Nordea

Interim Report January-June 2002

Nordea Bank Finland Plc

Interim Report, January-June 2002

Nordea Bank Finland Plc (referred to as NBF) is a wholly-owned subsidiary of Nordea AB (publ), the parent company of the Nordea Group. Nordea AB (publ) is listed on the Stockholm, Helsinki and Copenhagen Stock Exchanges. The Interim Report of Nordea is available at all banking branches and on the Internet at www.nordea.com

The Interim Report of Nordea AB (publ) embraces all the activities of the entire Nordea Group and gives the most complete picture of its operations, including the banking business. This Interim Report covers the operations of NBF and its subsidiaries only.

NBF is the parent company of the other banking subsidiaries in the Nordea Group – Nordea Bank Danmark A/S (referred to as NBD), Nordea Bank Norge ASA (referred to as NBN) and Nordea Bank Sweden AB (publ) (referred to as NBS).

From 1 July 2002, the business activities of the Nordea Group are organised in three cross-border business areas, Retail Banking, Corporate and Institutional Banking (CIB) and Asset Management & Life. The legal structure of the Nordea Group has been adjusted to match the functional organisation as closely as possible, although the alignment is not complete.

In addition to the entire retail banking operations of Nordea, the activities of NBF comprise the commercial banking activities of CIB. However, neither CIB's securities broking or investment banking activities nor any Nordea companies acting in asset management business or life assurance operations are included in the NBF accounts.

The former Nordea Bank Finland Plc (earlier named NCF Bank) demerged in the beginning of 2002. The demerger resulted in the creation of five new companies directly owned by Nordea AB (publ) (see Group structure). At the same time, the demerged Nordea Bank Finland Plc ceased to exist and the new banking entity assumed more than 99% of the former bank's assets and liabilities through universal succession and adopted its name, Nordea Bank Finland Plc.

The consolidated figures of the former Nordea Bank Finland are presented as comparison figures for June 2001 and December 2001, as these figures were not materially affected by the above-mentioned changes: the impact of the companies transferred outside the banking group was 0.3% on the result for the whole year 2001 and 0.2 % on total assets as at December 2001. However, the changes in the legal structure of the Nordea Group made in 2001 weaken the comparability of the NBF figures for 2002 with the income statement and balance sheet for the first half of 2001and the income statement for the whole year 2001. The most significant changes took place in December 2001, when NBD, which was earlier directly owned by Nordea AB (publ) was transferred to the banking Group, and when NBS acquired Postgirot Bank AB.

Summary

(Comparison figures in brackets refer to the figures for the first six months of 2001).

During the first half-year the macroeconomic situation remained largely unchanged, with sluggish economic growth and low interest rates. Weakness on the equity markets continued in the first half of the year.

Total income grew by 22% to EUR 2,647m (EUR 2,163m), while expenses excluding the contribution to the Swedish pension fund, EUR 146m, increased by 42 % to EUR 1,743m (EUR 1,224m). The main part of the increase is due to the inclusion of NBD and Postgirot Bank. Operating profit was EUR 669m (EUR 939m).

After taxes and minority interest the profit for the first half of the year amounted to EUR 457m (EUR 663m). Return on equity was 9.0 % (20.3%). Exclud-

ing the contribution to the Swedish pension fund, return on equity was 11.0%.

Net interest income

Growth in lending and deposit volumes contributed favourably to net interest income. Short-term interest rates were in broad terms lower than in the first half of 2001 while long-term interest rates were roughly at the same level as one year earlier. Lending margins remained largely unchanged, but deposits margins have slightly decreased compared with the corresponding period last year.

Net interest income amounted to EUR 1,821m (EUR 1,265m). The increase resulted primarily from the inclusion of NBD and acquisition of Postgirot Bank.

Commissions

The inclusion of NBD had a positive impact on commissions. In addition, commissions from payment services increased considerably following the acquisition of Postgirot Bank as well as strong growth in electronic payment services. The weak market situation left its mark on securities-related commissions and fees.

Net commission income totalled EUR 604m (EUR 529m).

Net income on securities transactions and foreign exchange dealing

Net income from securities transactions and foreign exchange dealing, EUR 120m (EUR 175m), was lower than in the corresponding period last year.

The development in net income from securities transactions was affected by market conditions, which were weaker than in the corresponding period one year earlier. In addition, January-June 2001 figures included a EUR 19 million gain resulting from the reclassification of interest-bearing securities from financial fixed assets to current assets. In 2002, equity-related items include a non-recurring gain of EUR 30m on the divestment of ownership interest in a mortgage institution in Denmark.

Net income from foreign exchange dealing developed favourably and amounted to EUR 126m (EUR 37m).

Other income

Other income totalled EUR 102m (EUR 194m). Dividends (income from equity investments) accounted for EUR 21m (EUR 36m) and other operating income for EUR 81m (EUR 158m). The decrease in other operating income was mainly due to lower sales income in the first six months of 2002. Non-recurring gains totalled EUR 6m compared with 96m in the corresponding period last year.

Expenses

Total expenses (excluding the contribution to the Pension Fund) increased to EUR 1,743m EUR 1,224m). Personnel expenses (excluding the contribution to the Pension Fund) grew to EUR 901m (EUR 583m) mainly because of the changes in the group structure. The average number of employees was more than 11 000 higher than at end June 2001 as a result of the inclusion of NBD and acquisition of Postgirot Bank. A contribution of EUR 146m to cover the pension fund deficit in Sweden, resulting from the weak development on the equity markets this year, is presented under expenses as a separate item. The aggregate assets in the Finnish pension foundations exceeded pension commitments not recognised in the balance sheet by EUR 91m at the end of June 2002.

The aggregate amount of other administrative expenses, operating expenses and deprecation costs increased to EUR 842m (EUR 641m). Most of the increase arises from the inclusion of NBD and Postgirot Bank.

Loan losses

Loan losses increased by EUR 72m to EUR 119m (EUR 47). About one half of the increase is attributable to the inclusion of NBD. Problem loans remained at the low level of the year-end amounting to EUR 0.9bn. Commitments to the telecommunications sector amount to EUR 6.2bn. Out of this EUR 4.1bn is actually outstanding. Major Nordic operators and equipment manufactures account for the majority of the exposure. The continuous focus on Nordic customers has helped to maintain the credit quality at a satisfactory level.

Share of profit of companies accounted for under the equity method

Share of profit from companies accounted for under the equity method was lower than in the corresponding period last year and amounted to EUR 30m (EUR 47m). The decrease is mainly due to the transfer of Nordea Life Assurance Finland Ltd outside the banking group in the demerger.

Taxes

Taxes amounted to EUR 212m (EUR 276m). The high tax rate in the first half of the year was the result of an additional tax cost of EUR 10m related to the merger of some international units. The decision of the tax authorities has been appealed.

Balance sheet

(Comparison figures in brackets refer to December 2001 figures).

As at the end of June 2002, total assets of NBF amounted to EUR 223.1bn (EUR 215.9bn). Compared with year-end 2001, the growth was 3%.

Loans to the public (leasing assets included) increased by 4% to EUR 142.8bn (EUR 137.8bn). The relatively low interest rate level has contributed positively to the demand of loans by households.

Deposits from the public grew by 5% to EUR 87.6bn (EUR 83.6bn) reflecting a shift towards low risk saving products.

Debt securities in issue, the second largest funding source, amounted to EUR 60.6bn (EUR 61.0bn).

At the end of June 2002, equity totalled EUR 10.5bn (EUR 11.3bn). A decrease of EUR 0.2bn relates to the demerger and a decrease of 1.0bn to the profit distribution to Nordea AB (publ).

In a competitive bidding arranged by the Finnish Government, NBF was selected main intermediary of Government payment traffic in Finland. The contract is anticipated to cover a period of five years. The contract will start to have an effect on payment traffic volumes from September 2002 onwards.

Off-balance sheet items

Off-balance sheet items, EUR 45.5bn were at the same level as at year-end 2001 (EUR 45.4bn).

Capital adequacy

Capital adequacy ratio was slightly lower than at the end of 2001 and amounted to 9.2% (9.3%). Tier 1 capital ratio was 6.1% (6.2%). Own funds totalled EUR 12.4bn (EUR 12.6bn) and risk-weighted assets EUR 135.6bn (EUR 135.9bn). Own funds include EUR 500m subordinated bonds issued in March. In June 2002, the Finnish Financial Supervision Authority gave its permission to prematurely repay a debenture loan with a nominal value of USD 150m later this year. The loan has been deducted from own funds as at June 30, 2002. Profit for the period and the estimated profit distribution have been taken into account in the calculations.

Permissions to prematurely repay a USD 300m capital loan under tier 1 own funds and a EUR 143m convertible bond under tier 2 own funds have been obtained from the Finnish Financial Supervision Authority in July 2002. The loans, which will be repaid during the third quarter of 2002, will be replaced by corresponding capital loans and debentures.

Legal proceedings

On 28 June the Stockholm Court of Appeal confirmed the previous ruling of Stockholm City Court in favour of Nordea Bank Sweden AB (publ) in the case where Erik Penser, through his company Yggdrasil, sued Nordbanken (currently NBS) for SEK 2.8bn. Yggdrasil has applied for permission to appeal the verdict to the Supreme Court.

Group structure

The former Nordea Bank Finland Plc was demerged on 1 January 2002 in order to separate Retail Banking, Corporate and Institutional Banking, Investment Banking and Asset Management & Life Insurance operations. The demerger resulted in the creation of five new companies to be directly owned by Nordea AB (publ). At the same time, the demerged Nordea Bank Finland Plc ceased to exist and the new banking entity, which had adopted the Nordea Bank Finland Plc name, became the owner of the former bank's assets and liabilities related to banking business in the demerged bank.

The companies transferred outside the banking Group in the demerger were Nordea Securities Oyj, Nordea Securities Corporate Finance Oy, Nordea Investment Management Finland Ltd, Nordea Investment Funds Company Ltd and Nordea Life Assurance Finland Ltd. At the same time with the demerger, Nordea Bank Sweden AB (publ) sold its subsidiaries Nordea Life Assurance I Sweden AB (publ) and Nordea Life Assurance II Sweden AB (publ) outside the banking Group.

In May 2002, Nordea Bank Sweden AB (publ) entered into a conditional agreement with LG of Korea to purchase 54.3% of LG Petro Bank in Poland. The agreement is conditional, inter alia, on Nordea being able to launch a tender offer under Polish securities legislation. All the necessary regulatory approvals have been obtained. Nordea soon intends to launch such tender offer and aims at completing the acquisition of at least 90% of LG Petro Bank during the autumn. The total consideration for all outstanding shares will amount to PLN 467m (EUR 128m).

At the end of June 2002, Nordea Bank Finland Plc and Nordea Finance Finland Ltd made a preliminary agreement to sell the majority interest in the debt collection company Contant Oy outside the Group. The transaction did not affect the accounts of NBF as at end June 2002. The transaction is expected to close in the third quarter, and will lead in a realisation gain of EUR 22m.

Important events after the financial period

In July 2002, the Swedish Financial Supervision Authority gave its permission to NBS to acquire Postgirot Bank AB from Postgirot Holding AB, a wholly-owned subsidiary of NBS. There is a standing Board decision to merge Postgirot Bank AB to Nordea Bank Sweden AB (publ).

Outlook

The overall macroeconomic situation has remained largely unchanged from the beginning of the year. However, there is still an expectation of economic growth in the Nordic region in 2002.

NBF expects a moderate growth in the business volume and thereby revenues in the second half of the 2002. To a certain extent this depends on the development in the capital markets.

NBF will maintain a sharp focus on cost control.

Loan loss provisions in the second half of the year are expected to be of the same magnitude as in the first half.

Helsinki, 14 August, 2002

Board of Management

Auditor's review report

We have reviewed the interim report of Nordea Bank Finland Plc for the period January-June 2002 in accordance with the standards issued by the Finnish Institute of Authorized Public Accountants.

A review is significantly more limited in scope than an audit.

In our review nothing came to our attention that would indicate non-compliance of the interim report with the rules and regulations covering the preparation of such reports.

Helsinki, 22 August, 2002

KPMG WIDERI OY AB

Mauri Palvi
Authorized Public Accountant

Income statements

EUR million	Jan-June 2 002	Jan-June 2 001	Jan - Dec 2 001
Interest income	5 091	4 087	7 994
Interest expenses [1]	-3 270	-2 822	-5 379
Net interest income	**1 821**	**1 265**	**2 615**
Income from equity investments	21	36	39
Commission income	730	626	1 226
Commission expenses	-126	-97	-199
Net income from securities transactions and foreign exchange dealing	120	175	314
Other operating income	81	158	1 324
Total income	**2 647**	**2 163**	**5 319**
Personnel expenses	-901	-583	-1 219
Contribution to the Pension Foundation	-146	-	-
Other administrative expenses	-521	-403	-870
Depreciation and write-downs on tangible and intangible assets	-147	-96	-221
Other operating expenses	-174	-142	-285
Total expenses	**-1 889**	**-1 224**	**-2 595**
Profit before loan losses	**758**	**939**	**2 724**
Loan and guarantee losses	-119	-47	-208
Profit from companies accounted for under the equity method	30	47	57
Operating profit	**669**	**939**	**2 573**
Extraordinary items	-	-	-324
Income taxes	-212	-276	-58
Minority interest	0	0	1
Net profit for the period	**457**	**663**	**2 192**

Financial ratios

Return on equity, % [2]	9.0	20.3	28.3
- excluding the contribution to the Pension fund	11.0		
Income/cost ratio	1.4	1.7	2.0
- excluding the contribution to the Pension fund	1.5		
Average number of employees during the year			
- full-time	31 223	21 491	22 487
- part-time	3 663	2 210	3 374

[1] Includes net income from leasing 33 (35, 68).
[2] Equity does not include the balance sheet item "Capital loans" and no deduction has been made for anticipated dividend.

Formulas used

Return on equity, %:

Operating profit/loss after taxes
-- X 100
Shareholders' equity + minority interest
(average for beginning and end of year)

Income/cost ratio:

Net interest income + income from equity investments and commission income + net income from securities transactions and foreign exchange dealing + other operating income
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Commission expenses + administrative expenses + other operating expenses + depreciation

Balance sheets

EUR million	June 30, 2002	June 30, 2001	Dec 31, 2001
Liquid assets	5 009	1 061	2 928
Debt securities eligible for refinancing with central banks	4 843	2 616	7 894
Loans to credit institutions	20 418	17 386	19 884
Loans to the public and public sector organizations	141 503	93 346	136 723
Leased assets	1 258	1 083	1 107
Debt securities	24 177	11 534	25 386
Shares and participations	655	561	748
Participating interests and			
Shares and participations in Group companies	524	660	631
Intangible assets	1 914	1 305	1 916
Tangible assets	1 909	1 620	1 965
Other assets	18 520	8 025	14 350
Prepaid expenses and accrued income	2 149	1 543	2 006
Deferred tax receivables	197	235	314
Total assets	**223 076**	**140 975**	**215 852**
Due to credit institutions and central banks	30 140	19 730	30 089
Due to the public and public sector organizations	89 725	57 301	86 253
Debt securities outstanding	60 584	41 033	61 008
Other liabilities	23 243	8 235	18 876
Accrued expenses and prepaid income	2 725	1 779	1 991
Provisions	549	293	436
Subordinated liabilities	4 997	4 958	5 336
Deferred tax liabilities	552	386	540
Minority interest	19	31	26
Share capital	2 319	2 355	2 355
Share premium account	593	-	659
Revaluation reserve	-	-	-
Other restricted reserves	543	1 108	502
Capital securities	694	811	780
Non-restricted reserves	2 848	-	2 848
Profit carried forward from previous years	3 088	2 292	1 961
Net profit for the period	457	663	2 192
Total liabilities and shareholder's equity	**223 076**	**140 975**	**215 852**
Off-balance-sheet commitments			
Commitments on behalf of customers in favour of third parties	15 281	10 100	14 694
Irrevocable commitments in favour of customers	30 174	29 151	30 727

Problem loans and property taken over for protection of claims [1)]

EUR million	June 30, 2002	June 30, 2001	Dec 31, 2001
Doubtful loans, gross	3 180	1 929	3 114
Provision for bad and doubtful loans	2 305	1 152	2 259
Doubtful loans, net	**875**	**777**	**855**
Provisions / doubtful loans, gross %	72	60	73
Doubtful loans, net / lending. %	0.6	0.8	0.8
Property taken over for protection of claims, EUR million	47	38	31

[1)] Excluding country risk provisions

Off-balance-sheet commitments

EUR million	June 30, 2002	June 30, 2001	Dec 31, 2001
Contingent liabilities			
Guarantees	13 743	9 484	13 277
Stand-by facilities	13 501	11 410	14 749
Unused credit lines	14 975	16 280	14 279
Other commitments	3 236	2 077	3 116
Total	**45 455**	**39 251**	**45 421**
of which on behalf of associated companies	237	59	245
Pledged assets			
Assets pledged as collateral for own liabilities			
- debt securities eligible for refinancing with central banks	11 012		6 175
- leased assets	-		236
- debt securities	387		4 634
- other	301		31
Total	**11 700**		**11 076**
The above collateral has been pledged for the following liability items			
- due to credit institutions and central banks	4 957		3 848
- due to the public and public sector organizations	668		1 376
- debt securities outstanding	74		627
- other liabilities and commitments	396		609
Total	**6 095**		**6 460**
Other pledged assets	3		1 350
Derivative instruments (nominal values)			
Contracts made for hedging purposes			
Interest-rate-related derivatives	30 873	24 953	31 791
Currency-related derivatives	16 799	22 858	20 703
Equity-related derivatives	1 647	1 407	1 501
Other derivatives	3	–	–
Contracts made for other than hedging purposes			
Interest-rate-related derivatives	593 856	297 940	567 383
Currency-related derivatives	261 316	184 735	248 265
Equity-related derivatives	2 907	149	1 255
Other derivatives	42	44	189
Total			
Interest-rate-related derivatives, credit equivalents	330	1 040	388
Currency-related derivatives, credit equivalents	1 939	2 592	1 558
Equity-related derivatives, credit equivalents	145	265	143
Other derivatives, credit equivalents	2	26	1

Capital adequacy

Total Tier 1 (incl. profit for the period and estimated profit distribution)	8 268	5 447	8 398
Total Tier 2	4 413	3 910	4 774
Tier 3	–	–	–
Deductions	-260	-356	-581
Total own funds	**12 421**	**9 001**	**12 591**
Capital securities included in Tier 1*	694	811	780
Risk-weighted items	135 623	96 882	135 941
Total capital ratio, %	**9.2**	**9.3**	**9.3**
Tier 1 ratio, %	6.1	5.6	6.2

* Interest may be paid on these securities only out of distributable funds. The annual interest on the EUR 42 million capital securities issued in Finland is fixed until the year 2004. The securities are perpetual. In September 1997, Merita Bank Plc issued non-cumulative step-up perpetual capital securities in the amount of USD 300 million in the international markets (see Capital adequacy, page 4)
In November 1999, Nordbanken AB (publ) issued hybrid capital securities in the amount of USD 350 million in the international markets. The securities are perpetual but subject to regulatory approval may be repaid after ten years of issuance.