

Copenhagen, Helsinki, Oslo, Stockholm, 20 August 2003

## Interim Report Second Quarter 2003

### Improved performance for Q2...

- Operating profit up 52% to EUR 579m (EUR 380m in Q1)
- Total income up 6% to EUR 1,463m (EUR 1,374m)
- Total expenses down 2% to EUR 902m (EUR 917m)
- Loan losses EUR 92m (EUR 98m), or 0.25% of loans and guarantees, annualised
- Earnings per share EUR 0.14 (EUR 0.09)
- Return on equity, excl. goodwill, 18.1% (12.2%)

### ...and for the first half

- Operating profit up 37% to EUR 959m (EUR 702m in first half 02)
- Total income up 1% to EUR 2,837m (EUR 2,807m)
- Total expenses down to EUR 1,819m (EUR 1,827m)
- Earnings per share, rolling 12 months, EUR 0.40
- Return on equity, excl. goodwill, 15.2% (9.5%)

### Increasing focus

- Nordisk Renting sold
- Real estate broker, Huoneistokeskus, sold
- Legal restructuring initiated
- Changed business model for Life under implementation
- Harmonised business organisation in Retail
- Investment banking activities reorganised
- Negotiations with IBM on partnership for IT production

*"We improve performance and focus at an increased speed. Total income is maintained despite reduced market interest rates. At the same time costs for the first six months are below the same period last year. Loan losses are concentrated in isolated areas, and at a manageable level. I expect that we will be well within our cost target this year, as we now start seeing results of the changes made", says Lars G Nordström, President and Group CEO of Nordea.*

*Nordea is the leading financial services group in the Nordic and Baltic Sea region and operates through three business areas: Retail Banking, Corporate and Institutional Banking and Asset Management & Life. The Nordea Group has more than 10 million customers and 1,240 bank branches. The Nordea Group is a world leader in Internet banking, with 3.5 million e-customers. The Nordea share is listed in Stockholm, Helsinki and Copenhagen.*

## Operational income statement <sup>1</sup>

EURm	Q2 2003	Q1 2003	Change %	Jan-Jun 2003	Jan-Jun 2002	Change %	Full year 2002
Net interest income	843	835	1	1,678	1,692	-1	3,451
Commission income	366	353	4	719	776	-7	1,535
Trading	155	157	-1	312	273	14	530
Other	99	29		128	66		154
<b>Total income</b>	<b>1,463</b>	<b>1,374</b>	<b>6</b>	<b>2,837</b>	<b>2,807</b>	<b>1</b>	<b>5,670</b>
Personnel expenses	-539	-520	4	-1,059	-1,020	4	-2,086
Other expenses	-363	-397	-9	-760	-807	-6	-1,659
<b>Total expenses</b>	<b>-902</b>	<b>-917</b>	<b>-2</b>	<b>-1,819</b>	<b>-1,827</b>	<b>0</b>	<b>-3,745</b>
<b>Profit before loan losses</b>	<b>561</b>	<b>457</b>	<b>23</b>	<b>1,018</b>	<b>980</b>	<b>4</b>	<b>1,925</b>
Loan losses, net	-92	-98	-6	-190	-119	60	-261
Equity method	19	14	36	33	32	3	52
<b>Profit before investment earnings and insurance</b>	<b>488</b>	<b>373</b>	<b>31</b>	<b>861</b>	<b>893</b>	<b>-4</b>	<b>1,716</b>
Investment earnings, banking	81	29		110	42		122
Operating profit, life insurance	50	19		69	-29		2
Operating profit, general insurance	-	-		-	-118		-122
Goodwill depreciation	-40	-41		-81	-86		-171
<b>Operating profit</b>	<b>579</b>	<b>380</b>	<b>52</b>	<b>959</b>	<b>702</b>	<b>37</b>	<b>1,547</b>
Allocation to pension foundation	-	-		-	-152		-255
Taxes	-174	-124	40	-298	-179		-405
Minority interests	0	-1		-1	0		0
<b>Net profit</b>	<b>405</b>	<b>255</b>	<b>59</b>	<b>660</b>	<b>371</b>	<b>78</b>	<b>887</b>

## Ratios and key figures <sup>1</sup>

Earnings per share, EUR	0.14	0.09	0.23	0.13	0.30
Share price, EUR, end of period	4.17	4.04	4.17	5.49	4.20
Shareholders' equity per share <sup>2</sup> , EUR	4.03	4.15	4.03	3.90	4.06
Shares outstanding <sup>2</sup> , million	2,928	2,928	2,928	2,963	2,928
Return on equity (excluding goodwill) <sup>3</sup> , %	18.1	12.2	15.2	9.5	11.3
Return on equity, %	13.5	8.4	11.0	6.1	7.5
Lending, EURbn	147	147	147	143	146
Deposits, EURbn	89	92	89	90	92
Shareholders' equity <sup>2</sup> , EURbn	12	12	12	12	12
Total assets, EURbn	270	262	270	251	250
Assets under management, EURbn	102	95	102	100	96
Cost/income ratio, banking <sup>4</sup> , %	58	65	61	63	64
Cost/income ratio excluding investment earnings, %	61	66	63	64	65
Tier 1 capital ratio, %	7.5	7.2	7.5	7.4	7.1
Total capital ratio, %	9.8	9.7	9.8	8.9	9.9
Risk-weighted assets, EURbn	135	137	135	136	135

<sup>1</sup> A change of group accounting policies for the life operations was implemented from the third quarter last year as stated in the interim report for the third quarter 2002. Historical information for 2002 has been restated accordingly.

<sup>2</sup> End of period. Average number of shares Jan-June 2003 after full dilution was 2,928 million (Jan-Dec 2002 2,955 million).

<sup>3</sup> Net profit before minority interests and goodwill depreciation as a percentage of average shareholders' equity (per quarter). Average shareholders' equity includes minority interests and excludes remaining goodwill.

<sup>4</sup> Operating expenses before loan losses and goodwill as a percentage of operating income and share of profit/loss from companies accounted for under the equity method as well as investment earnings (banking), as reported in the operational income statement. Operating profit from insurance activities are excluded.

## Quarterly development

EURm	Note	Q2 2003	Q1 2003	Q4 2002	Q3 2002	Q2 2002
Net interest income		843	835	885	874	855
Commission income	1	366	353	388	371	396
Trading		155	157	130	127	137
Other		99	29	54	34	37
<b>Total income</b>		<b>1,463</b>	<b>1,374</b>	<b>1,457</b>	<b>1,406</b>	<b>1,425</b>
Personnel expenses		-539	-520	-545	-521	-514
Other expenses		-363	-397	-448	-404	-408
<b>Total expenses</b>	2	<b>-902</b>	<b>-917</b>	<b>-993</b>	<b>-925</b>	<b>-922</b>
<b>Profit before loan losses</b>		<b>561</b>	<b>457</b>	<b>464</b>	<b>481</b>	<b>503</b>
Loan losses, net		-92	-98	-76	-66	-56
Equity method		19	14	16	4	17
<b>Profit before investment earnings and insurance</b>		<b>488</b>	<b>373</b>	<b>404</b>	<b>419</b>	<b>464</b>
Investment earnings, banking		81	29	41	39	31
Operating profit, life insurance		50	19	44	-13	-26
Operating profit, general insurance		-	-	-	-4	-87
Goodwill depreciation		-40	-41	-43	-42	-44
<b>Operating profit</b>		<b>579</b>	<b>380</b>	<b>446</b>	<b>399</b>	<b>338</b>
Allocation to pension foundation		-	-	17	-120	-152
Taxes		-174	-124	-140	-86	-79
Minority interests		0	-1	0	0	0
<b>Net profit</b>		<b>405</b>	<b>255</b>	<b>323</b>	<b>193</b>	<b>107</b>
EPS		0.14	0.09	0.10	0.07	0.04
EPS, rolling 12 months up to period end		0.40	0.30	0.30	0.38	0.37

### Note 1 Commission income, EURm

Brokerage	20	24	35	38	46
Asset management/Investment funds	114	104	108	101	115
Issue of securities	6	5	7	6	5
Lending	87	88	95	86	91
Deposits and payments	191	179	195	189	183
Foreign exchange	9	7	15	11	10
Other	25	32	39	33	35
Commission expenses	-80	-76	-88	-85	-83
Net commission income	372	363	406	379	402
Of which investment activities	-6	-10	-18	-8	-6
<b>Commission income</b>	<b>366</b>	<b>353</b>	<b>388</b>	<b>371</b>	<b>396</b>

### Note 2 Expenses, EURm

Personnel <sup>1</sup>	541	521	547	523	515
Information technology <sup>2</sup>	85	99	136	111	113
Marketing	23	18	34	21	36
Postage, telephone and office expenses	49	58	62	50	52
Rents, premises and real estate expenses	81	82	89	79	74
Other	128	142	130	146	134
Expenses	907	920	998	930	924
Of which investment activities <sup>3</sup>	-5	-3	-5	-5	-2
<b>Expenses</b>	<b>902</b>	<b>917</b>	<b>993</b>	<b>925</b>	<b>922</b>

<sup>1</sup>Profit-related personnel expenses were EUR 27m in Q2 2003 (Q1 2003: EUR 29m).

<sup>2</sup>Refers to IT operations, service expenses and consulting fees. Total IT-related costs in Q2 2003, including personnel etc (excluding IT expenses in insurance operations) were EUR 174m (Q1 2003: EUR 184m).

<sup>3</sup>Including personnel expenses (Q2: EUR 2m).

## The Group

### Result summary second quarter

Operating profit was up by 52% to EUR 579m, compared to the previous quarter, following increased income, slightly reduced costs and loan losses, and increased profit from investment earnings and life activities.

Total income increased by 6% while total expenses were reduced by 2% to EUR 902m.

Net profit amounted to EUR 405m, corresponding to EUR 0.14 per share. Return on equity was 18.1% (excluding goodwill). The rolling 12 months' earnings per share were EUR 0.40.

### Development in the second quarter

The uncertain outlook for the global economy eased somewhat in the second quarter. The ECB, as well as the central banks in the Nordic countries, lowered their interest rates in the second quarter and short-term market rates fell. Nordic stock exchange indices increased, while trading volumes on the Nordic stock exchanges on average fell by 1%.

Total lending was unchanged at EUR 147bn. Lending to personal as well as corporate customers within Retail Banking and major corporates within Corporate and Institutional Banking showed continued growth, but there was a negative impact from the depreciation of the Norwegian krone. Deposits declined by 3% to EUR 89bn. Retail deposits increased, while deposits from large corporates decreased.

During the last 12 months lending has increased by 2% and deposits have declined by 1%. Adjusted for currency fluctuations lending increased by 5% and deposits by 2%. Assets under management increased by 7% to EUR 102bn.

### Income

Net interest income showed an increase of 1% to EUR 843m. The continued fall in short-term interest rates put pressure on deposit margins. This was compensated by the increase in volumes. Continuous efforts are made to limit the negative effect on net interest income of falling short-term interest rates.

Commission income increased by 4% to EUR 366m (EUR 353m). Commissions from asset management increased by 10% supported by the strengthening of equity markets. Commissions from deposits and payments increased by 7% following a pick-up in the number of transactions in the quarter.

Income from trading remained at a high level of EUR 155m (EUR 157m) reflecting Nordea's position as a leading provider of derivatives and debt-capital-market services.

Other income increased by EUR 70m to EUR 99m. The increase is due to the sale of the real estate company, Nordisk Renting, and the Finnish real estate broker Huoneistokeskus Oy. Apart from these transactions, other income primarily consists of property-related income.

### Expenses

Expenses decreased by 2% to EUR 902m. Restructuring costs were somewhat higher than in the previous quarter.

### Loan losses

Loan losses amounted to EUR 92m (EUR 98m). Loan losses in the second quarter corresponded to 0.25% of total loans and guarantees, annualised. The vast majority of the loan losses is concentrated to provisions on the Norwegian Retail Banking portfolio, and relates almost exclusively to fish farming. The remaining losses are spread throughout the rest of the portfolio.

### Investment earnings, banking

Investment earnings, banking, increased by EUR 52m to EUR 81m reflecting gains on the fixed-income portfolio as well as on equities. Group Treasury benefited from reduced long-term as well as short-term rates in its position taking.

### Life insurance

Profit from Life increased to EUR 50m (EUR 19m) reflecting a better investment return and the gradual implementation of the changed business model in Nordea's life operations.

### Equity method

Profit from companies accounted for under the equity method amounted to EUR 19m (EUR 14m).

### Net profit

Net profit amounted to EUR 405m (EUR 255m).

### Result in the first half year in comparison with 2002

Operating profit was 37% higher than the corresponding period last year, following a slight increase in income, unchanged costs and increased loan loss provisions combined with a loss on General Insurance last year, which included the loss on the sale of that business.

### Income

Falling short-term interest rates put pressure on deposit margins but net interest income fell only slightly, mainly as a result of increasing lending and deposit volumes and improved corporate lending margins in certain segments.

Commission income declined by 7% mainly due to lower brokerage income as a result of weak equity markets, while trading income increased by 14%.

**Expenses**

Expenses decreased by EUR 8m despite the acquisition of LG Petro Bank in Poland, higher restructuring costs and somewhat higher variable salaries this year, totalling in excess of EUR 30m. The cost development reflects the ongoing rationalisation and integration activities.

The cost/income ratio was 61% (63%).

**Loan losses**

Loan losses were EUR 71m higher this year, primarily reflecting the weakness in certain parts of the Norwegian Retail Banking portfolio. Loan losses corresponded to 0.26% of total loans and guarantees, annualised.

**Investment earnings, banking**

Investment earnings increased by EUR 68m in the first half year due to falling interest rates.

**Life insurance**

Profit from Life improved to EUR 69m from a deficit of EUR 29m in the previous half year, mainly reflecting improved investment return and the gradual implementation of the changed business model in Life.

**Net profit**

Net profit increased by 78% to EUR 660m compared to the same period last year, reflecting the improvement in operating profit as well as last year's allocation to pension foundations.

**Pension commitments**

Pension commitments not recognised in the balance sheet have to be mainly covered by assets of the pension foundations. At the end of the quarter there was an aggregate deficit of EUR 25m reflecting surpluses in Finland, Sweden and Denmark, but a deficit of EUR 65m in Norway, which according to existing accounting rules will be amortised over average remaining time to retirement.

Nordea will implement IAS19 in the accounting for the Group's employee pension obligations as from 2004. The implementation will lead to changes in the way pension costs and pension obligations will be calculated based on coordinated group wide actuarial assumptions. The adjustment resulting from implementing IAS19 will be recognised as a reduction of equity.

**Credit quality – losses in isolated areas**

At the end of the quarter, impaired loans, net, amounted to EUR 836m (EUR 805m), representing 0.57% (0.55%) of total lending.

The lending portfolio changed slightly with respect to exposure to customer groups. The share of corporate lending decreased from 58% to 57% of the portfolio while lending to personal customers increased from 40% to 41%

of total lending. Loans to the public sector represented 2%.

Within the personal customer sector, mortgage loans account for 76%. Other lending to personal customers includes consumer loans, overdraft facilities, car financing, credit card financing etc.

There was no major change in the composition of the corporate loan portfolio in the second quarter.

Real estate management remains the largest industry exposure in the credit portfolio and amounts to EUR 22.3bn, representing 15% of the total portfolio. Relatively large and financially strong companies dominate the portfolio, which has a high level of collateral coverage. Despite the increase in vacancy rates in commercial properties experienced in the Nordic capitals, the credit quality is stable.

Shipping exposure was EUR 5.8bn of which EUR 5.0bn is outstanding. The portfolio is diversified by type of vessel and is focused on large industrial players. The total outstanding amount corresponds to 3.4% of the total loan portfolio, and 55% is to Nordic customers.

Telecom sector exposure was EUR 5.1bn of which EUR 3.3bn is outstanding. The outstanding amount represents 2.3% of the Group's loan book. The majority of the exposure is related to major Nordic equipment manufacturers and major Nordic telecom operators. Furthermore, 9% is regarded as low or negligible risk due to coverage by guarantees from public export credit agencies or by cash collateral.

Exposure to the fisheries industry amounted to EUR 2.4bn of which EUR 2.0bn is outstanding. Approximately 43% of the exposure is related to fish farming, 33%, is related to fishing vessels, and 24% to fish processing industry. The weakness in the fisheries portfolio has been related to the fish-farming industry, representing 0.6% of the bank's loan book. A weaker Norwegian currency in the first half of the year has not been sufficient to compensate for depressed salmon prices, and significant uncertainty is still attached to the industry going forward.

The Group's continuous concentration on Nordic customers has helped maintain the credit quality at a satisfactory level. The cost structure in the Norwegian industry, and a generally stronger Norwegian currency during last year, has resulted in a loss of competitive position for Norwegian exporters causing financial pressure in part of the exporting industry despite an overall strong Norwegian economy.

**Cost level – well within target**

Nordea aims to have the same cost level through 2003 and 2004 as in 2002. Total expenses in 2002 were EUR 3,745m.

It is expected that the ongoing cost reductions within the organisation will have a gradual effect throughout the year. Specific initiatives to reduce costs include capping IT development costs at 80% of the 2002 level, structural changes within Retail Banking and certain integration projects. The initiatives have had a somewhat more positive effect than originally anticipated.

In May Nordea entered into exclusive negotiations with IBM to form a partnership for IT production services following earlier announced ambitions to consolidate the bank's IT operations. Nordea aims to finalise the negotiations and start the partnership during the second half of 2003. The planned partnership aims at improving Nordea's efficiency, decreasing comparable costs and reducing risks in its extensive IT-transformation programme.

Nordea currently has three incentive schemes, the ordinary profit sharing scheme for all employees, the temporary scheme for all employees and the temporary scheme for Nordea's 300 top managers. The schemes have performance criteria based on return on equity and/or economic profit. The maximum possible cost for the Group of all three schemes combined is approximately EUR 100m. The threshold for payment under Nordea's three incentive schemes may be reached this year. Any potential payout under one or more of these schemes is not reflected in the second quarter accounts. As previously stated costs of this nature, if any, are not expected to be absorbed within the target cost base.

**Capital efficiency – strong capital position**

Shareholders' equity amounted to EUR 12bn at the end of the second quarter and the Tier 1 capital ratio was 7.5%. The total capital ratio was 9.8%.

The Annual General Meeting (AGM) of Nordea on 24 April decided to reduce the share capital by cancelling the 57 million shares that Nordea repurchased in 2001 and 2002. The cancellation is expected to take place during the second half of 2003.

The previously announced profit from the sale of Nordea's residential property in Denmark has been included in the second quarter result to the amount of EUR 41m. A corresponding provision has been made to cover potential losses on further real estate disposals. The ongoing process of reducing Nordea's real estate assets is expected to have a marginal overall net impact on Nordea's result this year. The book value of the remaining real estate assets planned to be sold is approximately EUR 0.8bn.

**Legal structure**

The Board of Directors has decided to start a change process of the Group's legal structure. The aim is to establish a one-bank structure, with one legal entity conducting business in all local markets through branches. Nordea AB will become an operational banking company and will be transformed into a European company continuing to be legally domiciled in Sweden. The change is expected to lead to improved operational efficiency, reduced operational risk and enhanced capital efficiency.

As a result of the restructuring, whereby Nordea Bank Denmark, Nordea Bank Norway and Nordea Bank Sweden are being sold from Nordea Bank Finland to Nordea AB, a loss has materialised in the taxation of Nordea Bank Finland. This follows mainly as a result of a difference between the historic acquisition values of Nordea Bank Sweden and Nordea Bank Norway, and the sales prices in the taxation of Nordea Bank Finland.

The sale of Nordea Bank Norway is still pending approval from the Norwegian authorities.

Nordea 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 a 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.

The transformation of Nordea AB into a banking company requires a decision by an Extraordinary General Meeting, which is planned to take place in October this year.

Following the transformation Nordea AB will be merged with Nordea Bank Sweden.

**The Nordea share**

During the second quarter the share price of Nordea appreciated by 3% on the Stockholm Stock Exchange from SEK 37.40 on 31 March to SEK 38.60 on 30 June. Total shareholder return for the second quarter was 8.6%. During the first half year the share appreciated by 1%, and total shareholder return was 5.7%.

**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. Uncertainty is still attached to the fish farming portfolio, but based on the quality of the Group's total loan portfolio, as well as the present economic outlook for the Nordic countries, Nordea has reason to believe that loan losses will stay below this average level in 2003.

## Results by business area second quarter 2003

	Business areas			Group Treasury	General Insurance	Other	Total
	Retail Banking	Corporate and Institutional Banking	Asset Management & Life <sup>1</sup>				
EURm							
Customer responsible units:							
Income	1,132	273	56	24		-22	1,463
Expenses	-649	-143	-36	-8		-66	-902
Loan losses	-94	-3				5	-92
Equity method		10				9	19
<b>Profit before investment earnings and insurance</b>	<b>389</b>	<b>137</b>	<b>20</b>	<b>16</b>		<b>-74</b>	<b>488</b>
Investment earnings, banking				75		6	81
Operating profit, life insurance			37			13	50
Operating profit, general insurance					-		-
Goodwill	-6	-2				-32	-40
<b>Operating profit 2003: Q2</b>	<b>383</b>	<b>135</b>	<b>57</b>	<b>91</b>	-	<b>-87</b>	<b>579</b>
2003: Q1	348	109	27	58	-	-162	380
2002: Q4	345	138	24	27	-	-87	446
2002: Q3	418	123	-12	31	-4	-157	399
2002: Q2	424	123	-21	21	-87	-122	338
Return on equity, %	23%	19%					18.1%
Cost/income ratio, banking, %	57%	52%	64%	8%			58%

The presentation format for life activities has been changed. Operating profit life insurance now reflects remaining result net of allocations to Retail Banking. Historical information has been restated accordingly. Product result, representing the Group's total earnings on life insurance is presented in the Asset Management & Life section of this report.

Nordea's operations are organised into three business areas: Retail Banking, Corporate and Institutional Banking and Asset Management & Life. The business areas operate as profit centres. The Group's financial management operations are conducted by Group Treasury.

Within Nordea, customer responsibility is fundamental. The Group's total business relations with customers are reported in the customer responsible unit's income statement and balance sheet.

Capital allocation is based on each business unit's actual risk exposure considering credit and insurance risk, market risk as well as operational and business risk. This framework optimises utilisation and distribution of capital between the different business areas. Economic profit constitutes the basis for evaluating strategic alternatives as well as for the evaluation of financial performance. Allocated capital and standard tax are used for calculating Return on equity in business areas.

Asset Management & Life has customer responsibility within investment management and in private banking outside the joint unit with Retail Banking. In addition, the business area commands product responsibility for investment funds and life insurance. The operating profit shown in the accompanying table includes the customer responsible units. The product result, representing the Group's total earnings on investment funds and life insurance, including sales and distribution costs within the retail branch network, is presented in the fact boxes "Key figures – Asset Management activities" and "Key figures - Life activities" within the Asset Management & Life section of this report.

In addition to the three business areas, Group Treasury, with responsibility for managing the Group's own positions in securities portfolios and group funding activities, is also included in the table. The column "Other" includes income and expenses not allocated to business areas, ie funding costs for the cash acquisition of Nordea Bank Norway, results from real estate holdings, expenses in Group functions not defined as services offered to business areas, goodwill depreciation related to the creation of Nordea, central provisioning for loan losses and profits from companies accounted for under the equity method which are not included in customer responsible units.



## Retail Banking

- **Strong sales**
- **Decrease in cost/income ratio to 57%**
- **Sale of Huoneistokeskus**
- **Loan losses in Retail Banking Norway**
- **Return on equity of 23%**

Retail Banking develops, markets and distributes a broad range of financial products and has customer responsibility for personal and small and medium-sized corporate customers.

### Market conditions

Customer demand remained firm for most services in the second quarter. Central bank rates were lowered further in all Nordic countries. Equity prices on the Nordic and global markets rose during the quarter and demand for mutual funds picked up.

### Business development

Lending to personal customers continued to grow strongly. The loan volume increased by EUR 2.0bn to EUR 59.2bn during the second quarter, an increase of 3%. Deposits from personal customers grew EUR 1.2bn to EUR 41.3bn, an increase of 3%.

Lending margins for personal customers were largely unchanged in the second quarter for mortgage loans and other loans, respectively. However, the increasing proportion of lower margin mortgage loans has reduced the overall margin slightly.

The volume development for corporate customers was more subdued in the second quarter with a growth of 1% to EUR 59.0bn in lending and a growth of 2% to EUR 28.5bn in deposits.

Lending margins for corporate customers were unchanged in the second quarter compared to the first quarter.

The total loan volume in the second quarter increased to EUR 118.1bn. This represents an increase of 7% compared to the end of the second quarter of 2002. Around half of the total loan volume comprised mortgage lending to personal and corporate customers. The deposit volume increased to EUR 69.8bn in the second quarter. Compared to end-June 2002 this represents an increase of 7%.

Deposit margins narrowed further following the interest rate decreases in the first and the second quarter.

The selling of mutual funds picked up in the second quarter and savings products for household customers increased by EUR 2.2bn. Also cards with issuer fees contributed to the good sales performance with

additionally 90,000 cards being sold, bringing the outstanding number of cards up to 3.5 million.

Retail Denmark saw in the second quarter a continued strong activity in remortgaging unleashed by the low interest rates.

Retail Finland sold the leading real estate broker Huoneistokeskus, but maintains cooperation with the company. The sale gave rise to an income of EUR 43m in June.

Retail Norway continued the implementation of a new organisation to strengthen its position through stronger focus on customers. Measures to improve efficiency are undertaken in both staff functions and the branch network leading to an expected decrease in number of employees of approximately 350.

### Electronic banking

The number of netbank customers increased by 0.1 million during the second quarter and almost reached 3.5 million, of which 3,150,000 are personal customers. The growth in on-line equity trading customers was also rapid during the quarter and at the end of the second quarter 320,000 customers had signed up for equity trading on-line.

Nordea had at the end of the second quarter almost 2,400 e-business customers. E-payment is the most popular e-business service which serves almost 2,000 corporate customers, and 700 e-payment customers were present on Nordea's pan-Nordic electronic market place, Solo Market, which connects Danish, Finnish, Norwegian and Swedish buyers and sellers. Nordea's e-business services also include e-invoicing, e-identification and signature and e-salary.

Netbank activity continued to grow at a rapid pace during the second quarter. The number of log-ons was 31.0 million, corresponding to a growth of 5.6 million, or 22%, compared to the second quarter 2002. The number of payments increased by 5.9 million, or 20%, to 36.1 million during the second quarter.

A series of electronic banking services were launched during the second quarter within payments and cash management, e-business and cards.

### Result

Total income increased by 6% in the second quarter compared to the first quarter. Net interest income increased by 2% compared to the first quarter, with the strong volume development being countered by continued pressure on deposit margins as a consequence of lower short-term rates.

Net commissions and other income were positively impacted by the increased demand for mutual funds, higher payments fees and the sale of Huoneistokeskus leading to an increase of 17% compared to the first quarter.

Costs were strictly controlled, and the 2% increase from the first quarter was primarily related to seasonal high activity and Retail Norway's provisioning for early retirements and other measures related to the large on-going restructuring programme. The second quarter saw an additional reduction of headcount by approximately 225 employees in addition to the employees of Huoneistokeskus.

The profit before loan losses at EUR 483m increased by 13% compared to the first quarter. The cost/income ratio

for the second quarter was 57%, down from 60% in the first quarter.

Loan losses in the second quarter were EUR 94m, of which EUR 81m stemmed from Retail Norway. The unfavourable development in the loan losses in the last three quarters have been strongly concentrated to isolated areas of the portfolio in Retail Norway, and loan losses in the other countries have been negligible in the same period.

Operating profit in the second quarter of EUR 383m represents an increase of 10% compared to the first quarter, and the return on allocated capital increased from 22% in the first quarter to 23% in the second quarter.

## Operating profit

EURm	Total		Retail Denmark		Retail Finland		Retail Norway		Retail Sweden		Poland & Baltic	
	Q2 2003	Q1 2003	Q2 2003	Q1 2003	Q2 2003	Q1 2003	Q2 2003	Q1 2003	Q2 2003	Q1 2003	Q2 2003	Q1 2003
Net interest income	759	744	202	197	195	198	120	116	231	222	10	10
Net commissions & other income	373	319	89	89	125	76	39	42	108	101	8	10
<b>Total income</b>	<b>1,132</b>	<b>1,063</b>	<b>291</b>	<b>286</b>	<b>320</b>	<b>274</b>	<b>159</b>	<b>158</b>	<b>339</b>	<b>323</b>	<b>18</b>	<b>20</b>
Total expenses	-649	-634	-156	-159	-160	-153	-105	-100	-205	-201	-17	-16
<b>Profit before loan losses</b>	<b>483</b>	<b>429</b>	<b>135</b>	<b>127</b>	<b>160</b>	<b>121</b>	<b>54</b>	<b>58</b>	<b>134</b>	<b>122</b>	<b>1</b>	<b>4</b>
Loan losses	-94	-74	-12	-7	0	11	-81	-74	-3	1	3	-2
Goodwill depreciation	-6	-7	0	0	0	0	0	0	-5	-4	-2	-2
<b>Operating profit</b>	<b>383</b>	<b>348</b>	<b>123</b>	<b>120</b>	<b>160</b>	<b>132</b>	<b>-27</b>	<b>-16</b>	<b>126</b>	<b>119</b>	<b>2</b>	<b>0</b>
Cost/income ratio, %	57	60	54	55	50	56	66	63	61	62	91	81
Return on equity, %	23	22	27	27	45	37	-9	-5	27	26	6	-1

Volumes and margins<sup>1,2</sup>

Volumes, EURbn	Total		Retail Denmark		Retail Finland		Retail Norway		Retail Sweden		Poland & Baltic	
	Q2 2003	Q1 2003	Q2 2003	Q1 2003	Q2 2003	Q1 2003	Q2 2003	Q1 2003	Q2 2003	Q1 2003	Q2 2003	Q1 2003
Lending	118.1	115.8	32.0	31.0	25.8	25.0	20.8	20.6	38.0	37.7	1.5	1.5
Deposits	69.8	68.2	15.6	14.8	21.9	21.5	11.0	11.0	20.2	19.9	1.0	1.1
Lending margins, %												
To corporates	1.2	1.2										
To personal customers	1.6	1.7										
Total lending	1.4	1.4										
Deposit margins, %												
From corporates	1.0	1.1										
From personal customers	1.6	1.7										
Total deposits	1.3	1.5										

<sup>1</sup> Volumes are end of period.<sup>2</sup> Margins are excluding Poland & Baltic.

## Key figures per quarter

	Q2 2003	Q1 2003	Q4 2002	Q3 2002	Q2 2002
Operating profit, EURm	383	348	345	418	424
Return on equity, %	23	22	18	23	24
Cost/income ratio, %	57	60	58	57	60
Customer base: personal customers, million	9.7	9.7	9.7	9.5	9.5
corporate customers, million	1.0	1.0	1.0	0.9	0.9
Number of employees (full-time equivalents)	19,246	19,992	20,300 <sup>1</sup>	19,500	19,900

<sup>1</sup> Including LG Petro Bank.

## Corporate and Institutional Banking

- **Continued strong deal flow in Corporate Banking, International and Shipping and Markets**
- **RoE improved to 19%**
- **Low loan losses**

Corporate and Institutional Banking delivers a range of products and services to corporate and institutional customers, and has customer responsibility for large corporates, shipping, offshore and oil services companies, and financial institutions.

### Market conditions

Market conditions improved slightly during the second quarter as the uncertain outlook for the economy eased. Development in equity market turnover showed an increase in Denmark, Sweden and Norway. All stock exchange indices increased.

#### Stock market development

	Market volume		Market index
	Q2 2003 EURbn	Q2 vs Q1 %	Q2 2003 %
Denmark	13.4	17.5	15.1
Finland	31.0	-18.8	10.8
Norway	17.0	27.8	29.0
Sweden	60.4	1.3	16.1
Average		-0.6	

### Business development

Corporate Banking Division's operating profit increased by 16%. Deal closure was at a high level, in part reflected by the capture of large refinancings of syndicated loans including a mandate for a facility of USD 2,000m for Nokia. A significant amount of new business was obtained, eg a EUR 325m syndication for Posten Norge.

The International and Shipping Division showed a good overall result for the second quarter. Total revenues increased from the first quarter as a result of a satisfactory deal flow and large number of transaction. In the international branches there were positive effects from the restructuring efforts.

In Markets, activity remained at a high level with strong customer demand in all product areas. Activity was particularly high in the latter part of the quarter. Targeted sales efforts led to continued increase in the business volume for derivatives and structured solutions from all customer segments.

In Investment Banking, the improved market conditions were reflected in a pick-up in sales revenues. The primary market activity continued to be at a low level. In the first quarter Nordea announced a change in business model for the investment banking activities. The reorganisation is

progressing according to plan with an estimated total yearly cost saving of approximately EUR 12m.

In Custody Services, the transaction volume decreased by 15% compared to last quarter. Assets under custody increased by 8%.

In Cash Management a number of large contracts were won.

The representative office in Moscow was closed by late July 2003, and the representative office in Shanghai will close during August 2003.

### Result

Total income in the second quarter was EUR 273m, which is at the same level as the first quarter. Net interest income was EUR 100m, up by 2% from the first quarter. Other income was EUR 173m, down by EUR 5m from the previous quarter. The business activity, especially in shipping and corporate banking areas, was high. In addition, income in Nordea Securities picked up from the low levels of the first quarter. Markets was able to maintain the high income level reached in the first quarter even in the difficult trading environment faced in the beginning of the quarter.

Total expenses in the second quarter were EUR 143m, up by EUR 6m from the first quarter. The increase is attributable to a provision for restructuring expenses of EUR 13m in Nordea Securities as a consequence of the decision to reorganise the investment banking activities. In other areas costs continued the declining trend.

Loan losses remained at a low level of EUR 13m, down by EUR 21m from the first quarter. In addition, provisions for transfer risk decreased by EUR 10m explained by reduced volume in emerging markets.

Operating profit was EUR 135m, representing a return on equity of 19%. The cost/income ratio was 52%.

## Operating profit by main area

	Total		Corporate Banking Division		International and Shipping Division		Investment Banking <sup>1</sup>		Other		Markets <sup>2</sup>	
EURm	Q2 2003	Q1 2003	Q2 2003	Q1 2003	Q2 2003	Q1 2003	Q2 2003	Q1 2003	Q2 2003	Q1 2003	Q2 <sup>3</sup> 2003	Q1 2003
Net interest income	100	98	72	72	27	24	0	0	1	2		
Other income	173	178	137	136	23	16	17	12	-4	14	132	162
<b>Total income</b>	<b>273</b>	<b>276</b>	<b>209</b>	<b>208</b>	<b>50</b>	<b>40</b>	<b>17</b>	<b>12</b>	<b>-3</b>	<b>16</b>	<b>132</b>	<b>162</b>
Total expenses	-143	-137	-61	-63	-13	-13	-30	-16	-39	-45	-57	-63
<b>Profit before loan losses</b>	<b>130</b>	<b>139</b>	<b>148</b>	<b>145</b>	<b>37</b>	<b>27</b>	<b>-13</b>	<b>-4</b>	<b>-42</b>	<b>-29</b>	<b>75</b>	<b>99</b>
Loan losses	-13	-34	-14	-22	1	-12			0	0		
Transfer risk	10	1	10	1	0	0			0	0		
Equity method	10	5	0	0	0	0			10	5		
Goodwill depreciation	-2	-2	-1	-1	0	0	-1	0	0	-1		
<b>Operating profit</b>	<b>135</b>	<b>109</b>	<b>143</b>	<b>123</b>	<b>38</b>	<b>15</b>	<b>-14</b>	<b>-4</b>	<b>-32</b>	<b>-25</b>	<b>75</b>	<b>99</b>
Lending, EURbn	25.3	24.4	18.5	17.6	6.8	6.8						

<sup>1</sup> Figures include income and costs related to the division's activities as a customer responsible unit. In addition, the division has income and costs related to its service and product responsibility that are allocated to other customer responsible units within the Group.

<sup>2</sup> Markets has product responsibility for trading products such as FX, fixed-income and related derivatives and is evaluated by the product result. The product result includes all income and expenses related to the respective products, which is allocated to the customer responsible units within Corporate and Institutional Banking and Retail Banking.

<sup>3</sup> As a first step to introduce fair value for derivatives within Markets (mainly taking counterparty risk into account), a previously held central reserve of EUR 22m was transferred to Markets in the second quarter. This transfer reduced income in Markets, but did not affect the Group's result.

## Key figures per quarter

	Q2 2003	Q1 2003	Q4 2002	Q3 2002	Q2 2002
Operating profit, EURm	135	109	138	123	123
Return on equity, %	19	15	18	15	16
Cost/income ratio, %	52	50	55	54	58
Number of employees (full-time equivalents)	2,316	2,363	2,444	2,550	2,559

## Asset Management & Life

- **Net inflow of new assets EUR 2.4bn**
- **AuM at EUR 102bn - up 7% quarter-on-quarter**
- **Strongly improved result in both Asset Management and Life operations**
- **Changed business model for Life delivers results**

Asset Management & Life is responsible for the Group's activities within institutional investment management, life insurance and pensions, investment funds, private banking and in the retail savings market in general. Beginning with this report, comments relate to customer segments rather than organisational units. Both dimensions are covered in the table on page 16.

### Market conditions

Confidence returned to equity markets in April as stock prices began to stabilise and then turn upwards. Indices in Nordea's core markets increased between 10% and 30% during the second quarter.

### Business development

Overall, sales performance was strong, generating EUR 2.4bn in net inflows. Year to date net inflows are 4.6% of end 2002 assets. With the leverage from investment performance, total assets under management increased to EUR 101.9bn, up 7% from Q1.

Asset mix changed somewhat during the second quarter resulting in an asset structure of 32% equities and 68% fixed income, compared to 30% equities at the end of the first quarter.

Implementation of the changed business model for Life & Pensions is on track (see box on next page for additional information).

### Nordic retail savings

Asset Management & Life is offering investment funds and life products to Nordic retail customers.

Following the positive development of stock prices and diminishing prospects for further interest rate cuts, customers showed growing interest in equity based products again.

Net inflow to Nordic retail funds was EUR 1.1bn and total AuM in this category increased by 10% to EUR 28.2bn. Average margins increased during the quarter as a result of improved equity values.

### Nordic Funds market shares in second quarter 2003

	Nordic	Denmark	Finland	Norway	Sweden
Net inflow	19.8%	26.3%	32.9%	Neg.	5.4%
AuM	20.0%	26.5%	24.4%	8.5%	17.4%*

\*Market share as of first quarter 2003

Net written premiums in Life decreased to EUR 548m (EUR 599m) compared to the previous quarter.

### Nordic private banking

Nordic Private Banking benefited from improved inflows and higher customer activity in general. Total assets under management increased by 8% to EUR 20.5bn, regaining the level of second quarter last year.

### European private banking and fund distribution

Total assets under management in Nordea's European private banking and fund distribution activities increased by 12% to EUR 9.4bn, mostly due to the continued strong performance of the fund distribution unit.

### Institutional clients

Despite significant gross inflows, especially in fixed income from Swedish clients, net flow in this segment was low due to the withdrawal of a major existing mandate. Total assets under management for non-affiliated institutional clients nonetheless increased by 5% to EUR 20.7bn.

### Result

Second quarter revenues from asset management activities were EUR 113m, up EUR 7m due to both inflows and the rising value of managed assets. Efficiency measures initiated during the last 12 months began to show effect and total expenses decreased to EUR 44m from EUR 48m in Q1. The product result from asset management activities consequently rose to EUR 42m, up 35% from Q1.

Product result for life activities rose to EUR 52m, up 136% from the previous quarter's EUR 22m. At the same time, financial buffers increased substantially from 3.0% to 4.8% of life provisions.

**Changed business model for Life: Enhancing return with reduced volatility**

Since mid-2002, Nordea's life operations have been gradually turned towards a business model focusing on the creation of economic profit (i.e. profit adjusted for risk). This reorientation is being achieved working on several parameters: By using enhanced risk management techniques (an economic capital model that takes into account also the structure of liabilities), by taking advantage of positive regulatory changes, and by introducing new products with lower risk for the company and better expected returns for customers. While the scope for capitalising on each of these differs from country to country for the time being, the work to maximise economic profit across products and markets continues.

During the last quarters, the Life business delivered higher returns to shareholders at lower levels of risk, having focused closely on risk management to reduce volatility and on ensuring a profitable product range. The profit potential going forward in using Nordea's unique distribution capability to sell a range of life products which are clearly profitable in risk-adjusted terms is considered to be substantial.

Below, the main features of the changed business model are set out:

**Product reengineering.** New life products ("capital-guaranteed products") are being introduced where guarantees apply to the principal capital of a policy, as opposed to old products which in addition offered guaranteed returns. The new products consequently represent reduced risk to the life company. At the same time, these products offer a higher expected return to policyholders, as the amount of reserves that needs to be set aside to cover the guarantee is smaller and consequently more can be invested in equities and other asset classes providing a higher expected long-term return. Pure capital-guaranteed products are currently being rolled out in Sweden. In Denmark, return guarantees have been reduced to 1.5% while in Norway introduction awaits new legislation. In Finland return to policyholders is decided on an annual basis. Migration of existing policies to the new products is expected to take place gradually.

**Fee-based profit-sharing model.** The profit-sharing model applied determines the split of the result between a life company and the policyholders. A fee-based model entails moving away from a situation where the return available to the company is a share of the investment result realised on the assets of the life company. Instead, under this model, the company receives a fee in relation to life provisions. This essentially puts a price on the risk borne by the life company and compensates the company for providing the relevant guarantees. Nordea's Danish Life operation (accounting for approximately 40% of total Nordea Life assets) is now fully on a fee-based model. The same model is being applied for the new line of capital-guarantee products in Sweden and will be introduced in Norway pending new legislation expected in 2005. In Finland, there are, for the time being, no plans to change the legal framework.

**Segregation of shareholders' equity from policyholders' reserves.** Traditionally, shareholders' equity in a life company was invested alongside policyholders' reserves. With segregation, shareholders' equity is split out and invested only in low risk assets of short duration, further reducing the impact of market volatility on the life company's solvency situation and bottom line. At the same time, the flexibility to allocate policyholders' reserves to higher-yielding assets is maintained. Full segregation has been achieved in Denmark and is expected in Norway from 2005. In Sweden, only capital backing new products can be segregated while segregation is not applied in Finland.

**Active risk management.** Nordea Life continuously monitors and reallocates investment assets to maximise the risk/return relationship across product groups and regulatory frameworks. This is done using a model for economic capital that takes into account also the structure of liabilities. One market view and one set of investment guidelines are applied to optimise asset allocation within each jurisdiction and hedging techniques are used to ensure that guarantees are sufficiently covered.

**Full-scale banc assurance.** Nordea is well positioned to benefit from its unique customer base and distribution network. A major part of Nordea's existing stock of policies was originally sold directly by the life companies that are now part of Nordea and non-bank distribution still plays an important role. Going forward, the focus will be on effectively using the bank distribution channel to save resources and increase sales of profitable products to both personal and corporate customers. In addition, significant potential remains in the cross-selling opportunities that exist given Nordea's position as a Nordic full-service bank in both the retail and large corporate markets.

### Volumes, inflow and margins

EURbn	Total			Denmark		Finland		Norway		Sweden	
	Q2 2003	Q2 Inflow	Q1 2003	Q2 2003	Q1 2003	Q2 2003	Q1 2003	Q2 2003	Q1 2003	Q2 2003	Q1 2003
Nordic retail funds	28.2	1.1	25.5								
Nordic private banking	20.5	0.5	19.0								
European private banking and fund distribution	9.4	0.4	8.4								
Institutional clients	20.7	0.1	19.7								
Life & Pensions	23.1	0.3	22.1								
Total	101.9	2.4	94.8								
Investment Funds, volumes <sup>1</sup>	35.6		31.7	11.6	10.2	4.8	4.1	1.2	1.2	14.3	13.2
Investment Management, volumes <sup>2</sup>	67.4		63.4								
Investment Funds margins, % <sup>3</sup>	0.97		0.96	0.62	0.59	1.16	1.25	0.75	0.73	1.06	1.08
Investment Management margins, % <sup>2</sup>	0.18		0.18								

<sup>1</sup>Including EUR 2.9bn and EUR 3.7bn outside the Nordic countries for the first and second quarter, respectively.

<sup>2</sup>Includes management of Nordea investment funds and Group Life & Pensions assets.

<sup>3</sup>For Denmark net margins are included, whereas in the other markets, gross margins (before costs of fund management) are included.

### Key figures per quarter – Asset Management activities

EURm	Q2 2003	Q1 2003	Q4 2002	Q3 2002	Q2 2002
Revenues	113	106	113	109	124
Expenses	-44	-48	-51	-49	-49
Distribution expenses	-27	-27	-24	-25	-26
<b>Product result</b>	<b>42</b>	<b>31</b>	<b>38</b>	<b>35</b>	<b>49</b>
<i>of which profit within Retail Banking</i>	<i>19</i>	<i>15</i>	<i>19</i>	<i>15</i>	<i>19</i>
Operating profit, customer responsible units	20	14	17	15	23
Cost/income ratio, % - CRUs	64	74	70	72	62
Assets under management, EURbn	102	95	96	93	100
Number of employees (full-time equivalents)	829	838	853	856	856



## Key figures per quarter – Life activities

EURm	Q2 2003	Q1 2003	Q4 2002	Q3 2002	Q2 2002
<i>Traditional life insurance</i>					
Premiums written, net of reinsurance	461	499	595	381	486
Normalised investment return <sup>1</sup>	247	250	284	285	239
Benefits paid and change in provisions	-626	-636	-770	-511	-643
Insurance operating expenses	-28	-27	-30	-26	-29
<b>Normalised operating margin<sup>1</sup></b>	<b>54</b>	<b>86</b>	<b>79</b>	<b>129</b>	<b>53</b>
Fluctuations compared to normalised investment return	297	-14	117	-435	-540
Change in discount rate for life provisions	-126	-48	-83	-277	-94
<b>Actual operating margin</b>	<b>225</b>	<b>24</b>	<b>113</b>	<b>-583</b>	<b>-581</b>
of which allocated to policyholders	-13	-8	0	-6	-11
of which to/from financial buffers	-165	11	-51	579	570
Net profit from other business	4	-1	-4	-1	-5
<b>Product result before distribution expenses</b>	<b>51</b>	<b>26</b>	<b>58</b>	<b>-11</b>	<b>-27</b>
<i>Unit-linked business</i>					
Premiums written, net of reinsurance	87	100	127	84	125
<b>Product result before distribution expenses</b>	<b>4</b>	<b>-1</b>	<b>-7</b>	<b>2</b>	<b>5</b>
<i>Total</i>					
Premiums written, net of reinsurance	548	599	722	465	611
<b>Product result before distribution expenses</b>	<b>55</b>	<b>25</b>	<b>51</b>	<b>-9</b>	<b>-22</b>
Distribution expenses in Retail Banking	-3	-3	-3	-2	-3
<b>Product result<sup>2</sup></b>	<b>52</b>	<b>22</b>	<b>48</b>	<b>-11</b>	<b>-25</b>
of which profit within Retail Banking	15	9	41	16	19
Bonds	15,004	14,837	14,551	12,945	11,699
Equities	2,921	2,391	2,524	3,543	4,859
Property	2,007	1,999	2,041	1,908	1,872
Unit-linked	3,147	2,890	2,974	2,827	3,144
Total investments	23,079	22,117	22,090	21,223	21,574
Investment return, % <sup>3</sup>	3.3	1.4	2.7	-0.8	-1.9
Technical provisions	22,140	21,302	21,370	20,585	20,901
of which financial buffers	869	535	551	508	1,088
Number of employees (full-time equivalents) <sup>4</sup>	1,008	1,011	1013	966	787

<sup>1</sup> In the statutory reporting investments are valued at market price. As a consequence, short-term fluctuations in financial markets affect the operating profit. The normalised investment return reflects the expected long-term return on investments based on the applicable asset mix within Life & Pensions operations.

<sup>2</sup> Reported life result in the Group's income statement includes the costs related to commissions paid to Retail Banking. In the presented product result these commissions are not deducted since they contribute to the Group's earnings on life products.

<sup>3</sup> Exclusive of unit-linked business.

<sup>4</sup> The increase in number of employees from third quarter 2002 is a consequence of the split of shared functions previously included in General Insurance.

## Group Treasury

- **Profiting from reduced interest rates**
- **Nordea Kredit upgraded to Aaa by Moody's**

Group Treasury is responsible for the Group's own investment portfolio and market risk taking in financial instruments (excluding investments within insurance), as well as group funding, and asset and liability management.

### Market conditions

Global financial markets were in the second quarter influenced by three key developments:

- The fast conclusion of the Iraq war
- The spread of SARS in Asia and later containment
- Federal Reserve focus on unconventional measures against risk of deflation

### Business development

Issuance of mortgage bonds represents the core of Nordea's senior long-term financing. Hence, a very important and positive development was the proposal for a new Swedish covered bond legislation which was presented during the quarter. The law, which is expected to come into force during 2004, will enhance Nordea's funding opportunities in the Swedish market.

Nordea Kredit was upgraded to Aaa on 1 August by Moody's Investors Service.

In its financing operations Nordea has benefited from a strong and broad demand for its different short-term funding programmes.

At the end of June, the price risk involved in Group Treasury's interest-rate positions, calculated as a parallel shift assuming a change in market interest rates of 100

basis points, was EUR 96m compared to EUR 85m at the end of the first quarter, and varied during the quarter between EUR 50m and EUR 170m.

The risk related to equities, calculated as VaR, was EUR 43m compared to EUR 44m at the end of March. The VaR figure comprises all equities including listed, unlisted and private equity.

### Result

Operating profit was EUR 91m in the second quarter compared to EUR 58m in the first quarter.

Investment earnings showed a gain of EUR 75m in the quarter compared to a gain of EUR 29m in the first quarter.

Gains on the fixed-income portfolio amounted to EUR 57 m in the second quarter compared to a gain of EUR 28m in the first quarter. Income from equity investments showed a gain of EUR 18m in the second quarter compared to a gain of EUR 1m in the first quarter.

Operating profit in Group Funding totalled EUR 16m (EUR 29m).

## Operating profit by main area

EURm	Total		Group Investment				Group Funding	
	Q2 2003	Q1 2003	Fixed-income portfolios		Equity portfolios		Q2 2003	Q1 2003
			Q2 2003	Q1 2003	Q2 2003	Q1 2003		
Income			60	30	19	2	24	37
Expenses			-3	-2	-1	-1	-8	-8
<b>Profit excluding investment earnings</b>	<b>16</b>	<b>29</b>					<b>16</b>	<b>29</b>
Investment earnings	<b>75</b>	29	57	28	18	1		
<b>Operating profit</b>	<b>91</b>	<b>58</b>						

## Key figures per quarter

	Q2 2003	Q1 2003	Q4 2002	Q3 2002	Q2 2002
Operating profit, EURm	<b>91</b>	58	27	31	21
Cost/income ratio, %	<b>8</b>	12	23	22	25
Bonds, EURm	<b>15,560</b>	16,778	12,061	14,154	13,496
Equities, EURm	<b>404</b>	464	476	499	616
Investments, EURm	<b>15,964</b>	17,242	12,537	14,653	14,112
Number of employees (full-time equivalents)	<b>98</b>	100	96	98	104

Wednesday 20 August 2003

Lars G Nordström  
President and Group CEO

- A conference call with management will be arranged on 20 August 2003 at 5.00 pm, CET.  
(Please dial +44 (0) 20 7162 0186, password Nordea, 10 minutes in advance.)
- This interim report is available on the Internet ([www.nordea.com](http://www.nordea.com)).
- A slide presentation is available on the Internet.

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**Financial calendar:**

The interim report third quarter 2003 will be published on 29 October

**Review report of the auditors**

We have reviewed this interim report in accordance with the recommendation issued by the FAR (Swedish Institute of Authorised Public Accountants). A review is considerably limited in scope in relation to an audit. Nothing has come to our attention that causes us to believe that the interim report does not comply with the requirements of the Exchange and Clearing Operations Act and the Annual Accounts Act for Credit Institutions and Securities Companies.

Stockholm 20 August 2003  
KPMG Bohlins AB

Appointed by the  
Financial Supervisory Authority

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Authorised Public Accountant

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This report is published in four additional language versions; Danish, Finnish, Norwegian and Swedish. In the event of any inconsistencies between those language versions and this English version, the English version shall prevail.

## Statutory income statement <sup>1</sup>

EURm	Note	Q2 2003	Q2 2002	Jan-Jun 2003	Jan-Jun 2002
Interest income		2,352	2,598	4,891	5,107
Interest expenses		-1,395	-1,667	-3,015	-3,282
Net interest income		957	931	1,876	1,825
Dividends received		26	22	36	27
Net commission income		372	405	735	791
Net result from financial operations	1	97	60	182	143
Other operating income		98	40	126	69
<b>Total operating income</b>		<b>1,550</b>	<b>1,458</b>	<b>2,955</b>	<b>2,855</b>
General administrative expenses					
Personnel expenses		-539	-512	-1,056	-1,013
Other administrative expenses		-329	-366	-689	-724
Depreciation and write-down of tangible and intangible fixed assets		-72	-79	-146	-157
<b>Total operating expenses</b>		<b>-940</b>	<b>-957</b>	<b>-1,891</b>	<b>-1,894</b>
<b>Profit before loan losses</b>		<b>610</b>	<b>501</b>	<b>1,064</b>	<b>961</b>
Loan losses, net	2	-46	-55	-148	-118
Change in value of assets taken over for protection of claims	2	-46	-1	-42	-1
Profit from companies accounted for under the equity method		19	17	33	32
<b>Operating profit, banking</b>		<b>537</b>	<b>462</b>	<b>907</b>	<b>874</b>
<b>Operating profit, insurance</b>	3	<b>44</b>	<b>-122</b>	<b>57</b>	<b>-164</b>
<b>Operating profit</b>		<b>581</b>	<b>340</b>	<b>964</b>	<b>710</b>
Pension adjustments		-2	-155	-5	-160
Taxes		-174	-79	-298	-179
Minority interests		0	0	-1	0
<b>Net profit for the period</b>		<b>405</b>	<b>106</b>	<b>660</b>	<b>371</b>
-					
Earnings per share, EUR		0.14	0.04	0.23	0.13
Earnings per share, after full dilution, EUR		0.14	0.04	0.23	0.13

<sup>1</sup> A change of Group accounting policies for the life operations was implemented from the third quarter last year as stated in the interim report for the third quarter 2002. Historical information for 2002 has been restated accordingly.

## Statutory balance sheet, end of period

Assets, EURm	Note	30 June 2003	31 Dec 2002	30 June 2002
Loans and advances to credit institutions		27,731	23,496	21,932
Lending	4	146,950	145,740	143,448
Interest-bearing securities		32,065	28,166	29,076
Shares and participations		582	596	787
Shares in group and associated undertakings		436	538	525
Intangible assets		2,189	2,427	2,539
Tangible assets		1,338	1,874	1,935
Other assets, banking <sup>1</sup>		36,064	25,248	26,438
Assets, insurance <sup>1</sup>		22,328	21,534	24,617
<b>Total assets</b>		<b>269,683</b>	<b>249,619</b>	<b>251,297</b>
<sup>1</sup> Of which investments, customers and policyholders bear the whole risk.		5,942	5,872	6,136
Assets pledged for own liabilities		14,759	9,942	11,489
<b>Liabilities and shareholders' equity, EURm</b>				
Deposits by credit institutions		37,594	25,962	30,256
Deposits		89,099	91,663	89,691
Other borrowings from the public		1,995	2,514	2,161
Debt securities in issue		64,376	61,858	60,568
Other liabilities, banking		38,009	29,369	27,911
Liabilities, insurance		21,348	20,218	23,490
Subordinated liabilities		5,439	6,128	5,656
Minority interests		13	10	21
Shareholders' equity		11,810	11,897	11,543
<b>Total liabilities and shareholders' equity</b>		<b>269,683</b>	<b>249,619</b>	<b>251,297</b>
Contingent liabilities		14,540	15,576	15,331
Commitments		1,285,689	1,136,142	937,618

## Movements in shareholders' equity

EURm	2003			2002		
	Restricted equity	Unrestricted equity	Total equity	Restricted equity	Unrestricted equity	Total Equity
Shareholders' equity at 1 January	6,056	5,841	11,897	6,051	5,768	11,819
Dividend		-673	-673		-682	-682
Conversion of convertible loans				14		14
Own shares <sup>1</sup>		-5	-5		-20	-20
Currency translation adjustment	-11	-58	-69	33	8	41
Net profit for the period		660	660		371	371
<b>Shareholders' equity at 30 June</b>	<b>6,045</b>	<b>5,765</b>	<b>11,810</b>	<b>6,098</b>	<b>5,445</b>	<b>11,543</b>

<sup>1</sup>Refers to the change in the trading portfolio and Nordea shares within the portfolio schemes in Denmark. Number of own shares referring to Nordea's repurchase of own shares at the end of June 2003 57.0 million (end of December 2002 57.0 million). Number of own shares in the trading portfolio at the end of June 2003 0.8m (end of Dec 2002: 0.3m) and within the portfolio schemes at the end of June 2003 2.9m (end of Dec 2002: 2.4m). Average number of own shares Jan-June 2003 59.6 million (Jan-Dec 2002 33.0 million).

## Cash flow statement

EURm	Jan-Jun 2003	Jan-Jun 2002
Net cash inflow/(outflow) from operating activities before changes in ordinary business assets and liabilities	1,039	1,890
Changes in ordinary business assets and liabilities	-1,640	-508
Net cash inflow/(outflow) from operating activities	-601	1,382
Net cash inflow/(outflow) from capital expenditure and financial investments	746	286
Net cash inflow/(outflow) from financing	1,156	-1,561
<b>Increase/(decrease) in cash</b>	<b>1,301</b>	<b>107</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>8,484</b>	<b>8,323</b>
<b>Cash and cash equivalents at end of period</b>	<b>9,785</b>	<b>8,430</b>

## Notes

	Q2	Q2	Jan-Jun	Jan-Jun
Note 1 <b>Net result from financial operations, EURm</b>	2003	2002	2003	2002
<b>Realised gains/losses</b>				
Shares/participations and other share-related instruments	-4	25	5	31
Interest-bearing securities and other interest-related instruments	-15	27	79	44
	-19	52	84	75
<b>Unrealised gains/losses</b>				
Shares/participations and other share-related instruments	16	-41	5	-28
Interest-bearing securities and other interest-related instruments	174	5	168	-25
	190	-36	173	-53
Other	-16	-24	-10	-9
Foreign exchange gains/losses	-58	68	-65	130
<b>Total</b>	<b>97</b>	<b>60</b>	<b>182</b>	<b>143</b>
Note 2 <b>Loan losses, net, EURm</b>	Q2	Q2	Jan-Jun	Jan-Jun
	2003	2002	2003	2002
<i>Individually appraised receivables</i>				
Losses incurred during the period	-150	-53	-313	-121
Amount of previous provisions used during the period	100	39	230	91
The period's provisions for probable loan losses	-148	-154	-350	-292
Recovery of previously incurred losses	18	22	55	48
Reversal of previous provisions	122	96	209	161
The period's costs for individually appraised receivables, net	-58	-50	-169	-113
<i>Receivables appraised by category</i>				
Write-downs on losses incurred	-	-3	-	-9
Recovery of previously incurred losses	-	3	-	7
Reversal/provision for probable loan losses	-1	-1	1	3
The period's costs for receivables appraised by category, net	-1	-1	1	1
<i>General reserve</i>				
Reversal/provision to general reserve	3	-11	7	-11
<i>Transfer risk</i>				
Provision/reversal, transfer risk	10	7	11	5
<i>Contingent liabilities</i>				
The period's costs for redemption of guarantees and other contingent liabilities	0	0	2	0
<b>Total loan losses, net (Statutory income statement)</b>	<b>-46</b>	<b>-55</b>	<b>-148</b>	<b>-118</b>
Change in value of assets taken over for protection of claims	-46	-1	-42	-1
<b>Loan losses, net (operational income statement)</b>	<b>-92</b>	<b>-56</b>	<b>-190</b>	<b>-119</b>



Note 3	Operating profit, insurance, EURm	Q2 2003	Q2 2002	Jan-Jun 2003	Jan-Jun 2002
<b>General insurance</b>					
Earned premiums, net of reinsurance	-	431	-	841	
Technical interest	-	33	-	64	
Claims incurred, net of reinsurance	-	-357	-	-698	
Insurance operating expenses, net of reinsurance	-	-125	-	-249	
Technical result	-	-18	-	-42	
Investment activities					
Interest etc	-	39	-	70	
Realised and unrealised investment gains	-	-30	-	-35	
Investment expenses	-	-3	-	-4	
Technical interest transferred to insurance activities	-	-35	-	-67	
Total profit on investment activities	-	-29	-	-36	
<b>Profit before tax, general insurance</b>	-	<b>-47</b>	-	<b>-78</b>	
<b>Life insurance and pensions</b>					
Premiums written, net of reinsurance	523	581	1,088	1,236	
Claims incurred and benefits paid and change in provisions	-1,027	-372	-1,658	-924	
Change in bonus equalisation provisions	-139	451	-121	277	
Insurance operating expenses, net of reinsurance	-38	-40	-75	-79	
Net profit from health and personal accident insurance	3	-4	1	-4	
Investment activities					
Income from land and buildings	31	37	62	69	
Interest etc	318	150	412	323	
Realised and unrealised investment gains	437	-889	441	-962	
Investment expenses	-4	-4	-9	-10	
Pension yield tax etc	-54	63	-72	44	
<b>Profit before tax, life insurance and pensions</b>	<b>50</b>	<b>-27</b>	<b>69</b>	<b>-30</b>	
<b>Operating profit before group adjustments</b>	<b>50</b>	<b>-74</b>	<b>69</b>	<b>-108</b>	
Sale of General Insurance	-	-40	-	-40	
Group adjustments (goodwill amortisation)	-6	-8	-12	-16	
<b>Operating profit, insurance</b>	<b>44</b>	<b>-122</b>	<b>57</b>	<b>-164</b>	

Note 4 **Lending**

<b>Loan portfolio, EURm</b>	30 June 2003			31 December 2002		
	Total lending	Impaired loans, net	Provisions	Total lending	Impaired loans, net	Provisions
Companies	83,485	620	1,709	85,089	890	1,764
Personal customers	60,176	210	300	57,929	213	383
Public sector	3,289	6	6	2,722	4	6
<b>Total</b>	<b>146,950</b>	<b>836</b>	<b>2,015</b>	<b>145,740</b>	<b>1,107</b>	<b>2,153</b>

<b>Impaired loans, EURm</b>	June 2003	Dec 2002	June 2002
Impaired loans, gross	2,851	3,260	3,180
Provisions for impaired loans	-2,015	-2,153	-2,305
of which			
specific	-1,571	-1,698	-1,836
appraised by category	-65	-64	-79
general	-379	-391	-390
<b>Impaired loans, net</b>	<b>836</b>	<b>1,107</b>	<b>875</b>
Provisions/impaired loans, gross, %	71	66	72
Impaired loans, net/lending, %	0.6	0.8	0.6

<b>Assets taken over for protection of claims, EURm</b>			
Shares and participations	31	26	34
Land and buildings	2	2	12
Other	1	1	1
<b>Total</b>	<b>34</b>	<b>29</b>	<b>47</b>

Note 5		June 2003	Dec 2002	June 2002
	<b>Capital adequacy</b>			
	Tier 1 capital, EURm	10,080	9,612	10,075
	Capital base, EURm	13,193	13,364	12,101
	Risk-weighted assets, (banking), EURbn	135	135	136
	Tier 1 capital ratio, %	7.5	7.1	7.4
	Total capital ratio, %	9.8	9.9	8.9

Note 6	Derivatives	Interest rate derivatives		Equity derivatives		Foreign exchange derivatives	
	EURm						
	30 June 2003	Market value	Book value	Market value	Book value	Market value	Book value
	Positive values	14,037	13,794	388	231	6,087	5,743
	Negative values	13,497	13,357	412	273	6,433	6,203

## Accounting principles

This interim report has been prepared in accordance with the recommendation on interim reporting (RR20) issued by the Swedish Financial Standards Council, the Swedish Act on Annual Accounts of Credit Institutions and Securities Companies and the regulations issued by the Swedish Financial Supervisory Authority.

In all material respects the accounting principles and the basis for calculations are unchanged in comparison to the Annual Report for 2002.

### Exchange rates applied

	Jan-Jun 2003	Jan-Jun 2002
EUR 1 = SEK		
Income statement (average)	9.1839	9.1375
Balance sheet (at end of period)	9.2488	9.1015
EUR 1 = DKK		
Income statement (average)	7.4282	7.4321
Balance sheet (at end of period)	7.4299	7.4292
EUR 1 = NOK		
Income statement (average)	7.7629	7.6663
Balance sheet (at end of period)	8.2935	7.4305
EUR 1 = PLN		
Income statement (average)	4.2823	3.6660
Balance sheet (at end of period)	4.4775	4.0598

## Nordea AB (publ)

	Jan-June 2003	Jan-June 2002	
<b>Income statement, EURm</b>			
Operating income	3		7
Operating expenses:			
Personnel expenses	-14		-12
Depreciation	0		-
Other operating expenses	-18		-35
<b>Operating profit</b>	<b>-29</b>		<b>-40</b>
Net result from financial operations	-10		-30
<b>Profit after financial operations</b>	<b>-39</b>		<b>-70</b>
Pension adjustment	0		-2
Taxes	10		-
<b>Net profit</b>	<b>-29</b>		<b>-72</b>
<b>Balance sheet, end of period</b>			
	June	Dec	June
<b>Assets, EURm</b>	<b>2003</b>	<b>2002</b>	<b>2002</b>
Shares in subsidiaries <sup>1</sup>	15,981	9,087	9,358
Long-term receivables <sup>2</sup>	892	851	238
Current assets	813	1,437	155
<b>Total assets</b>	<b>17,686</b>	<b>11,375</b>	<b>9,751</b>
<b>Shareholders' equity and liabilities, EURm</b>			
Shareholders' equity	8,747	9,511	8,987
Untaxed reserves	127	128	68
Provisions	11	11	9
Subordinated liabilities	-	-	97
Other liabilities <sup>3</sup>	8,801	1,725	590
<b>Total shareholders' equity and liabilities</b>	<b>17,686</b>	<b>11,375</b>	<b>9,751</b>
<b>Movements in shareholders' equity, EURm</b>			
	2003		
	Restricted equity <sup>5</sup>	Non-restricted equity	Total equity
Shareholders' equity at 1 January	5,467	4,044	9,511
Dividend		-673	-673
Conversion of convertible loans			
Technical adjustment <sup>4</sup>		-62	-62
Net profit		-29	-29
Shareholders' equity at 30 June	5,467	3,280	8,747
	2002		
	Restricted equity	Non-restricted equity	Total equity
Shareholders' equity at 1 January	5,453	4,274	9,727
Dividend		-682	-682
Conversion of convertible loans	14		14
Technical adjustment <sup>4</sup>			
Net profit		-72	-72
Shareholders' equity at 30 June	5,467	3,520	8,987

<sup>1</sup> EUR 7,000m of the change is related to the purchase of Nordea Bank Sweden AB (publ) and Nordea Bank Danmark A/S.

<sup>2</sup> A debenture loan (USD 50m) issued by Nordea Bank Finland Abp was acquired in February 2003. The acquisition was financed by Nordea Bank Sweden AB (publ). Repayment of subordinated loan was made in July 2003.

<sup>3</sup> The increase in other liabilities include loans for financing the purchase of Nordea Bank Danmark A/S and Nordea Bank Sweden AB (publ).

<sup>4</sup> Adjustment of the value of shares in subsidiaries.

<sup>5</sup> The company's share capital on 30 June 2003 and on 31 December 2002 was EUR 1,183,054,233.68. On 30 June 2003 and on 31 December 2002, Nordea AB (publ) had repurchased 57,008,000 own shares. The Annual General Meeting of Nordea has decided to reduce the share capital by cancelling Nordea AB's own shares. The cancellation is expected to take place during the second half of 2003. Average number of outstanding shares Jan-June 2003 2,928,108,227 (Jan-Dec 2002 2,954,326,421). Average number of own shares Jan-June 2003 57,008,000 (Jan-Dec 2002 29,768,460).

## Nordea AB (publ)

### Cash flow statement

EURm	Jan-Jun 2003	Jan-Jun 2002
Cash flow from ordinary business before changes in ordinary business assets and liabilities	-141	-102
Changes in ordinary business assets and liabilities (net)	107	-108
Cash flow from ordinary business	-34	-210
Cash flow from investment operations	-5,764	1,310
Cash flow from financial operations	6,252	-1,467
<b>Cash flow for the period</b>	<b>454</b>	<b>-367</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>57</b>	<b>429</b>
<b>Cash and cash equivalents at end of period</b>	<b>511</b>	<b>62</b>