Nordea

Capital Markets Day

Enhanced profitability focus

Fredrik Rystedt, Group CFO

Making it possible

- **Update on Q3 results**
- Financial targets

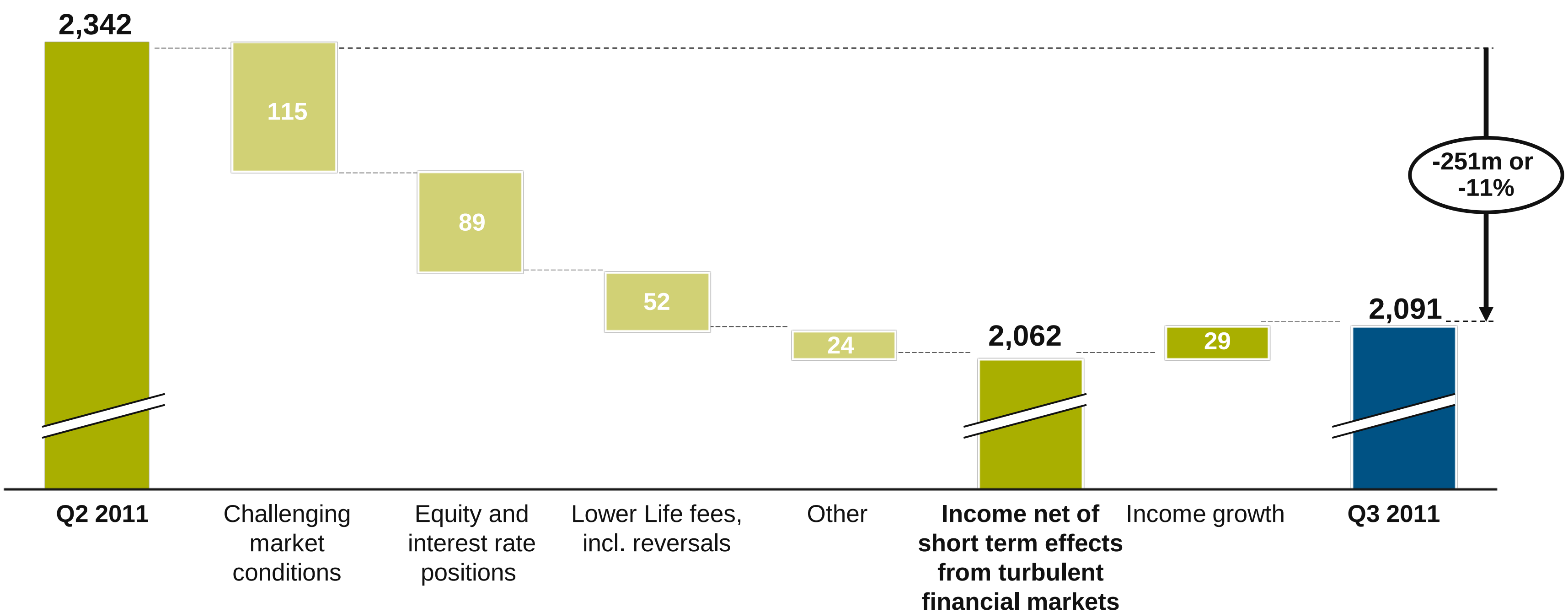
Key messages

- **Robust customer business…**
  - Customer driven revenues up q-o-q
  - Stable increase in lending volumes – healthy margin development
  - Underlying costs are down 3% q-o-q
- **…but financial turmoil affects Q3 result**
  - Increased volatility and increased spreads in the interest markets
  - Lower interest rates and weak equity markets affecting our holdings
  - Accrual of fee income to a fee reservation account in Danish Life operation

Financial result – Q3 2011

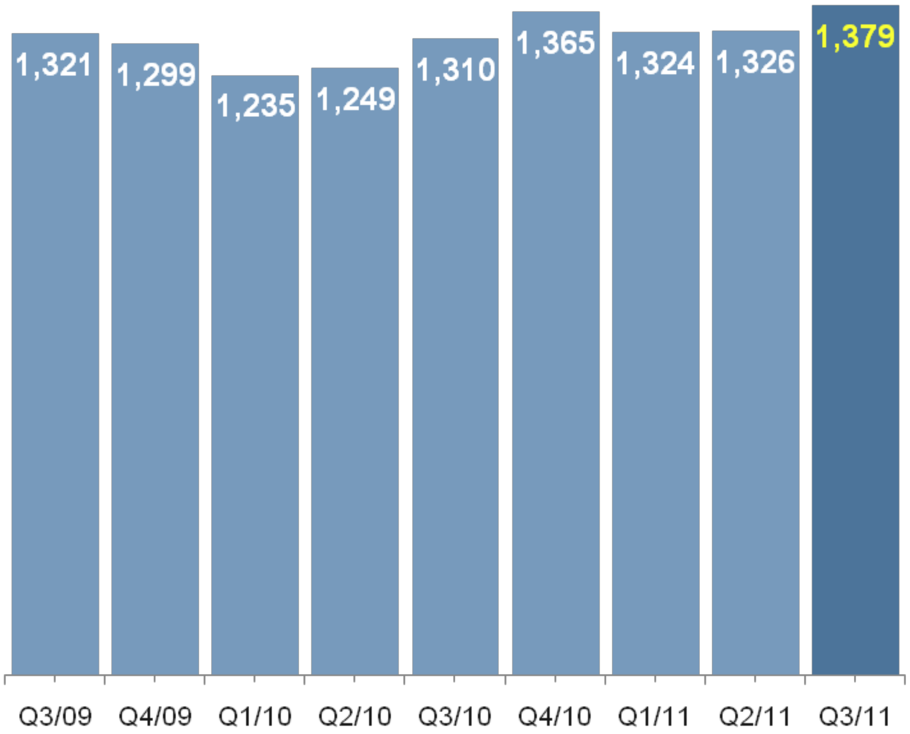
EURm	Q3/11	Q2/11	Chg.	Jan - Sep 11	Jan - Sep 10	Chg.
Net interest income	1 379	1 326	4%	4 029	3 794	6%
Net fee and commission income	582	623	-7%	1 807	1 538	17%
Net fair value result	111	356	-69%	1 011	1 333	-24%
Other income	19	37	-49%	96	162	-41%
Total income	**2 091**	**2 342**	**-11%**	**6 943**	**6 827**	**2%**
Staff costs	-887	-744	19%	-2 399	-2 109	14%
Total expenses	**-1 413**	**-1 275**	**11%**	**-3 953**	**-3 546**	**11%**
Total expenses (excl. restructuring charges)	**-1 242**	**-1 275**	**-3%**	**-3 782**	**-3 546**	**7%**
Profit before loan losses	678	1 067	-36%	2 990	3 281	-9%
Net loan losses	**-112**	**-118**	**-5%**	**-472**	**-713**	**-34%**
Operating profit	**566**	**949**	**-40%**	**2 518**	**2 568**	**-2%**
Net profit	**406**	**700**	**-42%**	**1 848**	**1 893**	**-2%**
Risk-adjusted profit	485	643	25%	1 899	1 901	0%

Total income dropping from turbulent financial markets - underlying customer income stable



Positive trend in net interest income

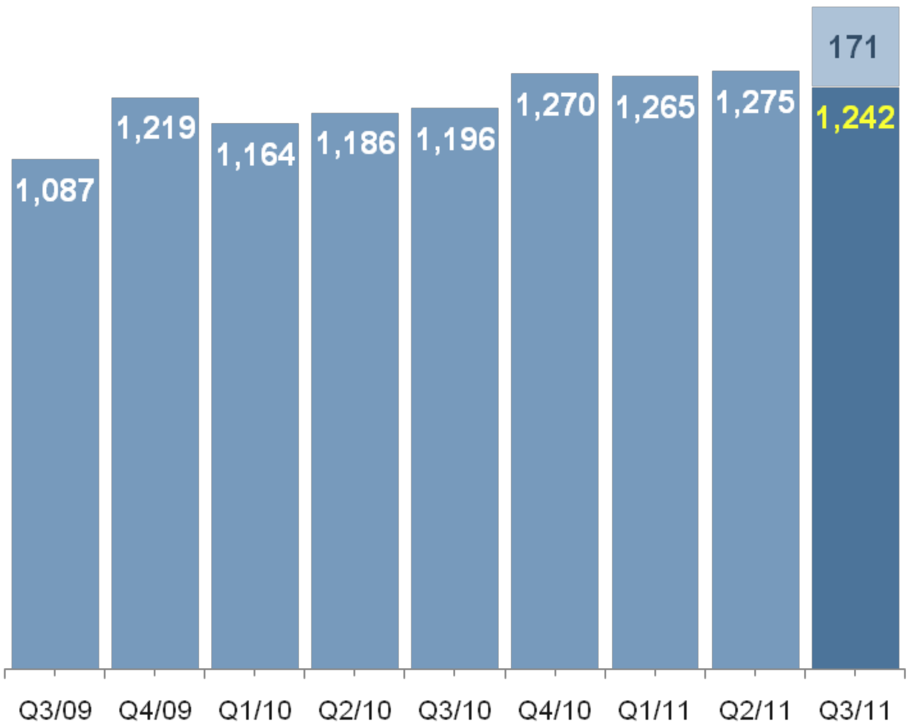
Total net interest income, EURm



- Modest increase in corporate and mortgage lending volumes
- Somewhat improved lending and deposit margins
- Positive contribution from Group Treasury

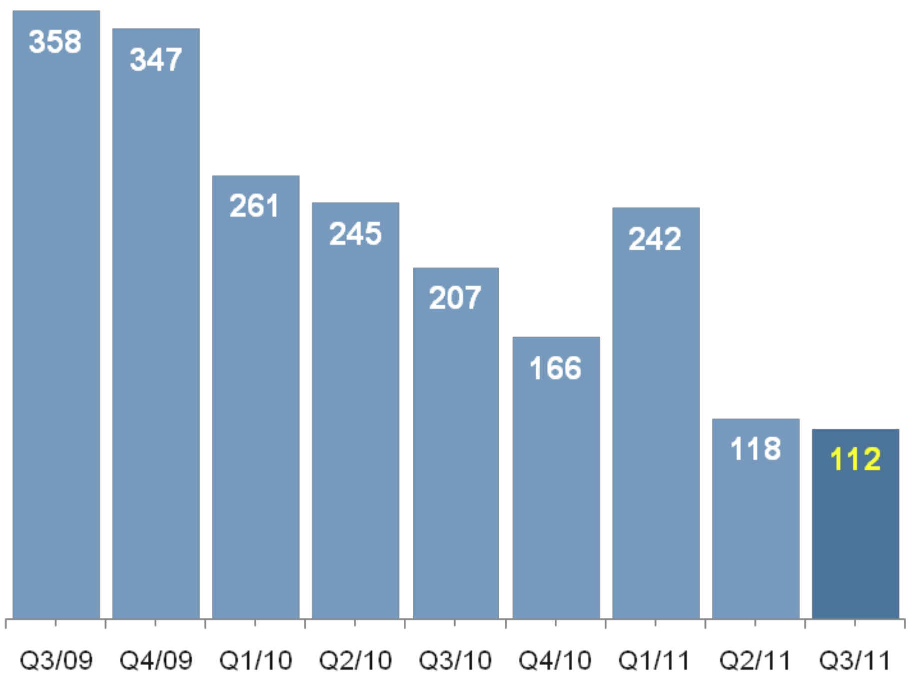
Expenses under good control

Total expenses, EURm



- Expenses decreased 3% q-o-q
- Restructuring costs of EUR 171m
- Reduction of staff will enable Nordea to keep costs unchanged for a prolonged period of time

Continued good credit quality

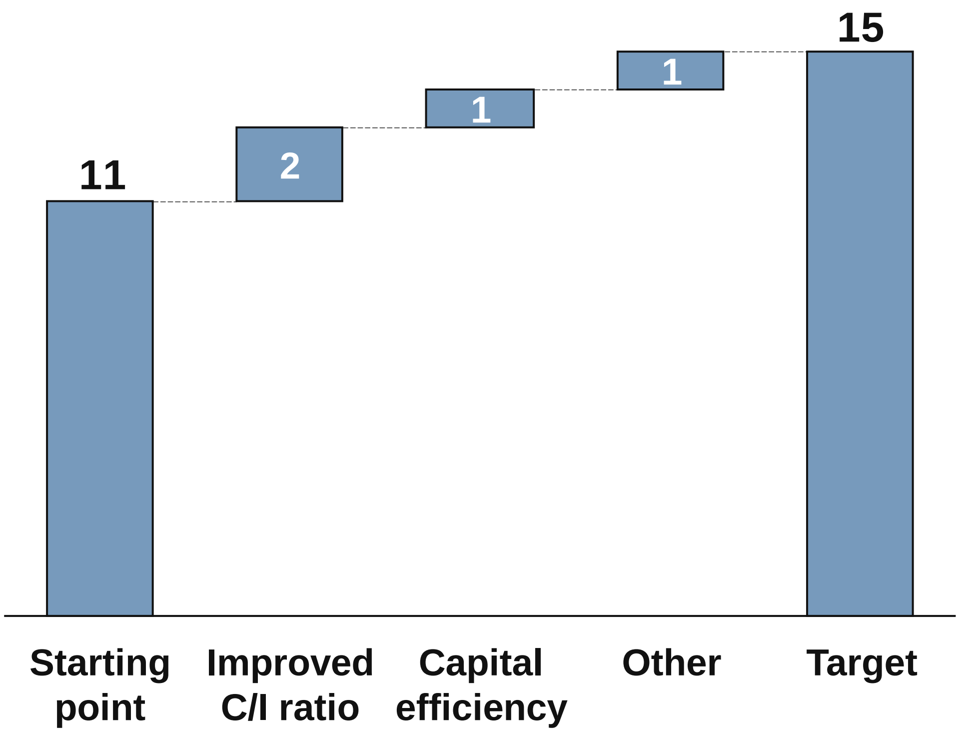


- Loan losses 14bps of lending, 16bps excluding Danish Deposit Guarantee Fund
- Increase in Denmark – continued elevated levels in Shipping
- Improving levels in Norway and Finland

Nordea

- Update on Q3 results
- **Financial targets**

Roadmap for 15% RoE



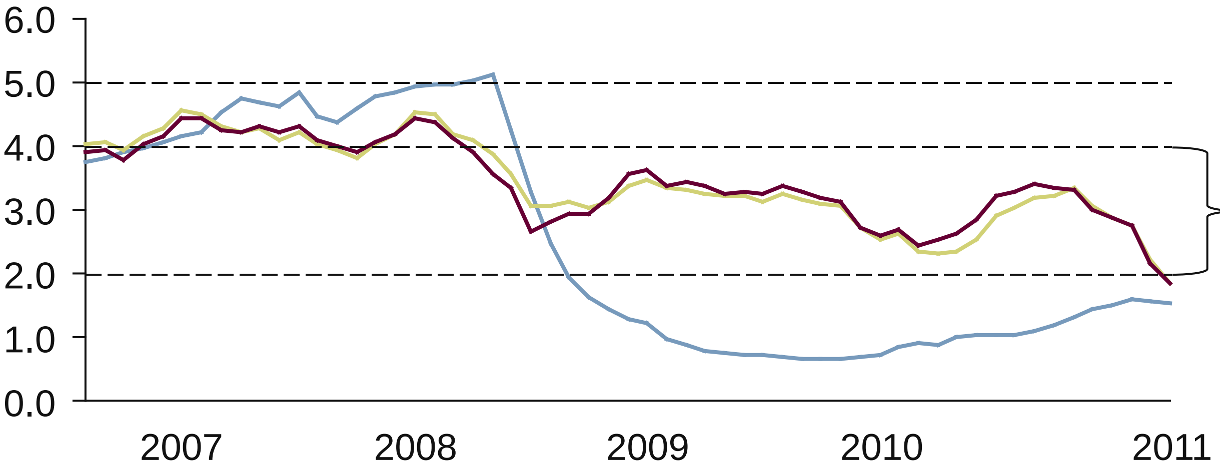
Assumptions:

- Interest rates and macroeconomic environment normalises
- Flat cost for a prolonged period of time
- Improved cost-income ratio to < 48%
- Moderate RWA growth

Normalised market conditions

Interest rates & margins

Short- and long-term average interest rates
Per cent

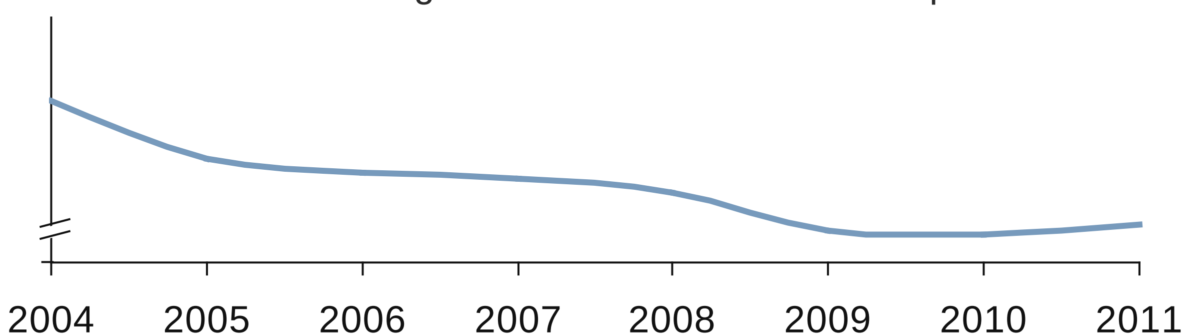


Normalised levels:

Short-term rates 2-4%

Long-term rates 3-5%

Blended margin; average lending and deposit margin
Per cent assuming volume mix in 2011 for entire period

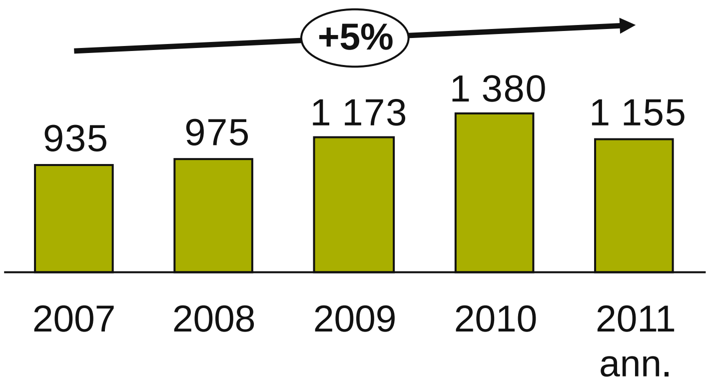


Blended margin incl. full funding cost

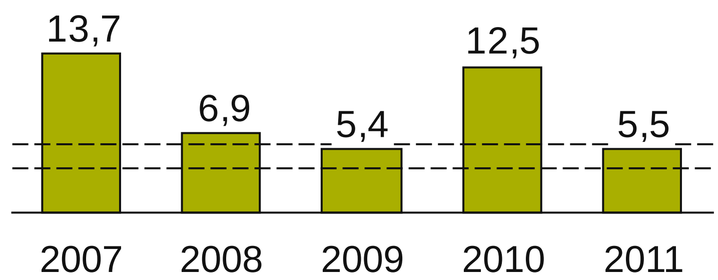
Normalised market conditions

Growth in volumes & net fair value

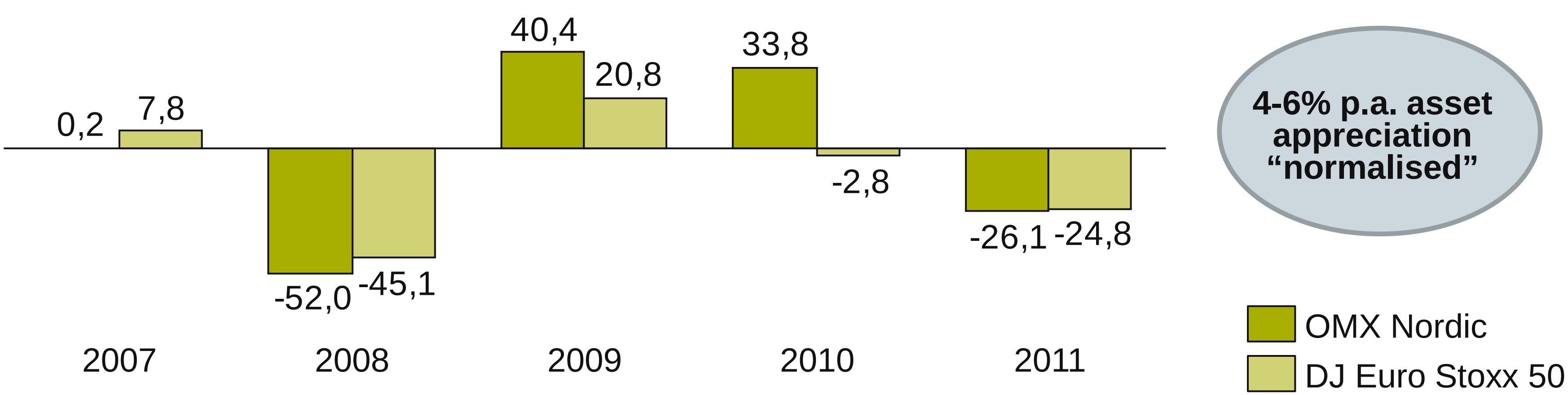
Customer-driven net fair value, EURm



Business volumes (lending+deposits) growth – normalised 4-6%
Per cent



European stock market development
Per cent



Income sensitivity analysis

	EURm
▪ 100bps higher interest on total capital	250
▪ 20bps higher deposit margins	300
▪ 10bps higher lending margins	300
▪ 5% higher lending volumes	150
▪ 5% higher deposit volumes	125
▪ 5% higher AuM volumes	50

What it takes to reach the income growth
Illustrative

- **Market interest rates**
  ~ 100bps higher rates
- **Re-pricing to reflect true cost of capital and liquidity**
  ~15 bps on lending margins

0.8-1.0bn

- **Market growth in lending and deposits**
  Stable market shares
- **Increased share of wallet in prioritised segments**
  Capitalise on strengthened market position – in particular within the savings and capital market area

0.7-0.9bn

1.5-1.9bn

Cost initiatives for flat costs

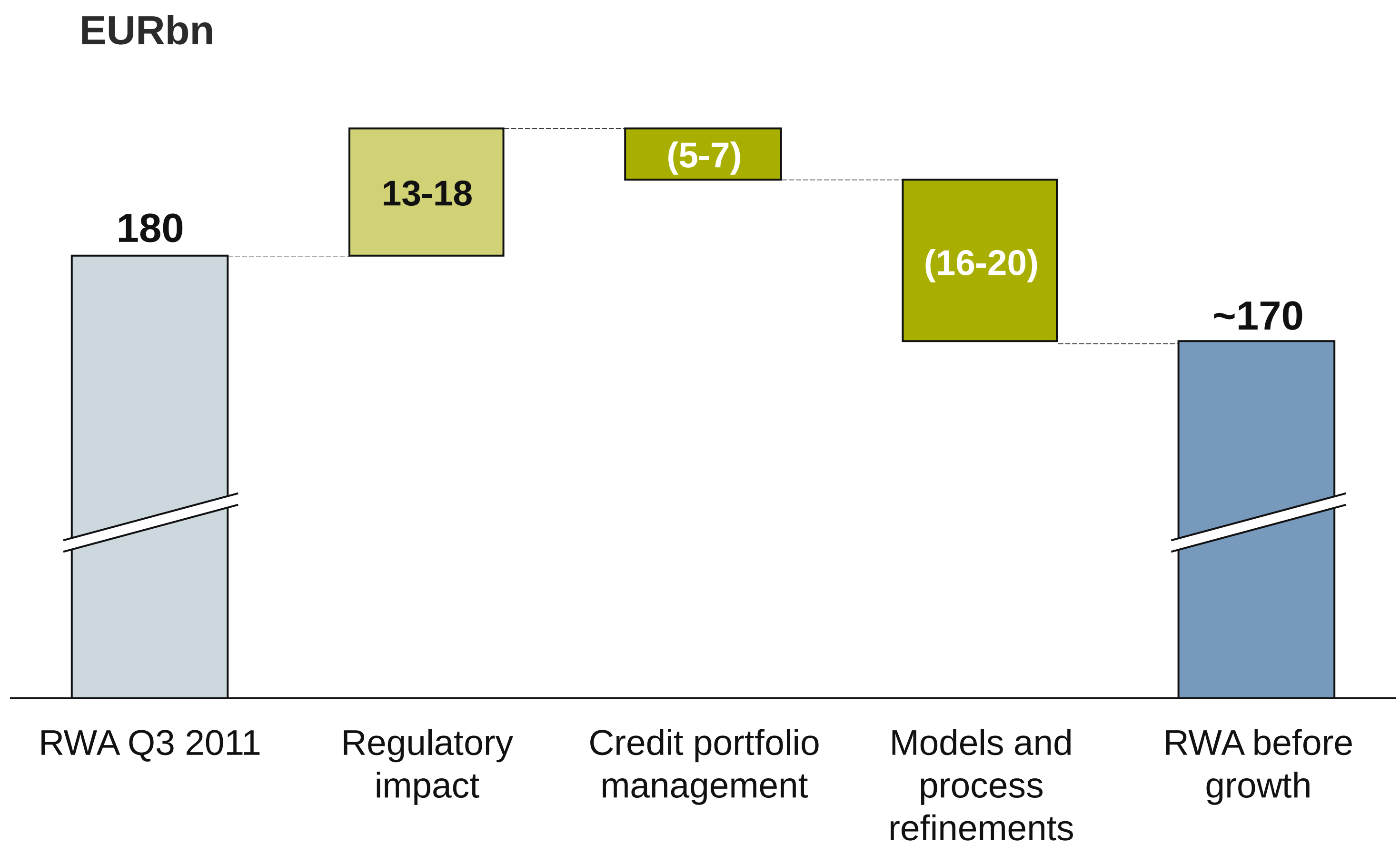
Staff reduction

- Number of employees in the Nordics down approx. 2,000 or 6% of number of FTEs, further decreases expected during 2013 from natural turnover
  - Contact policy adjustments in the branch network
  - Reduce no of branches and branches with manual cash handling
  - Significant reduction in support functions, centrally and in Business Areas
  - Lower number of staff will impact also indirect spending like premises and travelling cost

IT & operations

- IT portfolio efficiency
  - Improve productivity in the IT development portfolio by c. 10% per annum
  - Reduce IT investments after a couple of years with high activity level
  - Establish central IT service entity with a clear group wide responsibility
- Processes and operations
  - Product portfolio reduction, both banking and savings products
  - Transfer of tasks to lower cost delivery models (Nordea Operations Centre Poland) – approx. 300 FTE in 2012
  - Integrated facility management (IFM) – limiting the number of suppliers
  - Demand management to right size demand and optimising supply accordingly

Expected changes in RWA from new regulation and internal measures will allow for modest growth in business volumes



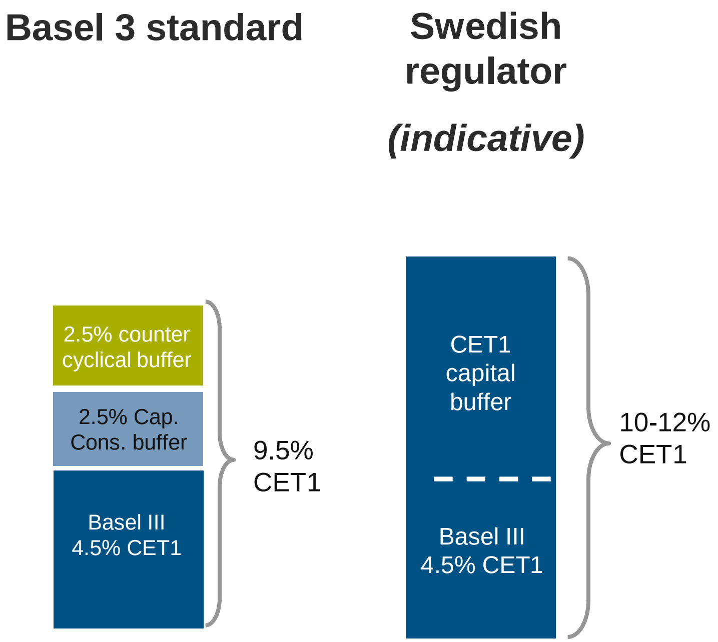
RWA development and management initiatives

Regulatory impacts	Credit portfolio management	Models & process refinement

• CRD III (Basel 2.5)
  • Market risk in trading book
• CRD IV (Basel III)
  • Counterparty credit risk (CVA risk & CCP)
  • Asset-value correlation
  • Risk-weighting of investments
	• Portfolio composition reviews
	• Move to capital efficient products
	• Improved transparency on profitability
	• Netting and collateral agreements
		• Advanced IRB roll-out
		• Foundation IRB for Standardised portfolios
		• Internal models for counterparty credit risk
		• Sourcing and treatment of collaterals and guarantees
		• Refine and improve credit processes

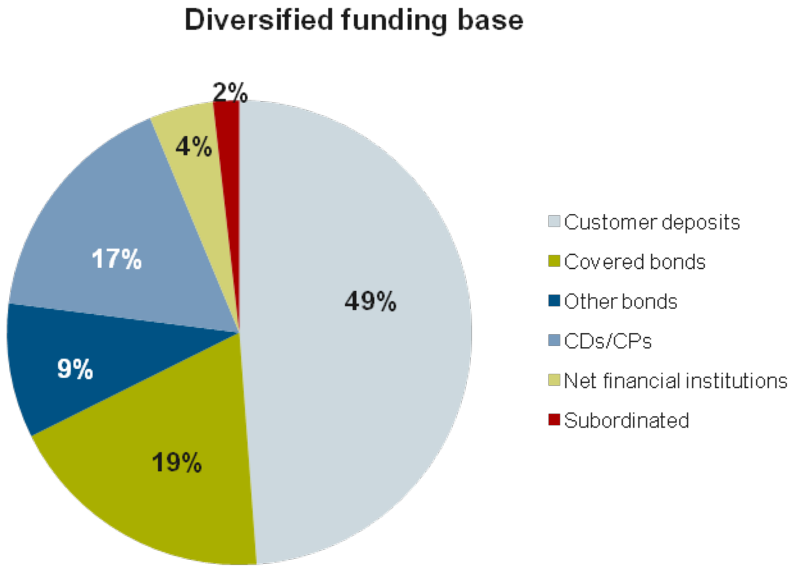
+13-18bn	**(5-7)bn**	**(16-20)bn**

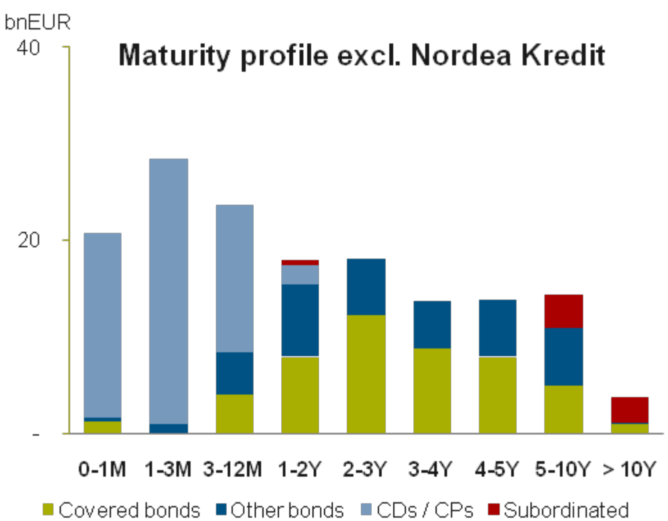
Current view on capital policy



- The RoE target assumes a 11% CT1 ratio
- The capital policy will be reviewed when more regulatory certainty
- The CT1 level will vary over the cycle, but 11% is prudent for our balance sheet short-to-midterm
- Conservative risk weights

Funding strategy – to secure Nordea funding at all times





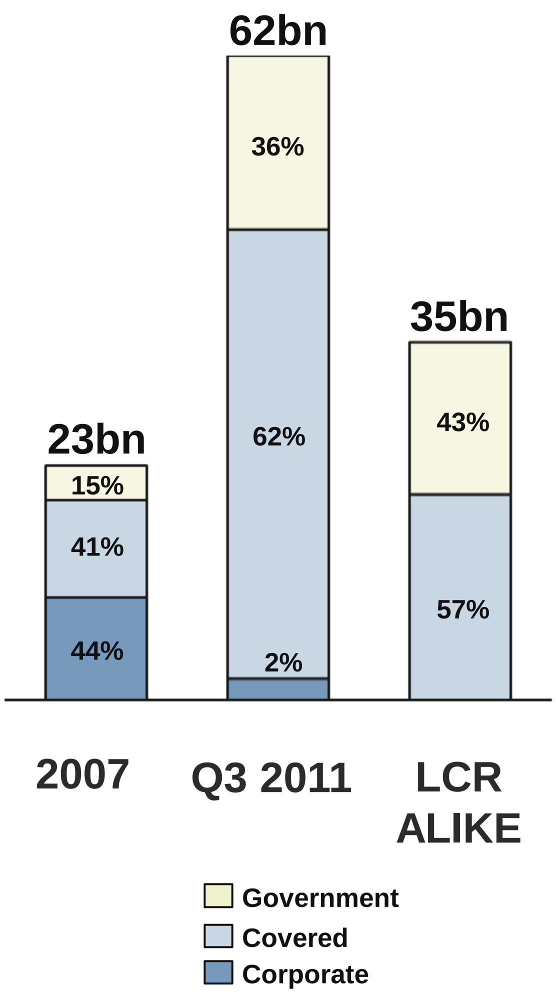
Stable and consistent issuance strategy

- One of few remaining European banks with a AA-rating
- Close to match funded on a behavioural basis – in line with funding strategy
- Active funding programs in deep, liquid markets
- Diversified funding base - short and long term issuance
- Covered bond platforms in all four Nordic markets – covered bonds represent 2/3 of Nordea's long term funding

Capacity to increase cover pool size in Nordea

September 2011	Finland	Norway	Sweden	Denmark
Issuer	**Nordea Bank Finland**	**Nordea Eiendomskreditt**	**Nordea Hypotek**	**Nordea Kredit**
Cover pool assets	Finnish mortgages	Norwegian mortgages	Swedish mortgages and public sector	Danish mortgages
Covered bond rating	Aaa	Aaa	Aaa/AAA	Aaa/AAA
Cover pool size	EUR 8.3bn	EUR 10.1bn	EUR 44.2bn	Balance principle
Benchmark issuance currency	EUR	NOK/USD	SEK	DKK
Covered bonds outstanding	EUR 7.3bn (EUR market)	EUR 5.8bn (domestic) EUR 2.3bn (USD market)	EUR 26.6bn (domestic) EUR 6.7bn (EUR market)	EUR 44.6bn (domestic)
Over collateralization	14.3%	15.4%	30.4%	CC1 9.3% and CC2 14.9%
Available additional issuance capacity based on residential mortgages	EUR 12-14bn	EUR 9-11bn	EUR 2-4bn	n/a

Liquidity management – size and composition of buffer

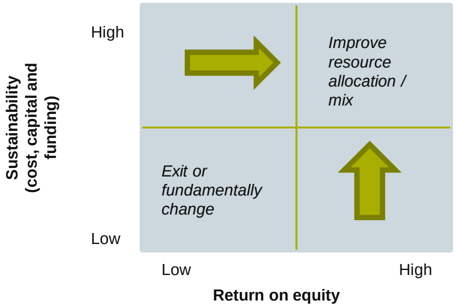


- Liquidity buffer has close to trebled since 2007 – highly rated bonds
- The size and the contents are aligned with future liquidity risk regulation through LCR alike metric
- A fully LCR compliant buffer would add approx. EUR 40 m of cost

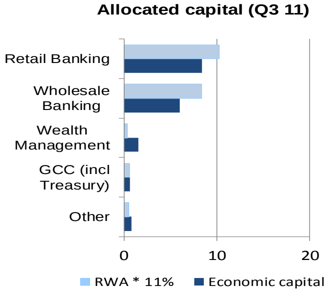
Allocation of cost, capital and funding in the Group

Continuous monitoring and adjustments based on opportunities

Segment and business strategic outlook and profitability

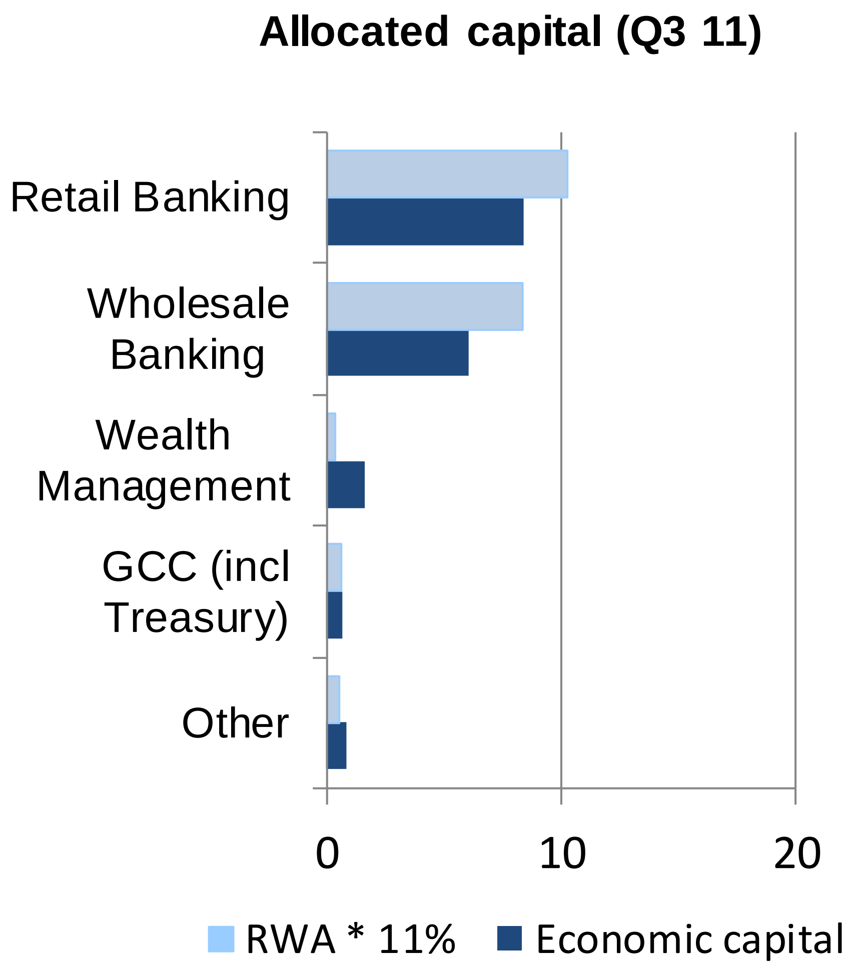


Resource allocation based on RaRoCar outlook with caps on cost, capital and funding



Capital and funding supply - cost of capital and funding

Allocation of capital per business area



Economic capital coverage

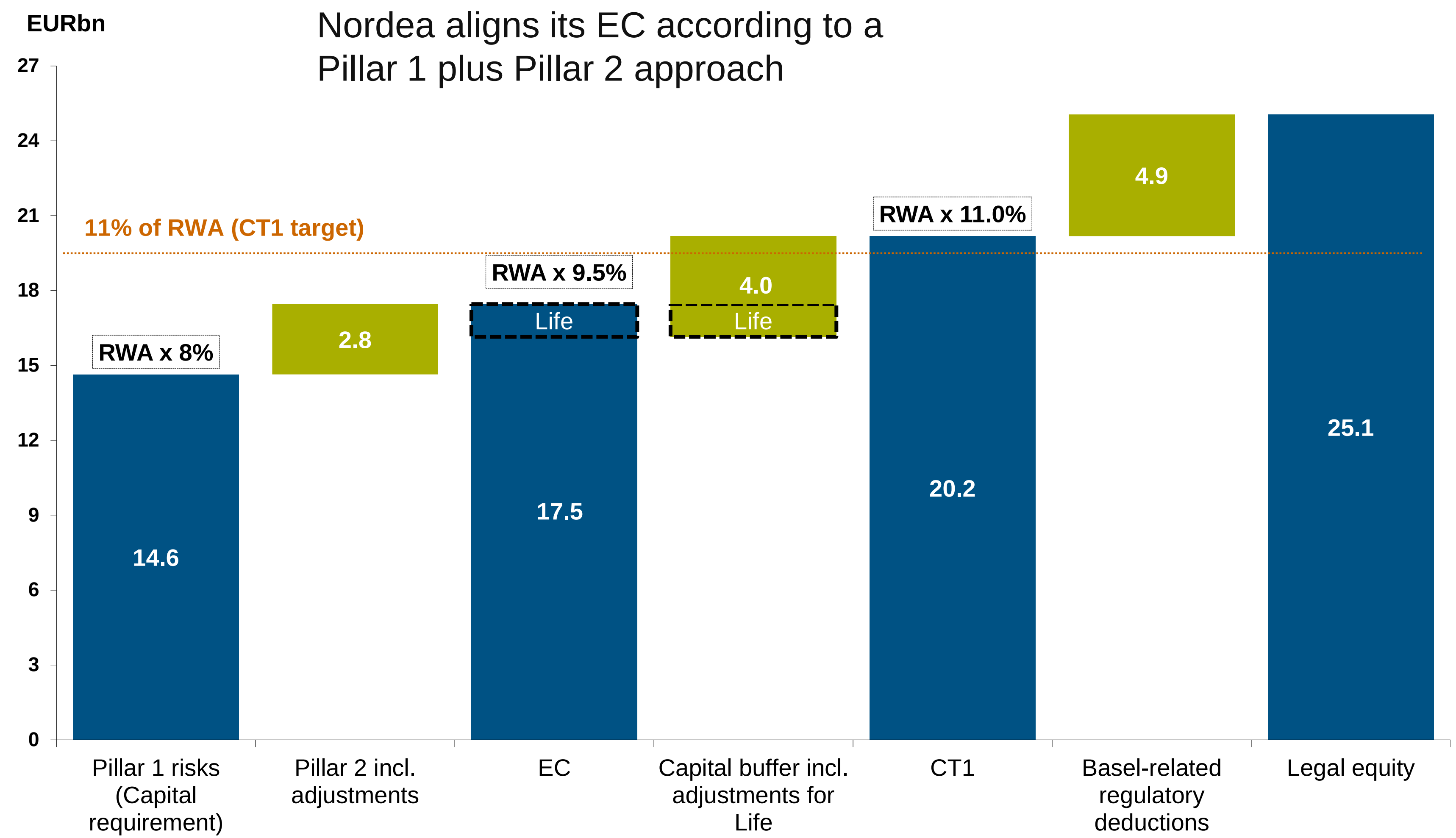
- Credit risk
- Market risk
- Operational risk

Pillar 1

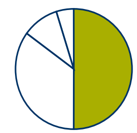
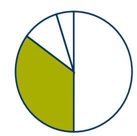
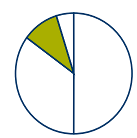
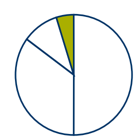
- Concentration risk
- Interest rate risk in the Banking Book
- Real estate risk
- Internally defined benefit pension plans
- Business risk
- Life risk

Pillar 2

The bridge between EC and Equity



Group and Business Area RaRoCar targets

	Target	Share of group
Group	21% (15% RoE)	
Retail Banking	21-23%	
Wholesale Banking	21-25%	
Wealth Management	> 35%	
Treasury	> 10%	

- Based on forecasted future Economic Capital
- Assuming full distribution of funding cost
- Assuming full distribution of sub debt cost

Further alignment of RaRoCar to RoE

Business unit Risk-adjusted profit vs. Group Net profit

- Full cost allocation to Business units
- Full funding cost allocated, including Liquidity premia

Economic Capital vs. Legal Equity

- Further alignment between RWA & EC (Pillar 1) for credit risk, e.g. International Units
- Allocation of capital buffer to Business units
- Allocation of Basel-related regulatory deductions to Business units

Key messages

- ✓ 15% ROE target will be reached in a normalised macroeconomic environment
- ✓ Sound and stable liquidity and funding position
- ✓ Further refinement of the Group’s resource allocation process
- ✓ Further alignment of RaRoCar to RoE

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