# Interim Report January-June 2003

# Nordea Bank Finland Plc

# Interim Report, January-June 2003

**Summary**
(The income statement comparison figures in brackets refer to the figures for the first six months of 2002.)

World economic development remained weak in the first half of the year even if the quick ending of the Iraqi war removed the threat of recession. Growth was sluggish throughout the industrialised world and the Nordic countries made no exception.

The weakening of the dollar in the aftermath of the Iraqi war and the consequent strengthening of the euro, with its potential adverse impact on European exports, added another worry on the European economic agenda. On the other hand, the appreciation of the euro helped to curb inflation, allowing the European Central Bank to lower its steering rates.

Following the development of the euro, the Danish krone appreciated and interest rates declined in Denmark. Interest rates declined also in Sweden, but the appreciation of the Swedish krona stopped short of the euro and the Danish krone. In Norway, concern about inflation gave way to worries on employment, and the monetary policy was eased to some extent, resulting in lower interest rates and a weaker krone.

On equity markets the situation improved towards the end of the period. Share prices recovered from their lows in March. Trading in shares also picked up, although volumes remained lower than in the corresponding period the year before.

Nordea announced on 19 June that it will reduce complexity in its legal structure by forming one European company - Societas Europeae (SE).

The change process started on 19 June 2003 when Nordea Bank Finland (NBF) made an agreement on the internal sale of Nordea Bank Danmark (NBD), Nordea Bank Norge (NBN) and Nordea Bank Sweden (NBS) to Nordea AB (publ). The sale of NBD and NBS was carried out already in June whereas the sale of NBN will be completed later in the autumn. See Group structure on page 3.

The income statements of the banks sold have been consolidated in the accounts of NBF until 30 June 2003. As the sales of NBD and NBS realised already in June, only the balance sheet of NBN has been consolidated in the balance sheet of NBF as per 30 June. Thus the balance sheet figures are not comparable with the figures for 2002.

The measures initiated to improve efficiency and reduce costs were continued and new ones were launched in the second quarter. Their full impact will be felt gradually in the quarters to come. Signs of encouraging developments in business operations could be observed towards the end of the period and share prices also recovered.

On the whole, the Bank Group’s result for the first six months was adversely affected by lower interest rates, relative weakness on the equity markets and loan losses that mainly stem from the Norwegian retail banking operations. The Group’s operating profit was EUR 914m (EUR 669m).

After taxes and minority interest, the profit of the first half of the year amounted to EUR 1,153m (EUR 457m). Return on equity was 13.0% (9.0%).

Throughout this report, “Nordea Bank Finland” and “the Group” refer to the parent company Nordea Bank Finland Plc, business identity code F11680235-8, with its subsidiaries. The registered office of the company is in Helsinki. Nordea Bank Finland Plc is a wholly owned subsidiary of Nordea AB (publ), the listed parent company of the whole Nordea Group. The business operations of the Nordea Group have been organised in three business areas, all of which operate across national boundaries: Retail Banking, Corporate and Institutional Banking (CIB) and Asset Management & Life. The consolidated interim report of Nordea AB (publ) embraces all the activities of the Nordea Group and provides the most complete and fair view. This statutory interim report covers the operations of the legal entity Nordea Bank Finland Plc with its subsidiaries. For occurred and planned changes in the legal structure see separate section on page 3.

### Net interest income

Net interest income amounted to EUR 1,876m (EUR 1,821m). Declining interest rates and intensive competition increased pressure on margins, almost offsetting the impact of healthy lending growth. Due to the low interest rate level demand for loans by households remained strong despite slow economic growth.

### Commissions

The improvement of pan-Nordic payment services had a positive impact on commission income. Increasing payment commissions nearly offset the impact of the weak market on equity-related fees and commissions. In addition, improving of the market situation towards the end of the period contributed favourably to net commission income, EUR 601m (EUR 604m), which remained only slightly lower than in the corresponding period one year earlier.

### Net income on securities transactions and foreign exchange dealing

Net income from securities transactions and foreign exchange dealing developed favourably and amounted to EUR 152m (EUR 120m). The development in net income from securities trading was positive whereas net income from foreign exchange dealing decreased.

During the period under review a significant amount of Markets derivatives deals were transferred from NBN to NBF. This procedure had no impact on the Group figures.

### Other income

The increase in other income (including dividends), to EUR 158m (EUR 102m) mainly reflects higher capital gains in 2003. The sale of Nordisk Renting AB generated a total profit of EUR 31m. In addition, NBD has sold its residential properties in Denmark. The sales profit amounted to EUR 41m.

### Expenses

Expenses developed in accordance with plan and decreased slightly. Total expenses, EUR 1,742m (EUR 1,889m) decreased by 8% compared with the corresponding period last year.

Personnel expenses totalled EUR 950m (EUR 1,047m). Previous year's expenses were higher mainly due to the contribution of EUR 146m to the Swedish pension foundation. No material contributions to the pension funds or foundations were needed in 2003.

Reduction in overall headcount had an impact on the development of personnel expenses, which otherwise reflect mainly increases in regular wages, based on general agreements, but to an extent also performance-induced bonuses and restructuring costs.

The aggregate amount of other administrative expenses, operating expenses and depreciation costs was EUR 792m (EUR 842m). Compared with the corresponding period one year earlier, premises expenses increased, whereas IT-expenses declined.

In 2003, EUR 22 million expenses formerly reported under other administrative expenses have been reported under operating expenses.

### Loan losses

The weaker krone eased the situation of the Norwegian fish farming industry somewhat although the bulk of the loan losses are related to this industry. Remaining losses originate from a limited number of companies with no overarching features.

Net loan losses amounted to EUR 190m (EUR 119m).

The overall quality of the Group's loan portfolio remains satisfactory despite the low business cycle. Impaired loans net decreased by EUR 0.6bn to EUR 0.5bn (EUR 1.1bn at year-end 2002). About one half of the decrease is attributable to changes in the group structure. The provision for impaired loans amounted to EUR 1.0 (EUR 2.2bn), which accounted for 64% (66%) of impaired loans (gross).

### Share of profit of companies accounted for under the equity method

The favourable development of earnings accounted for under the equity method, EUR 59m (EUR 30m) reflects mainly the after tax gain on the sale of the real estate brokerage activities and the brand of Huoneistokeskus Oy amounting approximately to EUR 30m.

### Extraordinary items and taxes

The profits relating to the sale of the shares in NBD and NBS as well as the anticipated loss on the sale of the shares in NBN have been reported under extraordinary items. The net result of the deal amounted to EUR 475m.

Taxes amounted to EUR 235m (EUR 212m).

As a result of the restructuring, whereby NBD, NBN and NBS are being sold from NBF to Nordea AB, a loss has materialised in the taxation of NBF. This follows mainly as a result of a difference between the historic acquisition values of NBS and NBN, and the sales prices in the taxation of NBF.

The sale of NBN is still pending approval from the Norwegian authorities.

NBF has received an advance tax ruling from the Finnish tax authorities mid-August. Based on the ruling a deferred tax asset originating from the tax-loss carry forward will be booked in the second half of the year. The deferred tax asset is on preliminary basis estimated to approximately EUR 300m, taking into account the legal framework as well as the financial aspects of utilising the deferred tax asset.

### Balance sheet

(Comparison figures in brackets refer to December 2002 figures.)

Total assets of NBF amounted to EUR 114.5bn (EUR 223.1bn). The decrease reflects the changes in the group structure in June.

Low interest rates supported loan demand and, adjusted for the changes in group structure, loans to the public grew somewhat. Correspondingly, deposits from the public and debt securities in issue decreased slightly.

### Off-balance sheet commitments

Off-balance sheet commitments were affected by the changes in the group structure as well. The total amount decreased to EUR 26.6bn (EUR 45.5bn).

### Capital adequacy

As a result of the changes in the legal structure, capital adequacy rose significantly to 17.6% compared with 10.4% at year-end 2002. Tier 1 capital amounted to EUR 9.6bn (EUR 8.9bn). Profit for the period and the estimated profit distribution have been taken into account in the calculations.

A capital loan in the amount of EUR 800m, subscribed by Nordea AB (publ), has been deducted from tier 1 capital. In July the Finnish Financial Supervision Authority gave its permission to prematurely repay the capital loan.

### Legal proceedings

Within the framework of the normal business operations the companies in the Bank Group face a number of claims in lawsuits and other disputes, most of which involve relatively limited amounts. None of these disputes is considered likely to have any significant adverse effect on the Bank's or the Group's financial position.

### Group structure

As announced in June, Nordea's legal group structure will be streamlined and simplified by establishing a single legal entity, a so-called European company conducting business in local markets through branches.

The parent company of the Nordea Group, Nordea AB (publ) will become an operational banking company. It will be converted into a European company and continue to be legally domiciled in Sweden.

The establishment of the single legal entity involves internal sale of Nordea Bank Danmark, Nordea Bank Norge and Nordea Bank Sweden from Nordea Bank Finland to Nordea AB (publ), followed by the merger of Nordea AB (publ) and Nordea Bank Sweden. When it will be legally possible to create the European company, the other banks in the Group will be merged into this company.

The sale of NBD and NBS to Nordea AB (publ) was completed in June 2003. The sale of NBN will be effected later in the autumn when the necessary approvals from Norwegian authorities have been obtained.

It is expected that the transformation process will be completed in 2005.

In connection with the above-mentioned legal structure arrangements, the wholly-owned subsidiary of NBF, Nordea North America Inc, was sold to Nordea AB (publ). No sales profit was realised from the sale.

In the beginning of 2003, NBF acquired the remaining 60% of the shares in Nordisk Renting AB, which became a wholly-owned subsidiary of NBF. In May 2003, NBF sold all the shares in Nordisk Renting AB. The deal resulted in a net gain of EUR 31 million.

In June 2003, NBF sold the real estate brokerage business and the brand of Huoneistokeskus to a newly established company. NBF became a minority owner with a 15% holding of the new company. The deal resulted in an after tax gain of approximately EUR 30m.

In addition, the wholly-owned subsidiary of NBF, Pendax Oy was sold in March. The sale had no impact on the Group’s result.

Nordea Bank Polska SA and LG Petro Bank S.A., wholly-owned subsidiaries of NBS, were merged on 30 June 2003.

NBF bought the business activities of the NBD Frankfurt branch in the end of February. The deal had no impact on the Group’s result.

### Important events after the financial period

Based on an advance tax ruling from the Finnish tax authorities, a deferred tax asset amounting to approximately EUR 300m, originating from the tax-loss carry forward, will be booked in the second half of the year. See page 3.

The capital loan amounting to EUR 800m, which was deducted from tier 1 capital already in June, was prematurely repaid end July with the permission of the Finnish Financial Supervision Authority.

### Outlook

There is still an expectation of growth in the global as well as the Nordic economies going forward, and the scope for revenue growth is slightly improved. This is based on reduced uncertainty with respect to an economic turnaround.

The sharp attention on cost control will be maintained and expenses for the full year are expected to be well within the previously stated cost target for 2003.

The target for average loan losses over a business cycle, maximum 0.40% of loans and guarantees, remains unchanged. NBF has reason to believe that loan losses will stay below this average level in 2003.

Stockholm, 13 August 2003

Board of Directors

### Auditors’ review report

We have reviewed the interim report of Nordea Bank Finland Plc for the period January-June 2003 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, 19 August 2003

KPMG WIDERI OY AB

Mauri Palvi

Authorized Public Accountant

## Income statements

| EUR million | Jan-June 2003 | Jan-June 2002 | Jan - Dec 2002 |
|---|---|---|---|
| Interest income [1] | 4,878 | 5,091 | 10,341 |
| Interest expenses | -3,002 | -3,270 | -6,603 |
| **Net interest income** | **1,876** | **1,821** | **3,738** |
| Income from equity investments | 29 | 21 | 29 |
| Commission income | 725 | 730 | 1 482 |
| Commission expenses | -124 | -126 | -264 |
| Net income from securities transactions and foreign exchange dealing | 152 | 120 | 214 |
| Other operating income | 129 | 81 | 240 |
| **Total income** | **2,787** | **2,647** | **5,439** |
| Personnel expenses | -950 | -1,047 | -2,080 |
| Other administrative expenses | -479 | -521 | -1,060 |
| Depreciation and write-downs on tangible and intangible assets | -134 | -147 | -307 |
| Other operating expenses | -179 | -174 | -388 |
| **Total expenses** | **-1,742** | **-1,889** | **-3,835** |
| **Profit before loan losses** | **1,045** | **758** | **1,604** |
| Loan and guarantee losses | -190 | -119 | -263 |
| Write-downs on securities held as financial fixed assets | - | - | -1 |
| Profit from companies accounted for under the equity method | 59 | 30 | 38 |
| **Operating profit** | **914** | **669** | **1,378** |
| Extraordinary items | 475 | - | -292 |
| Income taxes | -235 | -212 | -364 |
| Minority interest | -1 | 0 | 0 |
| **Net profit for the period** | **1,153** | **457** | **722** |

## Financial ratios

| | | | |
|---|---|---|---|
| Return on equity, % [2] | 13.0 | 9.0 | 9.3 |
| Income/cost ratio | 1.6 | 1.4 | 1.4 |
| Average number of employees during the year | | | |
| - full-time | 29,084 | 31,223 | 29,881 |
| - part-time | 5,414 | 3,663 | 4,867 |

[1] Includes net income from leasing EUR 45m (33m, 70m).

[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, %:**

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

**Income/cost ratio:**

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

## Balance sheets

| EUR million | June 30, 2003[1] | June 30, 2002 | Dec 31, 2002 |
|---|---|---|---|
| Liquid assets | 6,219 | 5,009 | 4,533 |
| Debt securities eligible for refinancing with central banks | 2,093 | 4,843 | 5,514 |
| Loans to credit institutions | 28,089 | 20,418 | 22,260 |
| Loans to the public and public sector organisations | 59,636 | 141,503 | 145,095 |
| Leased assets | 1,250 | 1,258 | 1,246 |
| Debt securities | 4,976 | 24,177 | 22,651 |
| Shares and participations | 200 | 655 | 507 |
| Participating interests and shares and participations in Group companies | 348 | 524 | 539 |
| Intangible assets | 401 | 1,914 | 2,010 |
| Tangible assets | 876 | 1,909 | 1,520 |
| Other assets | 9,073 | 18,520 | 18,179 |
| Prepaid expenses and accrued income | 1,130 | 2,149 | 1,842 |
| Deferred tax receivables | 173 | 197 | 178 |
| **Total assets** | **114,464** | **223,076** | **226,074** |
| | | | |
| Due to credit institutions and central banks | 25,117 | 30,140 | 25,865 |
| Due to the public and public sector organisations | 41,174 | 89,725 | 92,273 |
| Debt securities outstanding | 22,188 | 60,584 | 61,887 |
| Other liabilities | 10,688 | 23,243 | 26,005 |
| Accrued expenses and prepaid income | 1,140 | 2,725 | 2,160 |
| Provisions | 174 | 549 | 387 |
| Subordinated liabilities | 2,312 | 4,997 | 5,750 |
| Deferred tax liabilities | 19 | 552 | 471 |
| Minority interest | 10 | 19 | 10 |
| Share capital | 2,319 | 2,319 | 2,319 |
| Share premium account | 593 | 593 | 593 |
| Other restricted reserves | - | 543 | 451 |
| Capital securities | 842 | 694 | 1,178 |
| Non-restricted reserves | 2,889 | 2,887 | 2,889 |
| Profit carried forward from previous years | 3,846 | 3,049 | 3,114 |
| Net profit for the period | 1,153 | 457 | 722 |
| **Total liabilities and shareholders' equity** | **114,464** | **223,076** | **226,074** |

| | | | |
|---|---|---|---|
| **Off-balance-sheet commitments** | | | |
| Commitments on behalf of customers in favour of third parties | 13,953 | 15,281 | 15,552 |
| Irrevocable commitments in favour of customers | 12,684 | 30,174 | 31,228 |

## Impaired loans and property taken over for protection of claims [2]

| EUR million | June 30, 2003 | June 30, 2002 | Dec 31, 2002 |
|---|---|---|---|
| Impaired loans, gross | 1,482 | 3,180 | 3,260 |
| Provision for impaired loans | 951 | 2,305 | 2,153 |
| **Impaired loans, net** | **531** | **875** | **1,107** |
| | | | |
| Provisions / impaired loans, gross % | 64 | 72 | 66 |
| Impaired loans, net / lending. % | 0.9 | 0.6 | 0.8 |
| Property taken over for protection of claims, EUR million | 27 | 47 | 29 |

[1] The balance sheets of NBS and NBD are no more included in the June 30, 2003 figures.

[2] Excluding country risk provisions.

## Off-balance-sheet commitments

| EUR million | June 30, 2003 | June 30, 2002 | Dec 31, 2002 |
|---|---|---|---|
| **Contingent liabilities** | | | |
| Guarantees | 13,344 | 13,743 | 13,947 |
| Stand-by facilities | 4,229 | 13,501 | 14,389 |
| Unused credit lines | 7,540 | 14,975 | 15,834 |
| Other commitments | 1,524 | 3,236 | 2,610 |
| **Total** | **26,637** | **45,455** | **46,780** |
| of which on behalf of associated companies | 63 | 237 | 63 |
| | | | |
| **Pledged assets** | | | |
| Assets pledged as collateral for own liabilities | | | |
| - debt securities eligible for refinancing with central banks | 4,124 | 11,012 | 6,157 |
| - leased assets | - | - | 230 |
| - debt securities | 151 | 387 | 1,499 |
| - other | 87 | 301 | 2,237 |
| **Total** | **4,362** | **11,700** | **10,123** |
| | | | |
| The above collateral has been pledged for the following liability items | | | |
| - due to credit institutions and central banks | 3,189 | 4,957 | 6,758 |
| - due to the public and public sector organisations | - | 668 | 212 |
| - debt securities outstanding | 627 | 74 | 1,061 |
| - other liabilities and commitments | 217 | 396 | 32 |
| **Total** | **4,033** | **6,095** | **8,063** |
| | | | |
| Other pledged assets | - | 3 | - |
| | | | |
| **Derivative instruments (nominal values)** | | | |
| *Contracts made for hedging purposes* | | | |
| Interest-rate-related derivatives | 16,031 | 30,873 | 27,888 |
| Currency-related derivatives | 7,693 | 16,799 | 20,430 |
| Equity-related derivatives | 2,139 | 1,647 | 2,600 |
| Other derivatives | 0 | 3 | – |
| *Contracts made for other than hedging purposes* | | | |
| Interest-rate-related derivatives | 209,322 | 593,856 | 758,950 |
| Currency-related derivatives | 85,908 | 261,316 | 274,997 |
| Equity-related derivatives | 442 | 2,907 | 7,618 |
| Other derivatives | 284 | 42 | 129 |
| *Total* | | | |
| Interest-rate-related derivatives, credit equivalents | 375 | 330 | 488 |
| Currency-related derivatives, credit equivalents | 1,108 | 1,939 | 1,624 |
| Equity-related derivatives, credit equivalents | 99 | 145 | 161 |
| Other derivatives, credit equivalents | 1 | 2 | 4 |

## Capital adequacy

| EUR million | June 30, 2003 | June 30, 2002 | Dec 31, 2002 |
|---|---|---|---|
| Total Tier 1 (incl. profit for the period and estimated profit distribution) | 9,572 | 8,268 | 8,862 |
| Total Tier 2 | 2,202 | 4,413 | 5,434 |
| Deductions | -163 | -260 | -286 |
| **Total own funds** | **11,611** | **12,421** | **14,010** |
| Capital securities included in Tier 1* | 42 | 694 | 1,178 |
| Risk-weighted items | 66,050 | 135,623 | 135,226 |
| **Total capital ratio, %** | **17.6** | **9.2** | **10.4** |
| Tier 1 ratio, % | 14.5 | 6.1 | 6.6 |

* 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. The securities may be repaid partly, but only with the approval of the Finnish Financial Supervision Authority.