Macroeconomic view in Finland

Longest downturn in 150 years

![Indexed GDP graph](image)

Positive trends emerging

![Investments graph](image)

Comments

- Finnish economy in undergoing the longest downturn in 150 years
  - Central and local government deficits are a big challenge

- Possible decline in the exports to Russia might prolong the downturn, as Russia is one of the largest export partner in goods trading (10% of exports).

- There are anyhow some positive trends, which usually get also the Finnish exports to grow after a while
Loan losses and average PD development staying stable

PD development

- Average Corporate PD has gone down as new lending is increasingly to better rating classes
- Household average PD has increased slightly over the last two years.

Loan losses, Banking Finland, meur

- Loan losses are not showing an increased trend despite of macroeconomic situation
Accelerated cost efficiency program on track in Finland

Adjusting distribution to meet customer behavior
- Reduction of ~50 branches
- Reduction of ~90 cash

Reduction of personnel
- 250-300 FTE

Enhancing services in CC and online
- Remote meetings
- Chat
- Corporate CC services

Investing to establish a new CC site
- 3 sites existing in Finland + 1 in Estonia
Income momentum in Retail Finland

Comments

• Average lending margins on new lending raised during 2013 to a sustainable level

• Stable development during the last year on lending market shares
  • Housing loans
  • Corporate lending
  • Consumer credits

• Savings and investment fees fueled by good performance in investment sales

• New lending to customers in better rating classes than the stock
Future income opportunities

- Reprising the lending books by having the new lending margins above the book
- Gaining even larger share of Transaction banking
  - CM, FX, etc.
- Number of small entrepreneurs will grow in Finland going forward, generating new income opportunities

- Continuing the good sales of investment product
- There is room to increase the sales of consumer credits within our existing relationship customers
- When interest rates will rise, it will directly increase income due to heavy transaction account balance
Macroeconomic view
The starting point for 2014 sure looks pretty weak
Lost market shares

(total export quantity / export market)

Source: OECD
Private consumption declining in Finland

![Graph showing the volume of private consumption for Sweden, Finland, Denmark, and Estonia from 2005 to 2013. The index for 2007 is set at 100. The graph indicates a decline in consumption for all countries after 2008, with Estonia experiencing the most significant drop.](image-url)
March was one of the weakest export months in three years – Q1 GDP might show still another fall (q/q)
Production capacity declining in manufacturing

Tehdasteollisuuden tuotantokapasiteetti ja tuotantomäärä
(12 kk Ika)

Tuotantomäärä, 2010=100

capacity
Output

1995 1997 1999 2001 2003 2005 2007 2009 2011 2013
Confidence indicators zigzag and do not suggest a major recovery

Finland: Economic sentiment and GDP

Source: Nordea Markets and Reuters Ecowin
Euro area manufacturing PMI’s have improved – only moderate signs of improvement in Finnish industry

Finland: Manufacturing output and EA PMI

Index
Finland, Manufacturing output, %, y/y
SA, 3M avg
EA PMI, 3M avg

Lähde: Nordea Markets ja Reuters Ecowin
Only mild improvement in imports of key trading partners – no wonder exports are not expanding
Central and local government deficits are a big challenge

![Graph showing public sector income and expenditure over time with an increase in recent years. The graph includes lines for public expenditures, public income, and GDP, all showing an upward trend.]

Lähde: Nordea Markets ja Reuters Ecowin
Longest downturn in 150 years
Finland and Russia

✓ Russia is the largest export partner of goods trading
  • Export of goods 10 %.
  • Export of services 9 %.

✓ Russia’s share of energy imports 68%
  • Oil products 69%
  • Wood energy 59%
  • Nuclear energy 54%
Exports to Russia have already been declining.
There are anyhow some positive trends, which usually get also the Finnish exports to grow after a while.
Housing market view
Housing prices have peaked and are now declining modestly – expect small movements in the near term.
Housing prices have increased at the same pace as average earnings and market rents.
Housing price relative to rents have fallen all over Finland.
Housing sales are depressed

Number of dwellings sold, 2010 = 100

Seasonally adjusted Trend

Nordea Markets
New mortgages are down but seem to have hit the floor

Households: New mortgages, milj. euro

- Actual, SA
- Actual, trend
- New contracts, SA
- New contracts, trend

Nordea Markets
Mortgage rates are historically low

Household mortgage rates, %

- New mortgages
- All mortgages
- Average interest (all)
Finnish households have less debt and as much housing wealth as Swedish households

Household debt has stabilized at 120 per cent of disposable income

Housing wealth is more than three-fold relative to disposable income
Banking Finland result Q1
## Banking Finland Q1 2014

<table>
<thead>
<tr>
<th>EURm</th>
<th>Q114</th>
<th>Q413</th>
<th>Q313</th>
<th>Q213</th>
<th>Q113</th>
<th>Q114 vs Q413</th>
<th>vs Q113</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net interest income</td>
<td>184</td>
<td>179</td>
<td>173</td>
<td>163</td>
<td>144</td>
<td>3 %</td>
<td>28 %</td>
</tr>
<tr>
<td>Other income</td>
<td>117</td>
<td>115</td>
<td>110</td>
<td>112</td>
<td>115</td>
<td>2 %</td>
<td>2 %</td>
</tr>
<tr>
<td><strong>Total income</strong></td>
<td><strong>301</strong></td>
<td><strong>294</strong></td>
<td><strong>283</strong></td>
<td><strong>275</strong></td>
<td><strong>259</strong></td>
<td><strong>2 %</strong></td>
<td><strong>16 %</strong></td>
</tr>
<tr>
<td>Staff costs</td>
<td>-58</td>
<td>-57</td>
<td>-59</td>
<td>-55</td>
<td>-57</td>
<td>2 %</td>
<td>2 %</td>
</tr>
<tr>
<td>Other exp. excl. depreciations</td>
<td>-101</td>
<td>-108</td>
<td>-101</td>
<td>-97</td>
<td>-102</td>
<td>-6 %</td>
<td>-1 %</td>
</tr>
<tr>
<td><strong>Total expenses incl. allocations</strong></td>
<td><strong>-161</strong></td>
<td><strong>-166</strong></td>
<td><strong>-162</strong></td>
<td><strong>-154</strong></td>
<td><strong>-160</strong></td>
<td><strong>-3 %</strong></td>
<td><strong>1 %</strong></td>
</tr>
<tr>
<td>Profit before loan losses</td>
<td>140</td>
<td>128</td>
<td>121</td>
<td>121</td>
<td>99</td>
<td>9 %</td>
<td>41 %</td>
</tr>
<tr>
<td>Net loan losses</td>
<td>-7</td>
<td>-22</td>
<td>-14</td>
<td>-8</td>
<td>-13</td>
<td>-68 %</td>
<td>-46 %</td>
</tr>
<tr>
<td>Operating profit</td>
<td>133</td>
<td>106</td>
<td>107</td>
<td>113</td>
<td>86</td>
<td>25 %</td>
<td>55 %</td>
</tr>
<tr>
<td>RAROCAR, %</td>
<td>19 %</td>
<td>17 %</td>
<td>16 %</td>
<td>16 %</td>
<td>13 %</td>
<td>2 %</td>
<td>6 %</td>
</tr>
<tr>
<td>Cost/income ratio, %</td>
<td>54 %</td>
<td>57 %</td>
<td>57 %</td>
<td>56 %</td>
<td>62 %</td>
<td>-3 %</td>
<td>-8 %</td>
</tr>
<tr>
<td>Number of employees (FTEs)</td>
<td>3 923</td>
<td>3 949</td>
<td>3 946</td>
<td>3 986</td>
<td>3 981</td>
<td>-1 %</td>
<td>-1 %</td>
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<tr>
<td>Lending to corporates</td>
<td>15,0</td>
<td>14,7</td>
<td>14,5</td>
<td>14,3</td>
<td>14,2</td>
<td>2 %</td>
<td>6 %</td>
</tr>
<tr>
<td>Household mortgage lending</td>
<td>27,0</td>
<td>26,9</td>
<td>26,7</td>
<td>26,5</td>
<td>26,2</td>
<td>0 %</td>
<td>3 %</td>
</tr>
<tr>
<td>Consumer lending</td>
<td>6,3</td>
<td>6,3</td>
<td>6,3</td>
<td>6,2</td>
<td>6,2</td>
<td>0 %</td>
<td>2 %</td>
</tr>
<tr>
<td><strong>Total lending</strong></td>
<td><strong>48,3</strong></td>
<td><strong>47,9</strong></td>
<td><strong>47,5</strong></td>
<td><strong>47,0</strong></td>
<td><strong>46,6</strong></td>
<td><strong>1 %</strong></td>
<td><strong>4 %</strong></td>
</tr>
<tr>
<td>Corporate deposits</td>
<td>9,3</td>
<td>9,7</td>
<td>9,3</td>
<td>9,2</td>
<td>9,1</td>
<td>-4 %</td>
<td>2 %</td>
</tr>
<tr>
<td>Household deposits</td>
<td>21,4</td>
<td>21,6</td>
<td>21,8</td>
<td>22,3</td>
<td>22,3</td>
<td>-1 %</td>
<td>-4 %</td>
</tr>
<tr>
<td><strong>Total deposits</strong></td>
<td><strong>30,7</strong></td>
<td><strong>31,3</strong></td>
<td><strong>31,1</strong></td>
<td><strong>31,5</strong></td>
<td><strong>31,4</strong></td>
<td><strong>-2 %</strong></td>
<td><strong>-2 %</strong></td>
</tr>
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</table>
Profitability comparison Finland

ROE YtD Q1 2014

Nordea

- 1.9%*
- 15.6%
- +5.1%

SHB

- 10.8%
- +2.6%

OP Pohjola

- 2.1%*
- 7.9%
- +2.5%

Note: Change versus Ytd Q1 2013
RoE on allocated equity, aligned with group equity

*Wealth mgmt + Private Banking
Loan losses have stayed stable

Loan losses, Banking Finland, meur

- Loan losses are not showing an increased trend despite of macroeconomic situation

COMMENTS
Non performing loans staying on a low level

COMMENTS

- Household non performing loans showing a slight increase from a very low level
- Corporate non performing loans being flat
ULKOMAANKAUPPA MAITTAIN 2013
Kokonaiskauppavaihdon mukaan suuruusjärjestyksessä

Mrd. e

Tuonti
Vienti

Veräjä, Ruotsi, Saksa, Alankomaat, Kiina, USA, Iso-Britannia, Ranska, Viro, Belgia, Italia, Norja, Tanska, Puola