

# Nordea



**Nordea Mortgage Bank  
Investor presentation  
November 2016**

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## Disclaimer

This presentation contains forward-looking statements that reflect management's current views with respect to certain future events and potential financial performance. Although Nordea believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct. Accordingly, results could differ materially from those set out in the forward-looking statements as a result of various factors.

Important factors that may cause such a difference for Nordea include, but are not limited to: (i) the macroeconomic development, (ii) change in the competitive climate, (iii) change in the regulatory environment and other government actions and (iv) change in interest rate and foreign exchange rate levels.

This presentation does not imply that Nordea has undertaken to revise these forward-looking statements, beyond what is required by applicable law or applicable stock exchange regulations if and when circumstances arise that will lead to changes compared to the date when these statements were provided.

## Executive summary – Nordea Mortgage Bank Plc

- 100% owned by Nordea Bank AB (publ)
- Operates as a mortgage credit institution with the main purpose of issuing covered bonds
- Licensed by the European Central Bank to issue covered bonds according to the Finnish covered bond legislation (Covered Bond Act (688/2010) or CBA)
- Market share of Nordea approx. 30% of the Finnish mortgage market (housing loans)
- Loans to the public EUR 24.4bn per 1<sup>st</sup> of October 2016 consisting of high quality Finnish residential mortgage loans
- Acting in a healthy Finnish housing market
- Covered bonds to be issued are expected to be rated Aaa by Moody's, outstanding covered bonds are rated Aaa
- Finnish cover pool transferred to Nordea Mortgage Bank from Nordea Bank Finland in demerger
- Dedicated liquidity line provided by Nordea Bank Finland to manage daily cash needs and ensure compliance with external and internal requirements regarding liquidity management

Nordea Group in brief



# Nordea is the largest financial services group in the Nordics

## Strong Nordic distribution platform



## 11 million customers

- Approx. 10 million personal customers
- 590 000 corporate customers, incl. Nordic Top 500

## Distribution power

- Leading market position in all four Nordic countries
- Approx. 600 branch office locations
- Enhanced digitalisation of the business to interact with customers

## Financial strength

- EUR 10.1bn in full year income (2015)
- EUR 657bn of assets (Q3 2016)
- EUR 31.1bn in equity capital (Q3 2016)
- CET1 ratio 17.9% (Q3 2016)

## AA level credit ratings

- Moody's Aa3 (stable outlook)
- S&P AA- (negative outlook)
- Fitch AA- (stable outlook)

## EUR 36bn in market cap

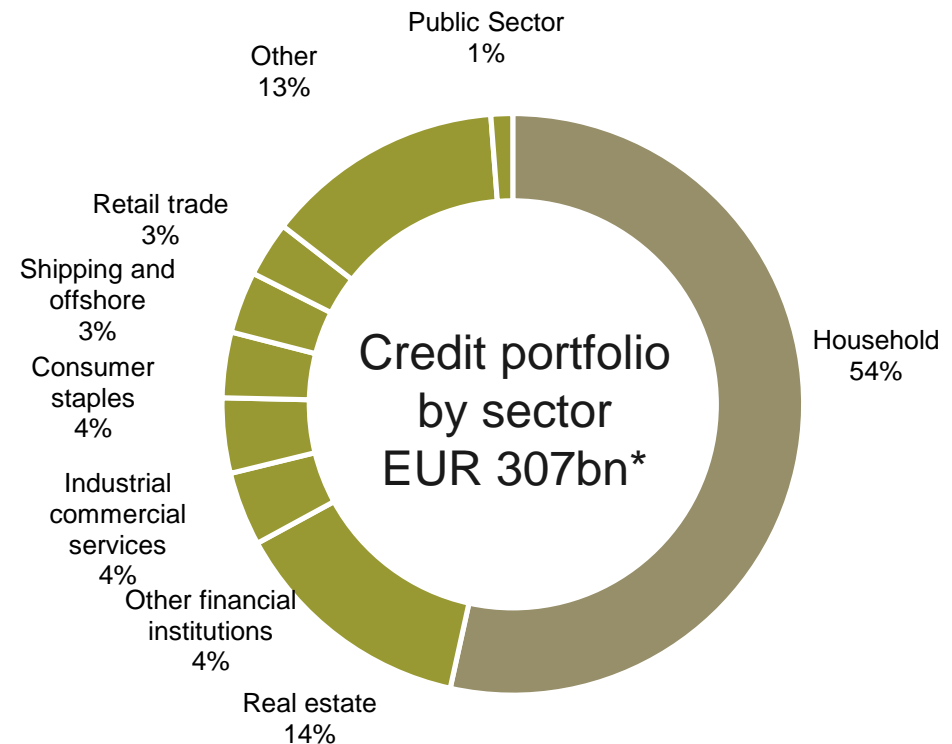
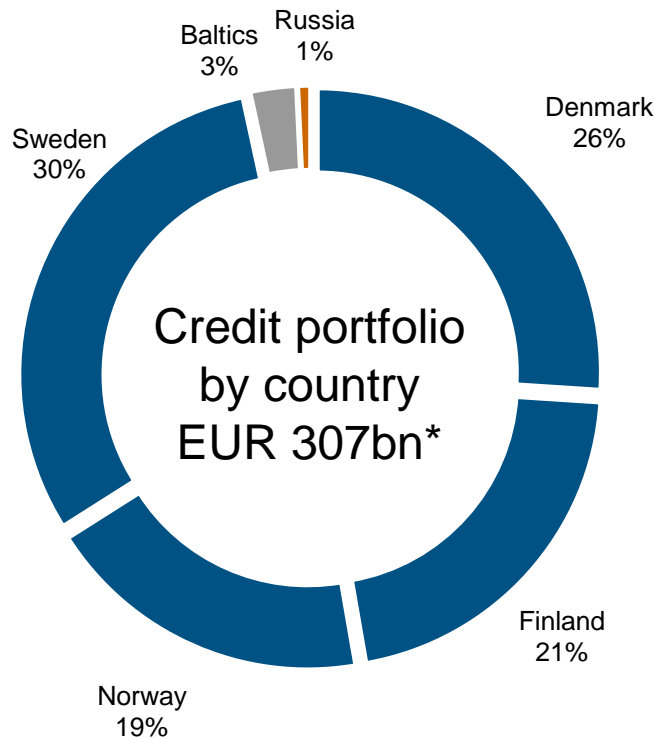
- One of the largest Nordic corporations
- A top-10 universal bank in Europe

# Nordea is the most diversified bank in the Nordics

Q3 2016

A Nordic-centric portfolio (96%)

Lending: 46% Corporate and 54% Household



\* Excluding repos

# Highlights Q3 2016 (Q3/16 vs. Q3/15\*)

Stable environment and low growth

Income up 10 %

- ✓ NII down 4% YoY but up 1% vs Q2 2016
- ✓ Strong trend in the corporate advisory services – a leading European bank in 2016
- ✓ All-time-high inflow to asset management of EUR 9.6bn

Costs are following the plan, up 8%

- ✓ Cost to income ratio improved 1%-points to 48.1%
- ✓ Full-year cost guidance of 3% growth in 2016 vs 2015 reiterated
- ✓ Flat costs 2018 vs. 2016

Loan losses at 16 bps, 9 bps are collective

- ✓ Impaired loans level down 9%, of which 6% relates to the Baltics

CET1 ratio up 110 bps QoQ to 17.9%

- ✓ Final SREP requirement is 17.3%
- ✓ CET1 ratio in line with Nordea's capital policy

Business and culture transformation journey

- ✓ Bringing in world-class experts in several key strategic positions

\*In local currencies

# Financial results









EURm	Q3/16	Q2/16	Chg Q3/Q2 %	Chg Q3/Q3 %	Loc. curr. Chg Q3/Q3 %	Jan-Sep 2016	Loc. curr. Chg YoY %
Net interest income	1,178	1,172	1	-4	-4	3,518	-4
Net fee & commission income	795	804	-1	4	4	2,371	-1
Net fair value result	480	405	19	127	123	1,217	-2
<b>Total income</b>	2,466	2,556	-4	9	10	7,317	-1
<b>Total income*</b>	2,466	2,405	3	9	10	7,166	-3
<b>Total expenses</b>	-1,183	-1,206	-2	7	8	-3,567	4
<b>Total expenses*</b>	-1,183	-1,206	-2	7	8	-3,567	4
Net loan losses	-135	-127	6	21	23	-373	15
<b>Operating profit</b>	1,148	1,223	-6	11	11	3,377	-7
<b>Operating profit*</b>	1,148	1,072	7	11	11	3,226	-11
<b>Net profit</b>	888	996	-11	14	14	2,666	-4
Return on equity* (%)	11.6	11.4	+20 bps	+110 bps	n/a	11.1	+50 bps
CET1 capital ratio (%)	17.9	16.8	+ 110 bps	+150 bps	n/a	17.9	+150 bps
Cost/income ratio* (%)	48	50	-200 bps	-100 bps	n/a	50	-200 bps

\*Excluding non-recurring items



# Nordea covered bond operations

Covered bonds are an integral part of Nordea's long term funding operations

Four issuers of covered bonds with complementary roles				
	 Norway  <b>Nordea Eiendomskreditt</b>	 Sweden  <b>Nordea Hypotek</b>	 Denmark  <b>Nordea Kredit</b>	 Finland  <b>Nordea Mortgage Bank</b>
Legislation	Norwegian	Swedish	Danish/SDRO	Finnish
Cover pool assets	Norwegian residential mortgages	Swedish residential mortgages primarily	Balance principle Danish residential & commercial mortgages	Finnish residential mortgages primarily
Cover pool size	EUR 11.7bn	EUR 54.9bn		EUR 22.7bn
Covered bonds outstanding	EUR 10.0bn (Eq.)	EUR 35.9bn (Eq.)	EUR 55.7bn (Eq.)	EUR 15.3bn
OC	16.9%	53.0%	CC1 10.9% / CC2 8.9%	49.7%
Issuance currencies	NOK, GBP, USD, CHF	SEK	DKK, EUR	EUR
Rating (Moody's/S&P)	Aaa / -	Aaa / AAA	Aaa / AAA	Aaa / -

Following the creation of Nordea Mortgage Bank, the issuance structure for covered bonds is aligned across all four Nordic countries

Nordea Mortgage Bank Plc



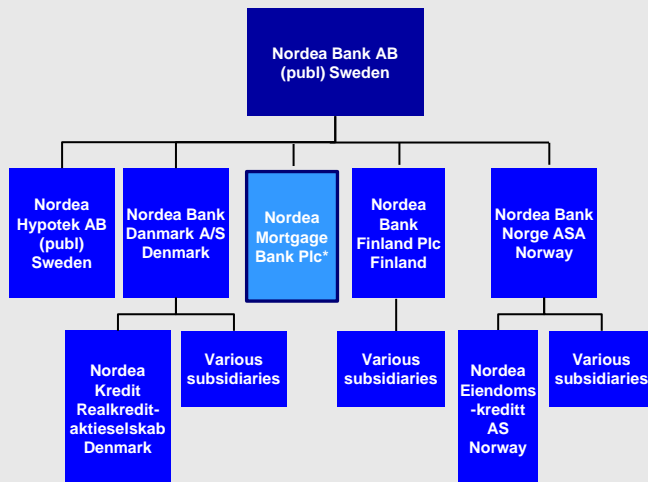
# Nordea Mortgage Bank Plc (NMB)

- NMB created through a demerger of Nordea Bank Finland on 1<sup>st</sup> October:
  - A consequence of the planned legal change of the Nordea Group (where the subsidiaries will become branches of Nordea Bank AB)
  - NMB was created as a mortgage bank to continue issuance of covered bonds out of Finland
- Alignment of covered bond setup across the Nordic countries:
  - One covered bond issuing entity in each country
  - To finance mortgage assets originated locally in each of the countries
- Business as usual for the Finnish mortgage financing:
  - Same cover pool and assets as before
  - No changes in loan origination and inclusion into cover pool
  - Same covered bond legislation
  - Same expected covered bond rating: Moody's Aaa
  - EUR 25bn covered bond programme that materially corresponds to the NBF programme
  - Covered bonds are expected to remain eligible collateral for Eurosystem central banks

# Organisational chart – Nordea Group and NMB

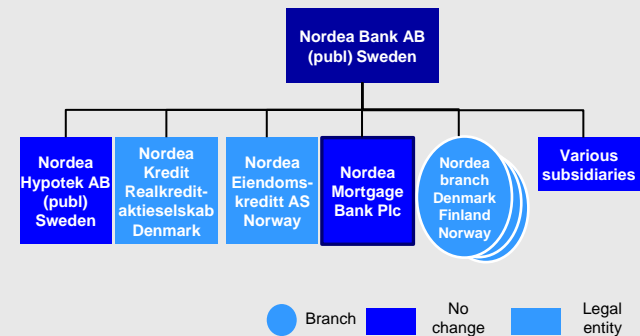
## Current Group structure

### Group Structure after demerger\*



## Planned Group structure

### Group structure assuming the planned mergers



# Financial information

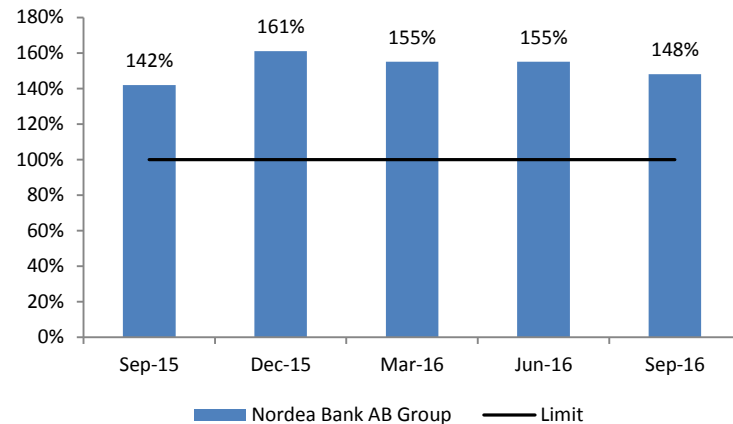
## Opening balance sheet adjusted, Nordea Mortgage Bank Plc, 1 October 2016 (EURm)

Assets		Liabilities and equity	
Cash and balances	211	Deposits by credit institutions	8,700
Loans and receivables to credit institutions	380	Debt securities in issue	15,284
Loans and receivables to the public	24,450	Derivatives	21
Derivatives	1,037	Other liabilities	838
Other assets	16	Subordinated liabilities	200
		Equity	1,052
<b>Total assets</b>	<b>26,094</b>	<b>Total liabilities and equity</b>	<b>26,094</b>

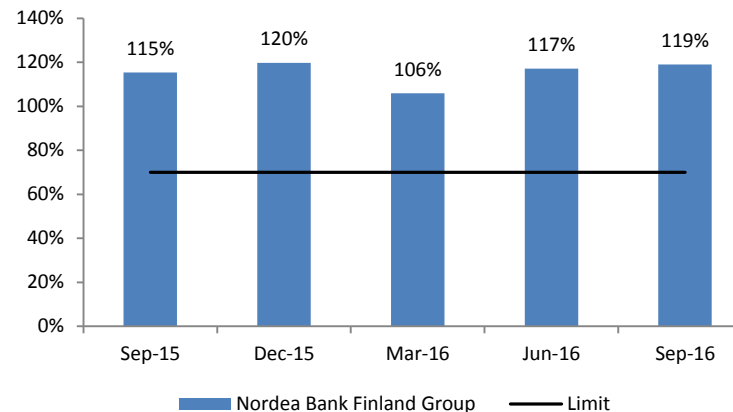
# Funding and liquidity

- Main funding source through issuance of covered bonds by NMB
- Outstanding covered bonds in NMB after the demerger as at 1 October 2016 amounted to EUR 15.3bn
- In addition, Nordea Bank Finland provides NMB with a dedicated liquidity line
- Liquidity buffer in Nordea Group Q3 2016 of EUR 64.7bn

Liquidity Coverage Ratio - Nordea Bank AB Group

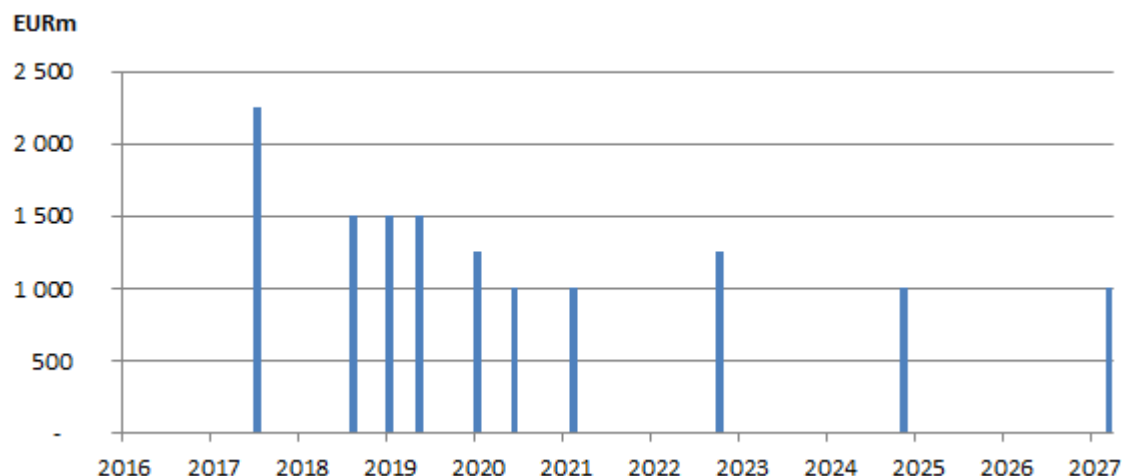


Liquidity Coverage Ratio - Nordea Bank Finland Group



# Finnish cover bonds redemption profile - benchmark transactions

ISIN	Description	Outstanding Principal Amount
XS0731649660	EUR 2,250,000,000 2.375% Covered Bonds due 17 July <b>2017</b>	EUR 2,250,000,000
XS0965104978	EUR 1,500,000,000 1.375% Covered Bonds due 28 August <b>2018</b>	EUR 1,500,000,000
XS1014673849	EUR 1,500,000,000 1.25% Covered Bonds due 14 January <b>2019</b>	EUR 1,500,000,000
XS0778465228	EUR 1,500,000,000 2.25% Covered Bonds due 3 May <b>2019</b>	EUR 1,500,000,000
XS0874351728	EUR 1,250,000,000 1.375% Covered Bonds due 15 January <b>2020</b>	EUR 1,250,000,000
XS1204134909	EUR 1,000,000,000 0.125% Covered Bonds due 17 June <b>2020</b>	EUR 1,000,000,000
XS0591428445	EUR 1,000,000,000 4.00% Covered Bonds due 10 February <b>2021</b>	EUR 1,000,000,000
XS1308350237	EUR 1,250,000,000 0.625% Covered Bonds due 19 October <b>2022</b>	EUR 1,250,000,000
XS1132790442	EUR 1,000,000,000 1.00% Covered Bonds due 5 November <b>2024</b>	EUR 1,000,000,000
XS1204140971	EUR 1,000,000,000 0.625%. Covered Bonds due 17 March <b>2027</b>	EUR 1,000,000,000



# Rating

Moody's: No rating impact on Nordea Bank Finland's covered bonds following demerger

*“Moody's Investors Service Limited ("Moody's") have announced on 4 March 2016 that the proposed demerger of the covered bond business of the Issuer (counterparty risk assessment Aa2(cr), senior unsecured rating Aa3, adjusted baseline credit assessment a3) into a new entity, the New Issuer, would not, in and of itself and as of the time of the announcement, result in the downgrade or withdrawal of the current rating of Aaa assigned to the Covered Bonds issued under the Programme.”*

*“Moody's has determined that the proposed demerger, in of itself and at the time of its announcement, will not result in the downgrade or withdrawal of the ratings currently assigned to the Covered Bonds issued by the Issuer.”*

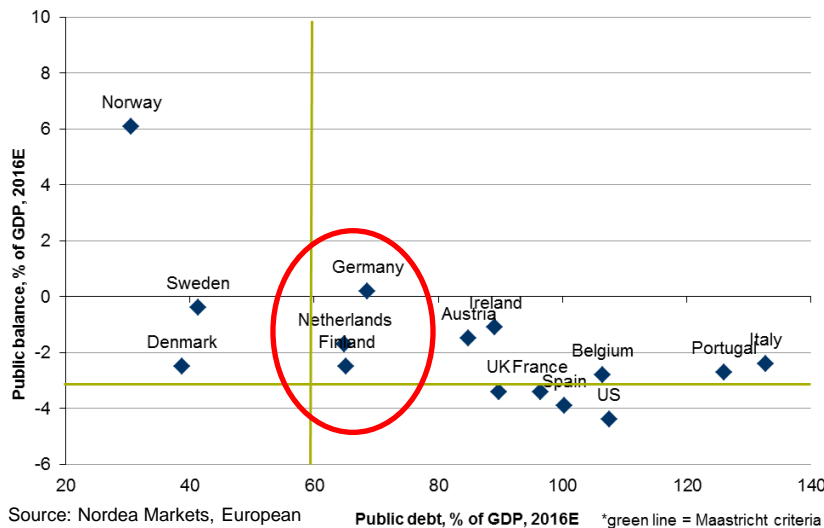
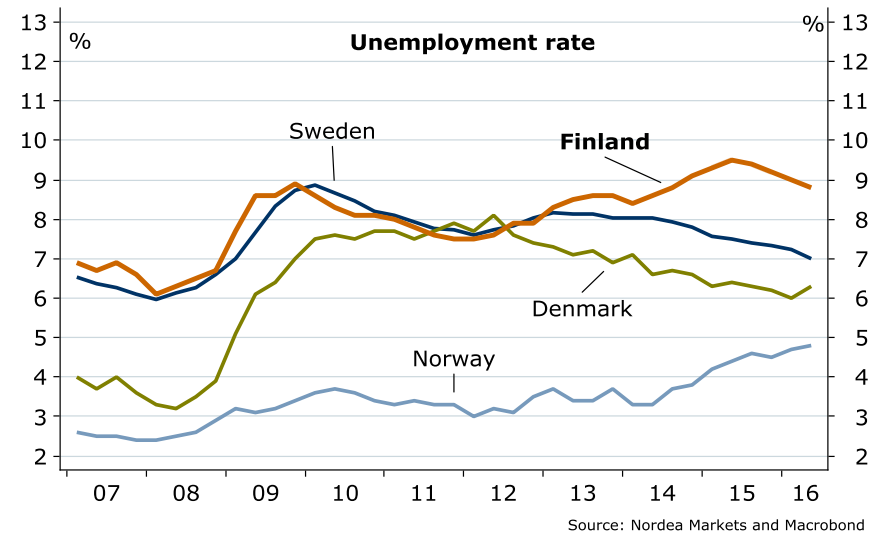
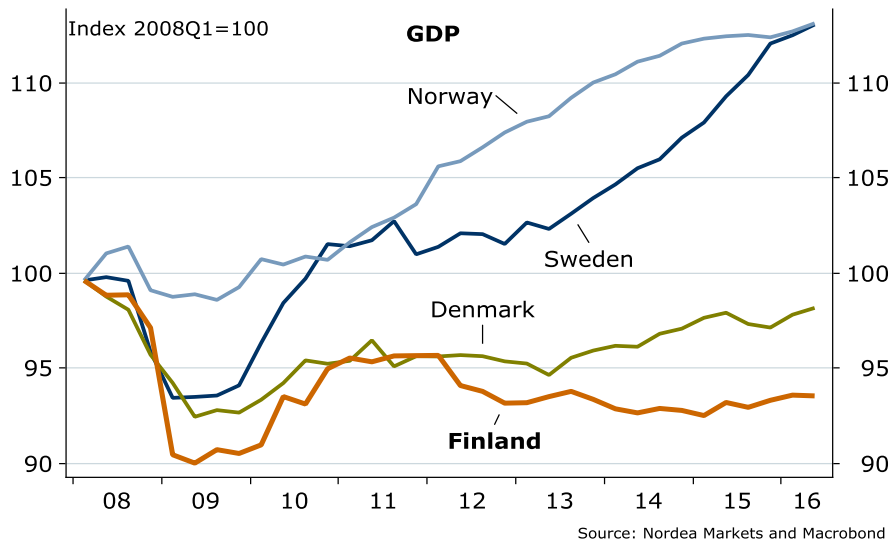
Moody's Rating Agency, 4 March 2016



Macro and housing market

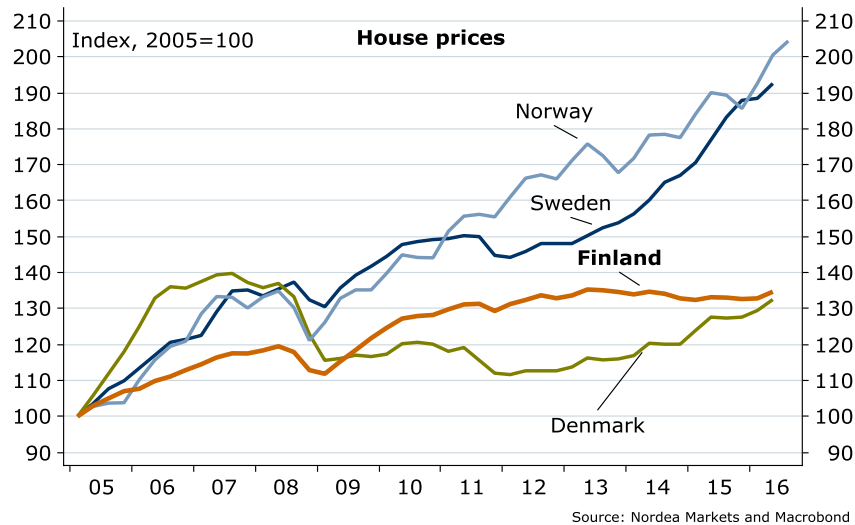


# Resilient Nordic economies

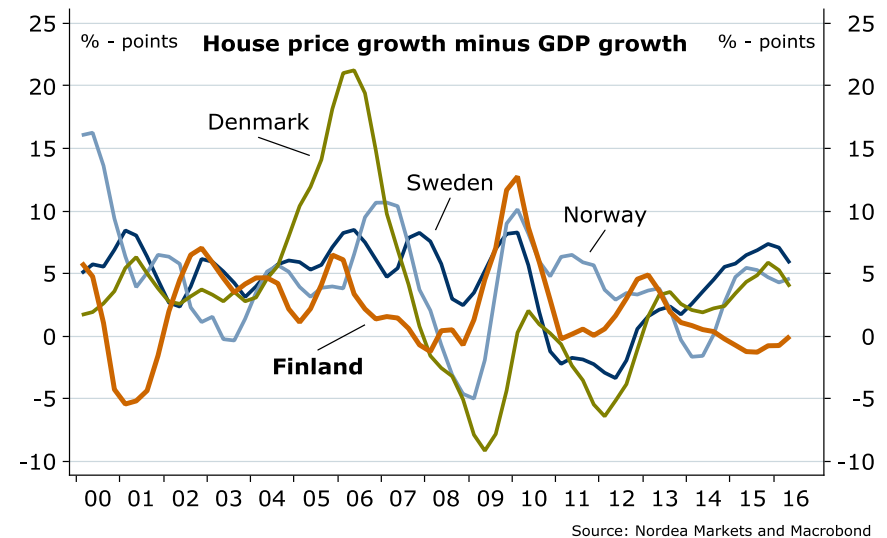
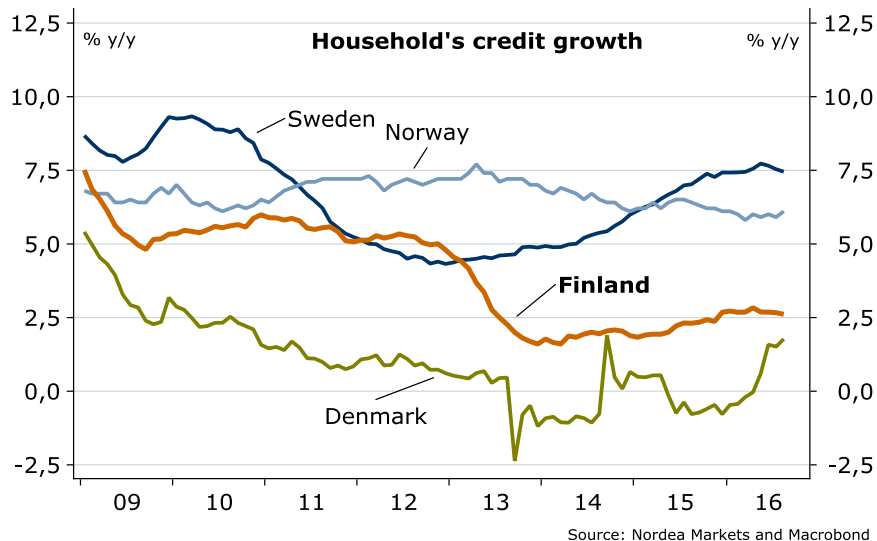


- 2016 and 2017 consensus growth forecasts for Finland are around 1%
- The Finnish unemployment has decreased over the last two years
- Growth in the Nordic countries has been held back by modest global demand, but they are still more resilient than many others. All countries are currently in an expansionary phase, although growth has somewhat slowed in Norway during 2016
- The Nordics benefit from their strong public finances and structural advantages. They also benefit from the global recovery, especially from the upturn in the US and Germany
- The Nordic economies continue to have robust public finances despite slowing growth. Norway is in a class of its own due to oil revenues

# House price development in the Nordics

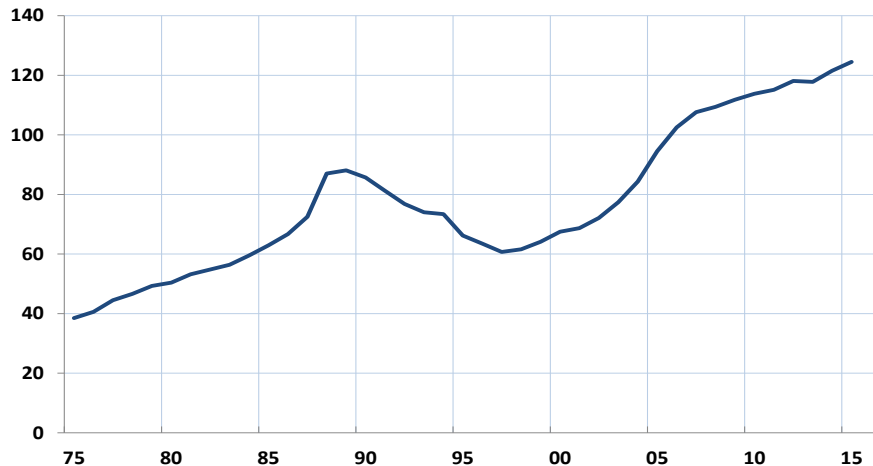


- House prices in Finland have stabilised on the back of the overall economic performance
- In Denmark, house prices have started to recover after years of sluggish development
- In Sweden and Norway house prices carry on upwards. However, for both Sweden and Norway a much more moderate growth pace, or even stagnation, should be expected over the coming years



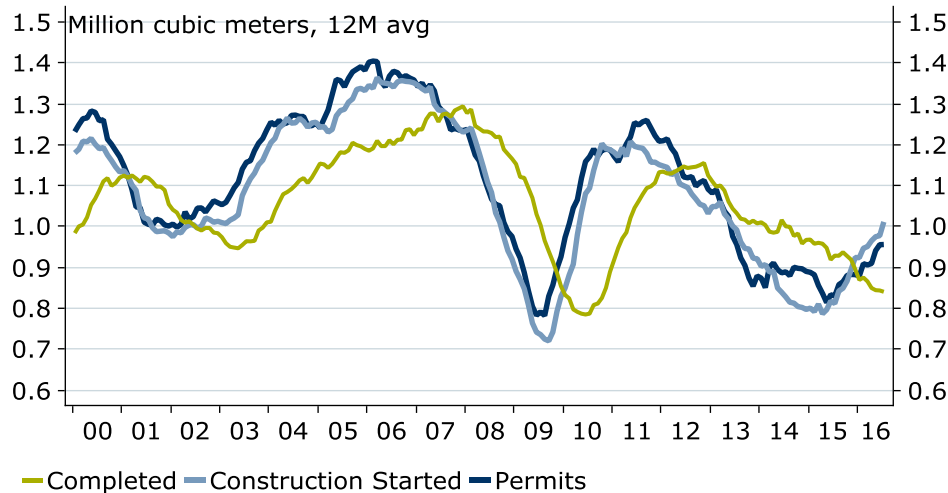
# Healthy housing market in Finland

HOUSEHOLD DEBT, % OF DISPOSABLE INCOME



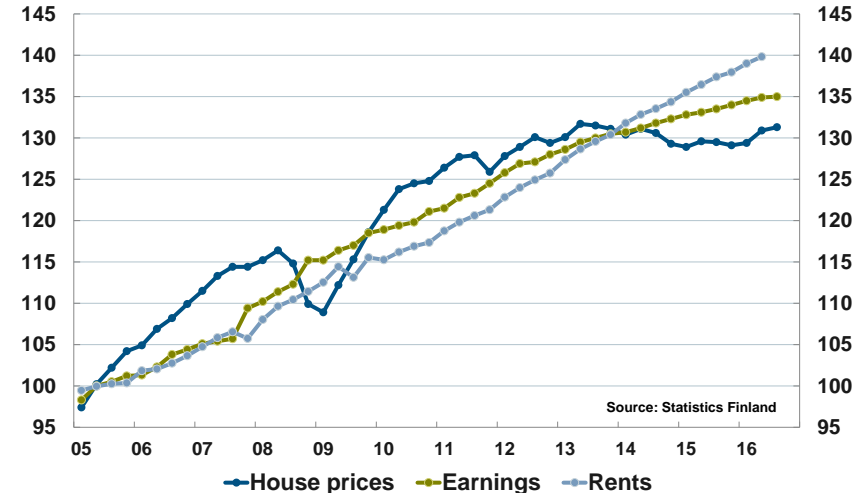
- The household debt relative to disposable income in Finland is low of around 125% and increasing at a fairly moderate pace
- Construction permits for housing purposes and starts of new housing show a strong recovery
- The housing market is healthy as prices are well in line with earnings and free market rents

Finland: Housing permits and starts



Source: Nordea Markets and Macrobond

Housing prices, rents and earnings (2005 = 100)



Source: Statistics Finland

Source: Nordea and Statistics Finland

# Cover pool characteristics



# Cover pool key characteristics

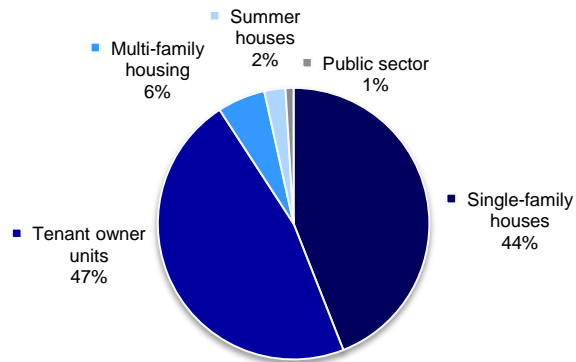
Q3 2016

<b>Pool notional</b>	EUR 22.7bn
<b>Cover pool content</b>	Mortgage loans secured by residential or commercial property. Loans guaranteed by public sector.
<b>Geographic distribution</b>	Throughout Finland with concentration in urban areas
<b>Asset distribution</b>	99% residential, 1% public sector
<b>Weighted average LTV</b>	49.8% (indexed, calculated per property)
<b>Average loan size</b>	EUR 68,685 (weighted average)
<b>Over collateralisation, OC</b>	49.7%
<b>Rate type</b>	Fixed rate 2%, Floating rate 98%
<b>Substitute assets</b>	None
<b>Pool type</b>	Dynamic
<b>Loans originated by</b>	Nordea Bank Finland Plc

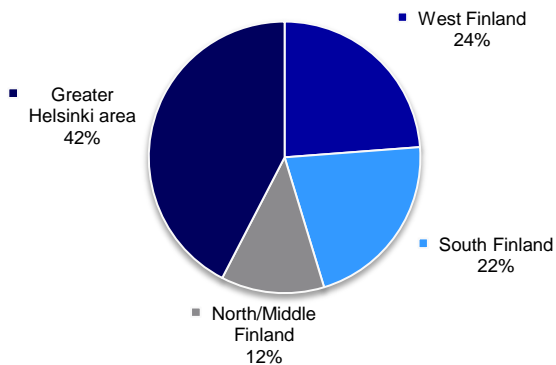
# Cover pool key characteristics - 93% single-family housing with low LTVs

Q3 2016

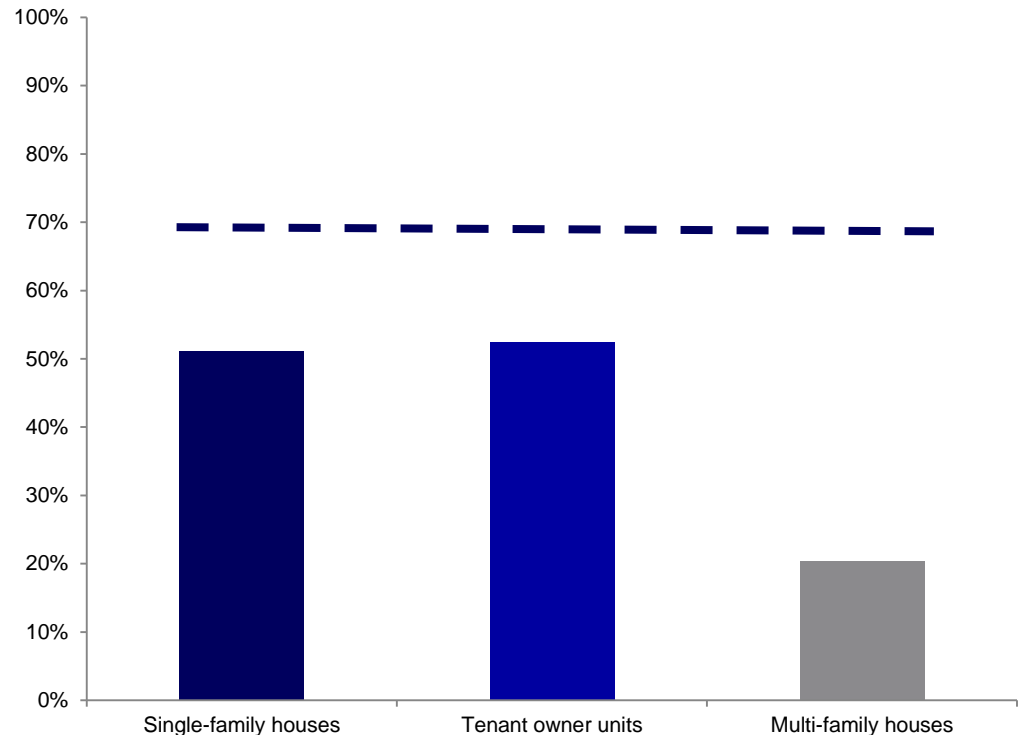
Cover pool balance by loan category



Cover pool balance by geographical area



Weighted Average LTV - Indexed

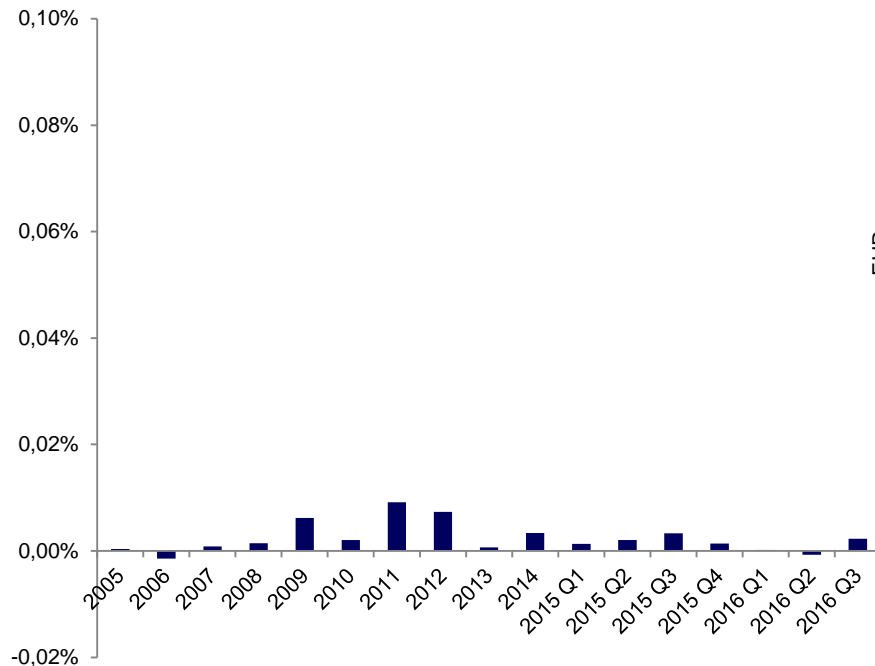


- Pool mainly includes single-family houses and tenant owner units
- The main part of real estates are located in greater Helsinki but are otherwise evenly distributed between western, northern and southern part of Finland
- Low WALTVs in the pool

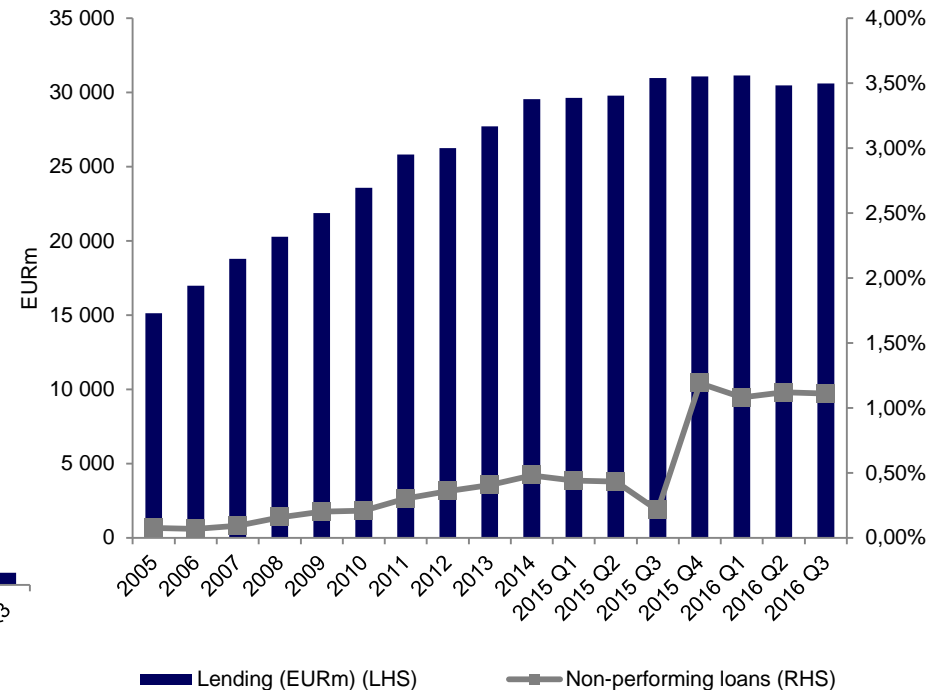
# Performance of the housing loan portfolio – Finland

- Low level of loan losses supported by strong household sector
- Impaired non-performing loans are at low levels

**Net loan losses % for Nordea Bank Finland's housing loan portfolio**



**Nordea Bank Finland's housing loan stock and level of impaired non-performing loans\***



\*The majority of the increase in Q4-2015 is model driven and is related to an improved way of calculating collectively assessed provisions on contract level, implemented in Q4-2015



# Underwriting criteria – harmonised Nordea Group policy

- **Residential mortgage loans**
  - Nordea's credit decision is based on the borrower's payment capacity and collateral is always taken
  - Collateral must be in the form of mortgages in real estate or in shares in housing companies
  - Repayment ability of borrowers is calculated using stressed scenarios
  - Credit bureau check is always conducted (Suomen Asiakastieto)
  - Individual valuation of property based on market value
  - Repayment schedules ranging from 20 to 35 years
  
- **Multi-family residential mortgage loans**
  - Borrowers with strong EBITDA/debt and cash flow based on e.g. long-term high quality lease contracts and adequate interest rate hedging
  - Individual credit decision based on credit policy and rating
  - An evaluation of all property-related commitments is performed in the ordinary annual review against a background of quality issues/risk factors regarding the property itself, the lease, the management, the long-term cash flow and -strength of balance sheet/gearing. The analysis focuses on the repayment capacity
  - Individual valuation of property based on market value

# Appendix 1: Covered bond framework



# Finnish covered bond framework

- Legal framework
  - Finnish Covered Bond Act (statute 688/2010)
- Registration
  - Collateral assets remain on the balance sheet of the issuer
  - Covered bonds, collateral and relevant derivative contracts are entered in a separate register
- Limit on LTV ratio – based on the current value
  - 70% for housing loans (residential property)
  - 60% for commercial loans (commercial property)
- Matching cover requirements
  - Total value of the cover pool must be greater than the aggregate outstanding principal amount of the covered bonds
  - Net present value of the cover pool must be at least 2% above the net present value of the liabilities under the covered bonds
- Liquidity requirements
  - Average maturity of the covered bonds must not exceed the average maturity of the loans entered in the register
  - Total amount of interest accrued from the cover pool assets, during any 12-month period, must be sufficient to cover the total amount payable under covered bonds and derivatives transactions during the same period

## Finnish covered bond framework (2)

- Bankruptcy remoteness and preferential claim
  - Isolation of registered collateral assets, registered derivatives from all other assets and liabilities of the insolvent issuer
  - Holders of covered bonds together with counterparties of registered derivatives and bankruptcy liquidity loans in bankruptcy would rank pari passu and have a preferential claim to the cover pool (subject to a maximum LTV ratio of 70% for residential loans and 60% for commercial loans)
- Post-bankruptcy procedures
  - A bankruptcy administrator is appointed by the court (administration of estate) and a supervisor is appointed by the Finnish FSA (protection of covered bond creditors' rights)
  - The cover pool, derivatives and covered bonds to be kept separated from the bankruptcy estate as long as stipulated matching and liquidity requirements are met
  - Covered bond creditors and counterparties of registered derivatives would rank pari passu and have a preferential claim on the proceeds of the liquidation of the cover pool

## Appendix 2: Legal structure change



# The legal structure change will simplify Nordea's legal structure

## What

- The purpose of the Legal Structure Programme is to simplify Nordea's legal structure by changing the Norwegian, Danish and Finnish subsidiary banks to branches by proposed cross-border mergers with NBAB

## Why

- A simplified legal structure will strengthen governance, decrease administrative complexity and cater for efficiency by aligning the legal structure to the way Nordea operates the bank
- A simplified legal structure will not lead to changes in Nordea's presence in each country nor to changes for its employees or the way Nordea services its customers, but will fully create "One Bank" and support Nordea's work to increase agility and scale benefits

## How

- The change will be made by proposed cross-border mergers of Nordea Bank Danmark A/S, Nordea Bank Finland Plc and Nordea Bank Norge ASA into Nordea Bank AB (publ)
- Discussions with the authorities are ongoing

## When

- The proposed changes in the legal structure is subject to a satisfactory outcome of the discussions with regulators and authorities in each country and that the mergers are not impeded, wholly or in part, by applicable laws or any other reason deemed significant by the Board of Directors of NBAB. The mergers are planned to be finalised early 2017

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