which in Q1 was down 21% compared to Q4 (average was down 2%).
- Even though the sales machine has been working well in the beginning of the year, outflows are expected due to the current situation and Q1 is usually lower due to dividend pay-outs (seasonality).

Costs

- Nordea's underlying total costs 2019 amounted to EUR 4.9bn. Apart from the significantly reduced travelling costs and increased network costs from having more than 20,000 employees work on distance, Nordea's cost base has not been affected by corona. For 2020 Nordea maintains its target of total cost of EUR 4.7bn.

Credit risk

- Nordea has consequently de-risked its operations and divested all its non-Nordic operations. Nordea has a conservative lending policy and had, at the end of 2019, outstanding loans to the public of EUR 323bn.

- Following the corona outbreak, Nordea offers customers several instalment free months for both retail and business customers. It is still too early to determine the impact on all customers.

Corona impacts on customers' credit quality can be expected to be seen from different directions:

- Exposures to travelling and leisure as well as land and air transportation, which is limited, in total around 1.5% of Nordea's total credit portfolio. Large transportation and shipping customers are on average highly rated. The shipping sector in total is 2.5% of Nordea's total credit portfolio. The exposure to cruise ships is a smaller part, around 0.1% of the total credit portfolio.
- Manufacturing companies and trading companies may be affected, either through weaker demand in the market or from value chain disturbances. Manufacturing and trading companies have often strong or medium-level credit quality.
- The oil and offshore companies are affected by the very low oil price, but following that Nordea's de-risking and reduced exposures, the exposure to these segments is now around 0.7% of Nordea's total credit portfolio.

Postponed AGM and dividend

Due to safety concerns for its shareholders and personnel, Nordea decided to postpone its Annual General Meeting (AGM) to 14 May 2020.

Nordea Stock Exchange release 31.3.2020
In light of the COVID-19 pandemic and the related recommendation adopted by the European Central Bank ("ECB") on 27 March 2020, the Board of Directors of Nordea has decided to propose postponement of the decision on dividend payment for the financial year 2019 and therefore to change its proposal for dividend payment to the Annual General Meeting planned to be held on 14 May 2020.

The ECB considers it is essential that banks conserve capital to retain their capacity to support the economy in an environment of heightened uncertainty caused by COVID-19. The ECB therefore recommends that significant credit institutions, at least until 1 October 2020, refrain from dividend distributions, do not undertake any irrevocable commitment to pay out dividends for the financial years 2019 and 2020 and refrain from share buy-backs aimed at remunerating shareholders.

Nordea is one of the most strongly capitalised banks in Europe. However, the Board of Directors acknowledges the uncertainty caused by COVID-19 and agrees with the need for action by all banks to support Europe's society and economy. Following the ECB recommendation, the Board of Directors therefore proposes postponement of the decision on dividend payment for the financial year 2019. The Board of Directors proposes that the Annual General Meeting planned to be held on 14 May 2020 would authorise the Board of Directors to decide on a dividend payment of a maximum of EUR 0.40 per share for the financial year 2019 to be distributed in one or several instalments. The authorisation would be valid until the Annual General Meeting in 2021. The Board of Directors intends to follow the recommendation adopted by the ECB and refrain from deciding on a dividend payment based on the authorisation before 1 October 2020. Nordea will publish possible decisions on dividend payment separately, and simultaneously confirm the dividend record and payment dates.

The Annual General Meeting in 2021 will resolve on the distribution of profits for the financial year 2020 following the proposal by the Board of Directors expected to be published in Q1 2021.

- **CET1 and ROE**. A postponed dividend pay-out has no impact on Nordea's Common Equity Tier 1 ratio (CET1 ratio) whereas a cancelled dividend would increase CET1 by 100bps. A cancelled dividend would also have a negative impact of 40bps on Nordea's return on equity (ROE).

What actions have been taken by the ECB/EBA/SSM/Nordic regulators and how does it impact Nordea?
Background; Several authorities have announced measures on capital, funding and liquidity to ensure that banks can continue to fulfil their role in funding the real economy.

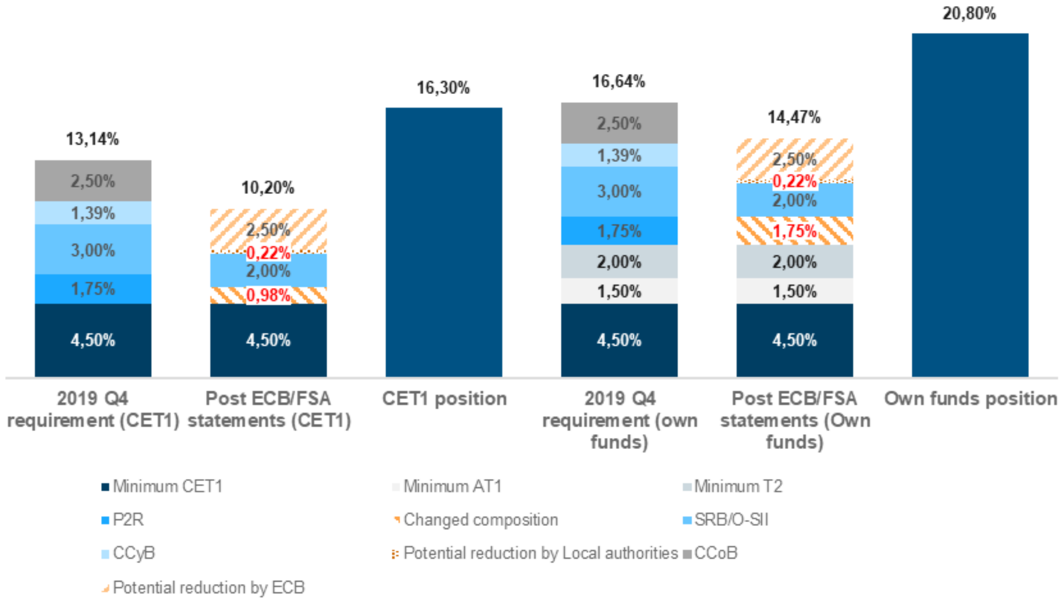
Capital:

- The ECB will also allow banks to partially use capital instruments already now, such as Additional Tier 1 (AT1) and Tier 2 (T2) capital to meet the Pillar 2 Requirements (P2R), which is a measure that was expected to be applicable from January 2021.

- Impact on Nordea capital;
  The decision from the Finnish FSA removes the 3% Systemic Risk Buffer (SRB) for Nordea and instead the 2% buffer for other systemically important institutions (O-SII) becomes applicable, reducing the overall requirement for systemic risk from 3% to 2%. It is also stated that this decision promotes a smooth transition to forthcoming changes in capital regulation (CRD V) which states that the buffers for SRB and O-SII should be additive.

- The ECB states that they will allow banks to operate temporarily at lower levels than normally. The ECB statement does not change the Minimum Distributable Amount (MDA) in any way without relevant amendments to SREP 2019 decisions. However, the message from the ECB should be interpreted as that there will be a larger acceptance and less harsh supervisory activities if requirements are breached.

- An overview of ECB statements on capital requirements is illustrated below. To date, no statements have been made from the Single Resolution Board so no reduction of Recovery and Resolution Plan indicators can be taken into account yet;



Funding and liquidity:

The newly launched Central bank facilities look supportive for both size and terms and will expectedly be utilised to ensure available liquidity to customers.

- **TLTRO III;** The ECB published new terms which will apply to TLTRO III operations between June 2020 and June 2021. The new terms offer the opportunity to take 3-year funding at a rate of -0.75%. In order to be eligible for the lowest funding rate banks must be able to maintain current lending levels to euro area non-financial corporations and households. Nordea is currently assessing the terms and the possibilities to participate.

- The Swedish Riksbank also announced a similar funding package. Banks will be granted a total of EUR 45bn 2-year loans against collateral. The loans are offered at an interest rate equivalent to the Riksbank's repo rate, at present 0%. Same as for the ECB facility, the terms of the loans will be conditioned on bank's lending growth. See more below

- Additionally, the **ECB**, the **Danish Central Bank**, the **Norwegian Central Bank** and the **Riksbank** have also announced extraordinary short-term lending facilities to ensure liquidity access to financial institutions. The facilities will be in place for as long as deemed necessary.

- **Liquidity;** The ECB will allow banks to operate temporarily below the required 100% level of the liquidity coverage ratio (LCR).

- ***The Riksbank's 2-year lending facility:***

  Central banks have introduced a wide range of lending facilities to enable banks to support the economy in the current situation. Nordea is not in need of additional liquidity to support customers, but wants, following consultation with the Riksbank, to support the central bank's initiative, to help reassure banks of all sizes that they can use the facility and operationally test the arrangements. Therefore, Nordea has participated in the Riksbank's 2-year facility, at the rate offered, which is initially 0.2%.

- ***Do you see any impact on Nordea's lending and other customer business?***

Nordea has a very strong starting point with an LCR of 166% at the beginning of the year and a maintained strong liquidity position and a strong capital position with a CET1 ratio of 16.3%. This strong position enables Nordea to support its customers. The central bank facilities positively affect Nordea's ability to continue to offer attractive loans to our customers.

- ***Do you see any risk or stigma around participating in the facilities?***
  We do not see any stigma attached to using these facilities and believe that they are at favourable terms.

- ***Do you plan to participate more in the facility going forward?***
  Nordea is continuously assessing various funding options, hereunder also continued participation in the offered funding facilities.