Second quarter results 2020

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.

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Executive summary

- Solid result – continued strong momentum across business areas and countries
  - ➢ High activity level kept revenues largely unchanged
  - ➢ Increasing volumes in lending and deposits, net commission income impacted by the lockdowns
  - ➢ Challenging times have proven the resilience of our business model
- We are progressing according to our plan towards 2022 financial targets
  - ➢ Cost to income ratio decreased to 52% - with increasing customer satisfaction
  - ➢ Return on equity impacted by loan loss provisions
  - ➢ We remain committed to delivering on our business plan and financial targets
- Strong financial position to support our customers and maintain dividend capacity
  - ➢ CET1 ratio at 15.8%, 5.6%-points above requirement
- Strong credit quality remains – significant buffer built up in the quarter
  - ➢ Full-year 2020 net loan losses projected below EUR 1bn (less than 41bps)
  - ➢ Underlying Q2 net loan losses EUR 310m including IFRS 9 model updates
  - ➢ New management judgement allowances of EUR 388m in the quarter building up the buffer to EUR 650m – to cover future loan losses

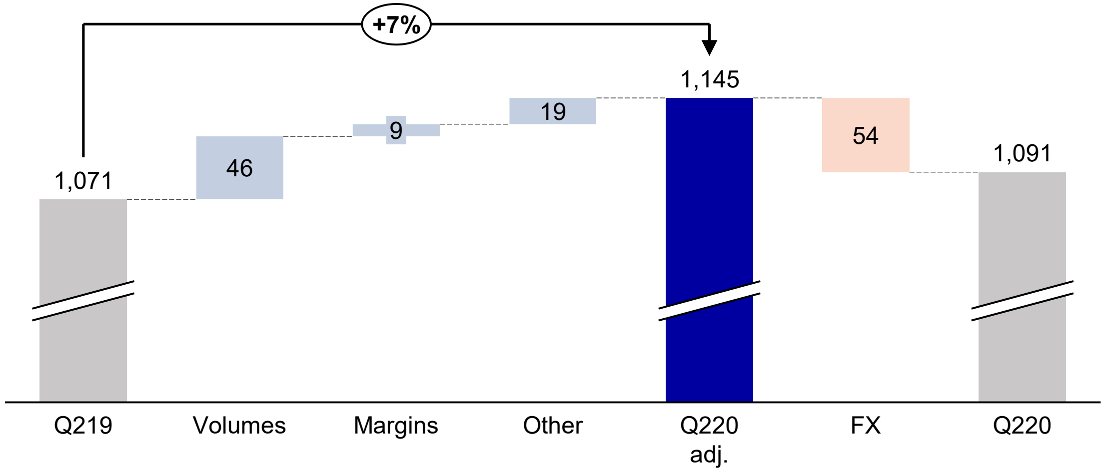
Group quarterly results Q2 2020

Income statement EURm, excluding one-offs*	**Q220**	**Q219**	**Q2/Q2**	**Q120**	**Q2/Q1**
Net interest income	1,091	1,071	2%	1,109	-2%
Net fee and commission income	673	743	-9%	765	-12%
Net fair value result	318	283	12%	109	192%
Other income	10	44	-77%	18	-44%
Total operating income	**2,092**	**2,141**	**-2%**	**2,001**	**5%**
Total operating expenses	-1,088	-1,180	-8%	-1,248	-13%
Profit before loan losses	**1,004**	**961**	**4%**	**753**	**33%**
Net loan losses	-698	-61		-154	
Operating profit	**306**	**900**	**-66%**	**599**	**-49%**
Cost/income ratio with amortised resolution fees, %	52	58		57	
Return on equity with amortised resolution fees, %	3.0	8.5		6.9	

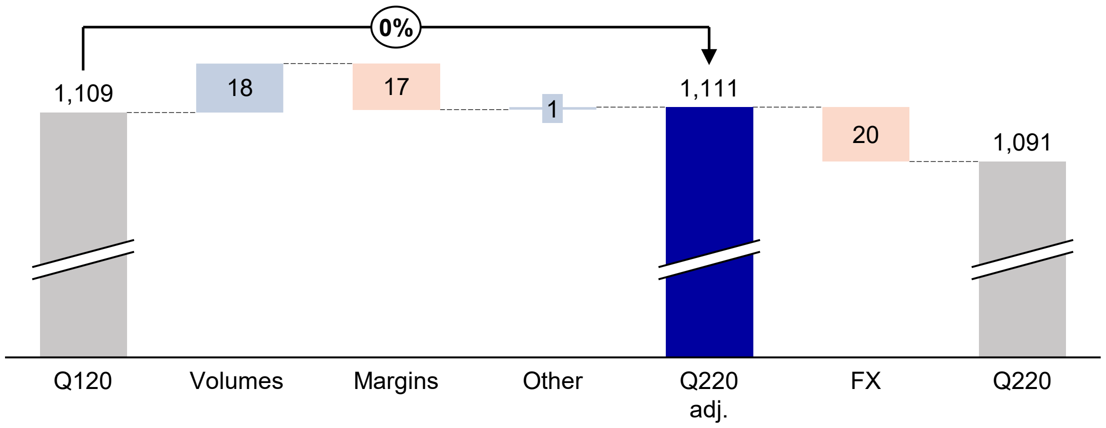
*Costs: Q119: AML provision (95m)

Net interest income – continued volume growth

Year over year bridge, EURm



Quarter over quarter bridge, EURm

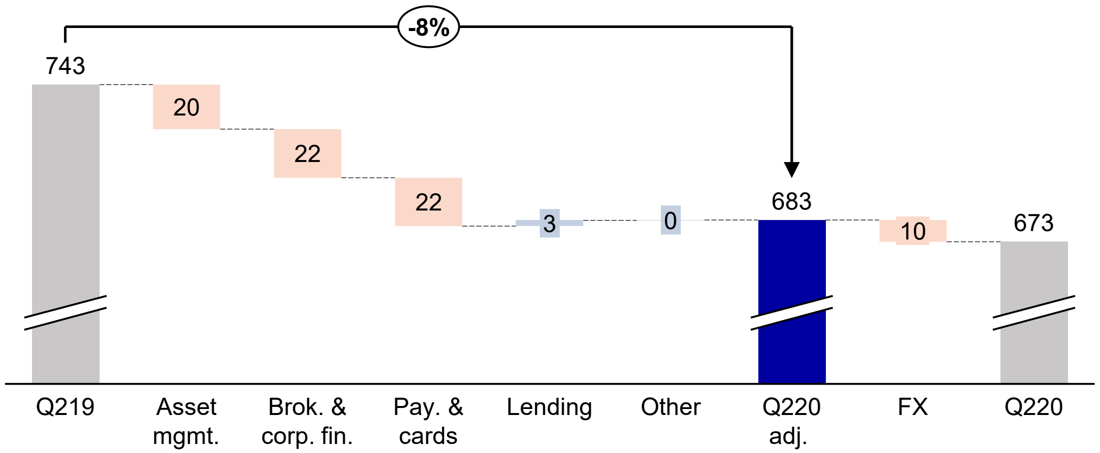


Comments

- Volume growth in all countries
  - Strong growth in mortgages in all countries, +6% in local currency
  - Strong growth in both household and corporate deposits
- Slightly improving margins compared to previous year
  - Despite lower deposit margins in the quarter
- Negative impact from significant FX movements

Net fee and commission income – impacted by COVID-19, strong recovery in AuM

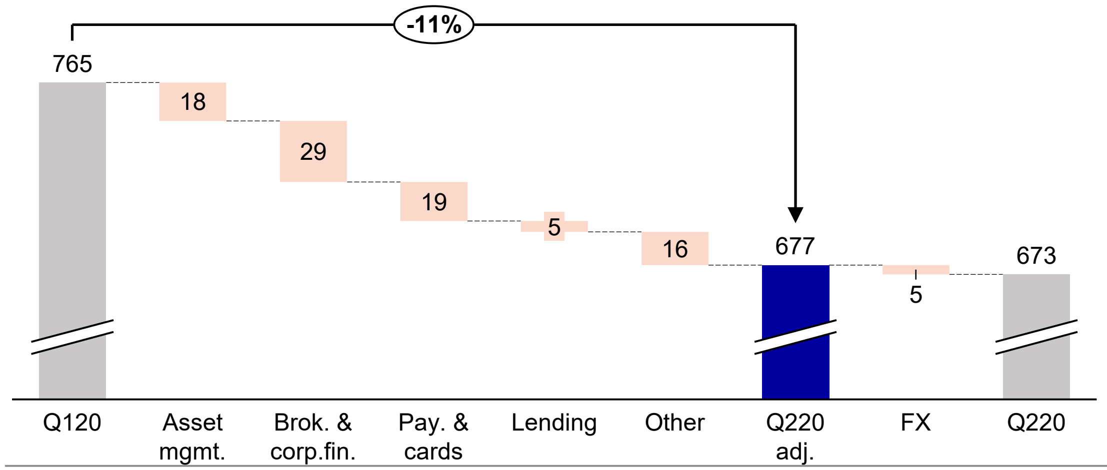
Year over year bridge, EURm



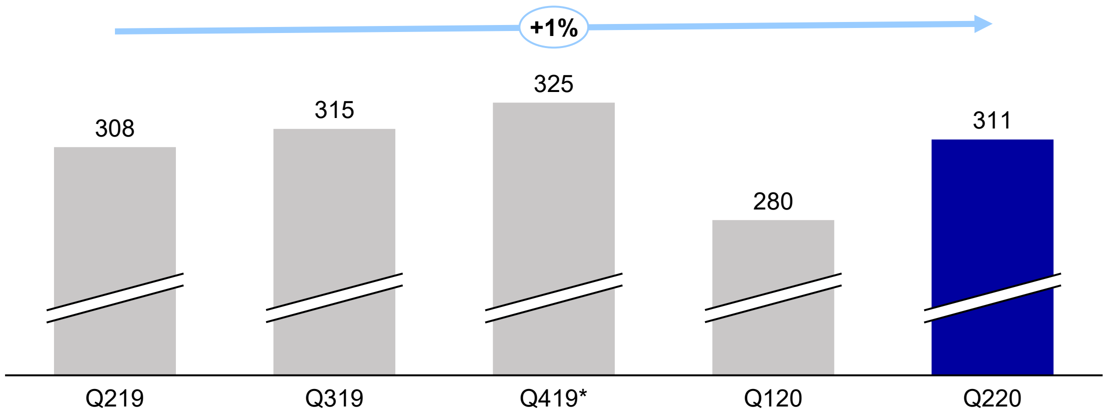
Comments

- Asset management fees down due to market turmoil, but strong recovery in AuM
  - Highest quarterly net inflow since Q316
  - Good investment performance
- Corporate advisory income recovering in June
- Payment and card activity down due to lockdowns

Quarter over quarter bridge, EURm



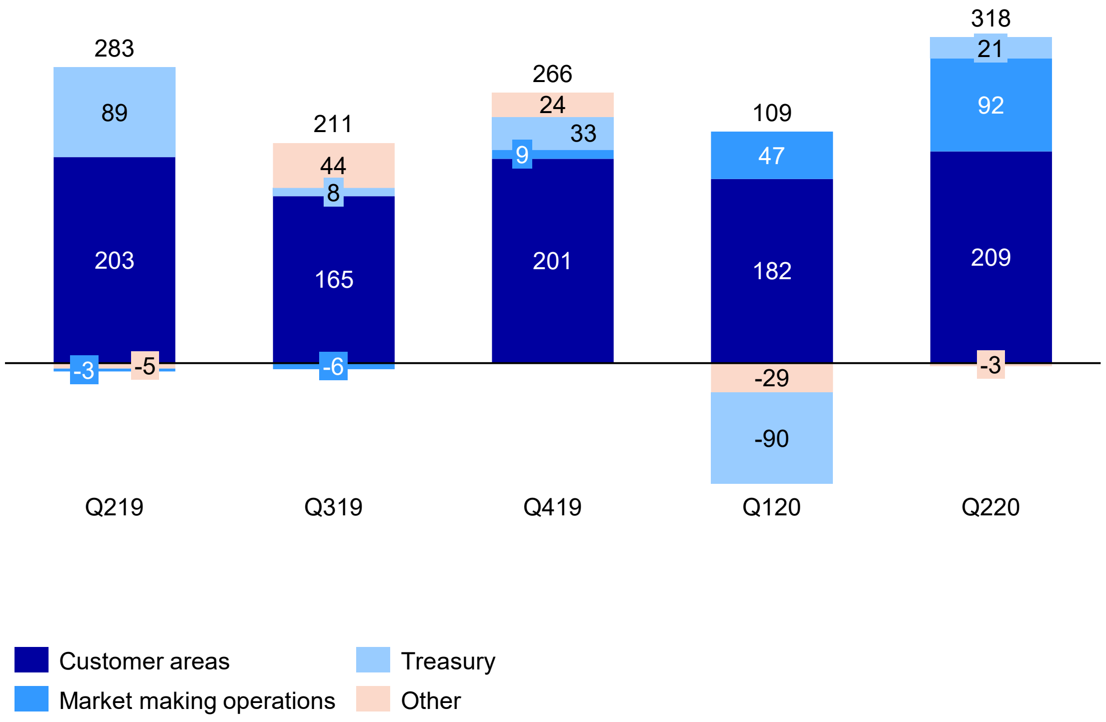
Assets under management, EURbn



* From Q419 excluding Private Banking International

Net fair value – good recovery in the quarter

NFV development, EURm

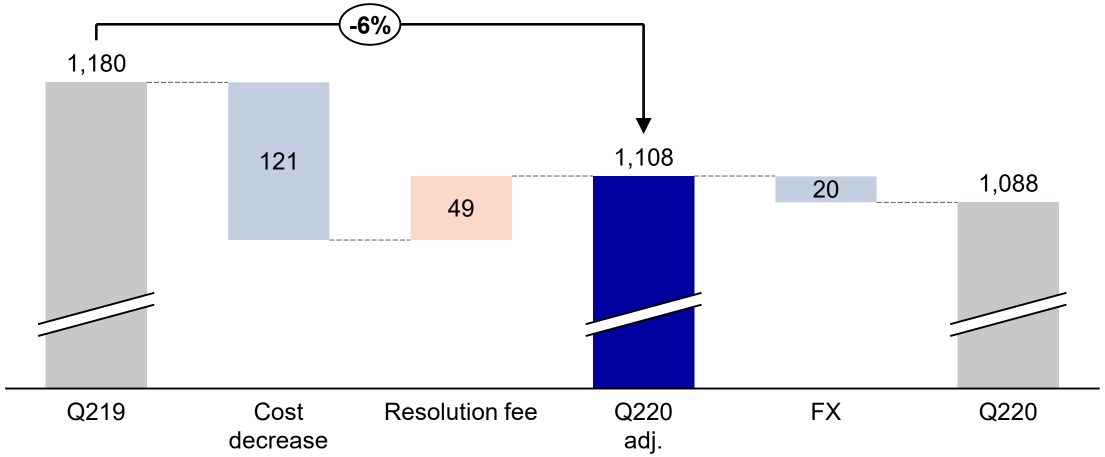


Comments

- Solid development in customer areas
- Higher market making and trading income in Markets supported by improved valuations of inventory after a turbulent Q1
- Treasury income improving due to revaluations

Costs – continue to deliver on cost plan and building a strong cost culture

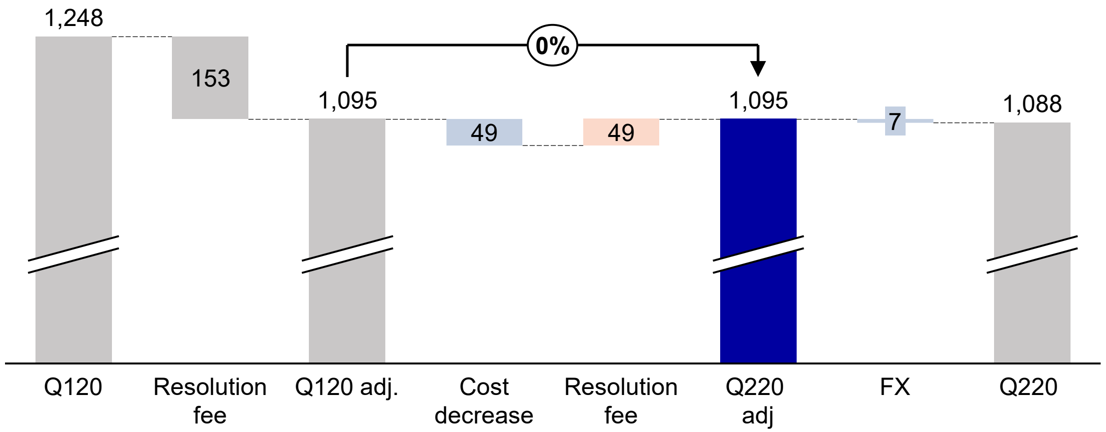
Year over year bridge, EURm



Comments

- Delivering on cost plan
- Staff costs down by 11%
- New ways of working supporting cost reductions
- Slightly lower IT spend in the quarter

Quarter over quarter bridge, EURm



Outlook

- Costs for 2020 to be below EUR 4.7bn

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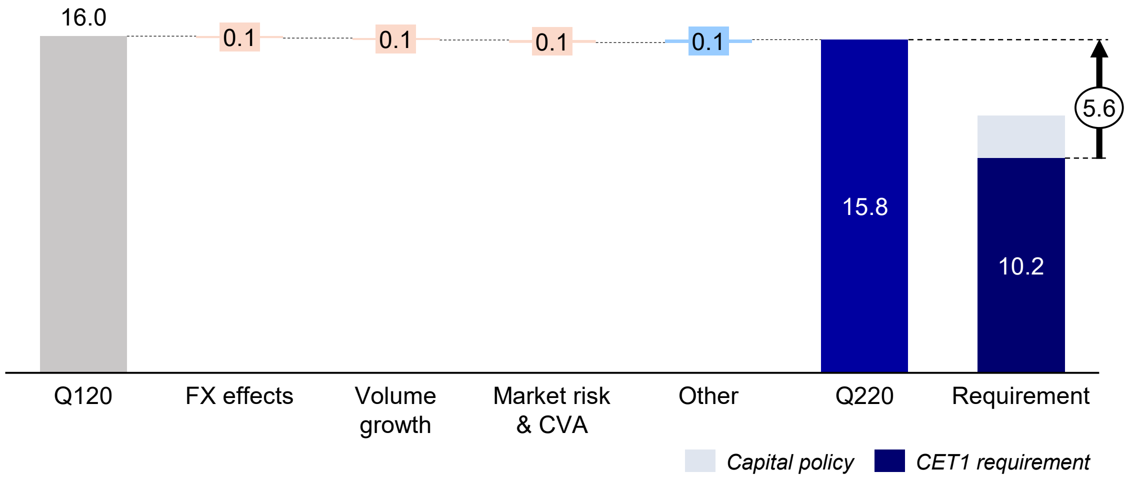
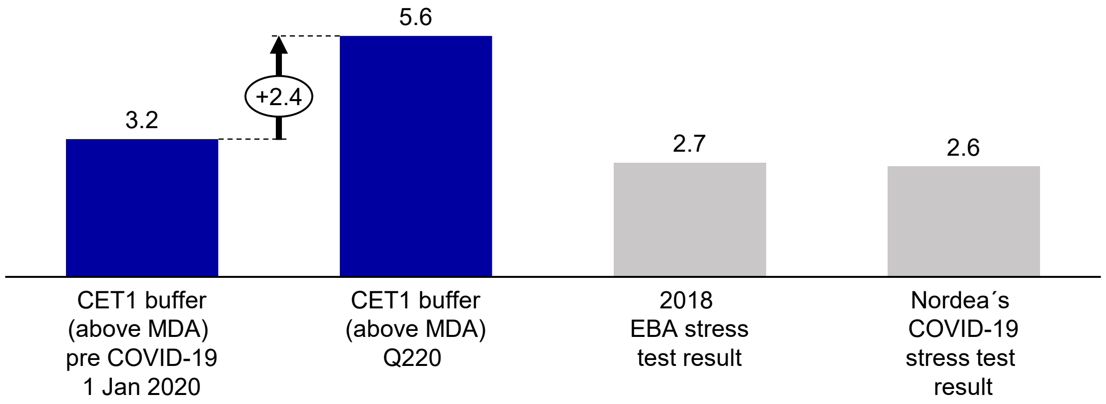
Capital – strong position to support customers while maintaining dividend capacity

CET1 capital ratio development, %



CET1 capital buffer, %

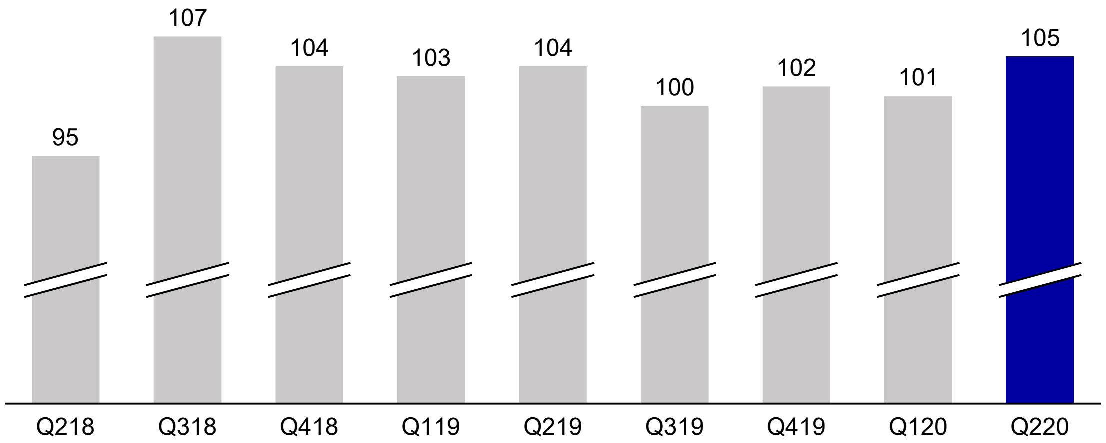


Comments

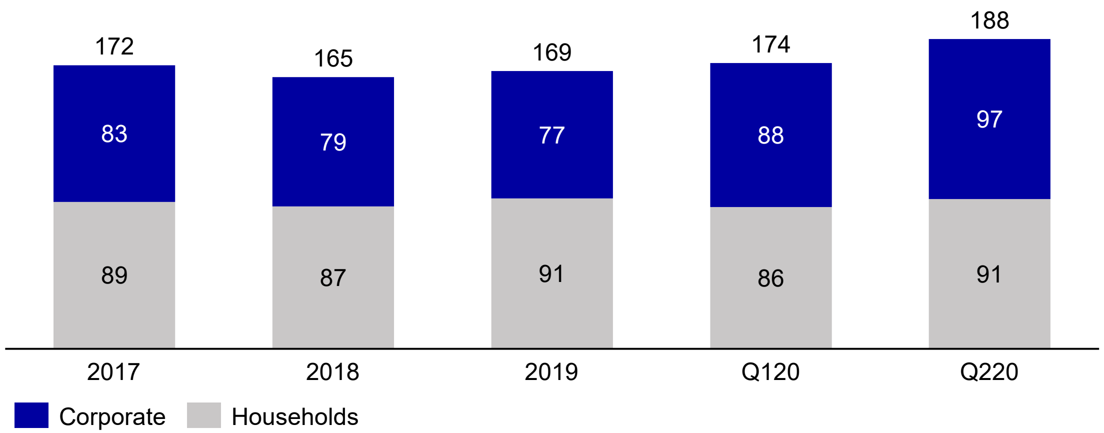
- CET1 capital ratio at 15.8%
  - Risk exposure amount (REA) increased by EUR 2.5bn to EUR 155bn
  - Limited credit REA migration in Q2
- Capital buffer of 5.6%-points
  - Continued dividend accruals for 2019 and 2020
  - Current capital buffer is twice the amount consumed in a stress scenario
- Dividend capacity remains intact

Liquidity – solid position and normalising funding markets

Liquidity buffer development, EURbn



Deposits*, EURbn



Comments

- Robust liquidity position
  - Liquidity buffer over EUR 100bn
  - Liquidity coverage ratio (LCR) of 160%
  - EU net stable funding ratio (NSFR) of 113%
- Deposits increased 4% in the quarter in local currencies
- Approx. EUR 9bn long-term debt issued during Q2
  - All key funding markets are functioning well at tighter spread levels
- During Q2, Nordea participated in selected central bank liquidity facilities including ECB's TLTRO facility

* Including repos

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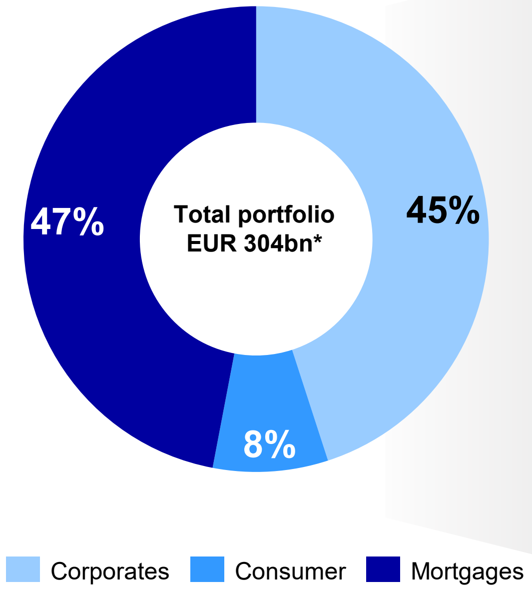
Credit portfolio – summary

Starting point	➢ Our loan book is well-diversified and has strong underlying credit quality
Development in Q2 and FY2020 projection	➢ Full-year 2020 net loan losses projected below EUR 1bn (less than 41bps) ➢ Underlying Q2 net loan losses at EUR 310m, while overall stable credit portfolio quality development ➢ New management judgement allowances of EUR 388m in the quarter building up the buffer to EUR 650m - to cover for estimated future loan losses
Active credit management	➢ Credit portfolio significantly de-risked over the past 10 years

Loan book – well-diversified with strong underlying credit quality

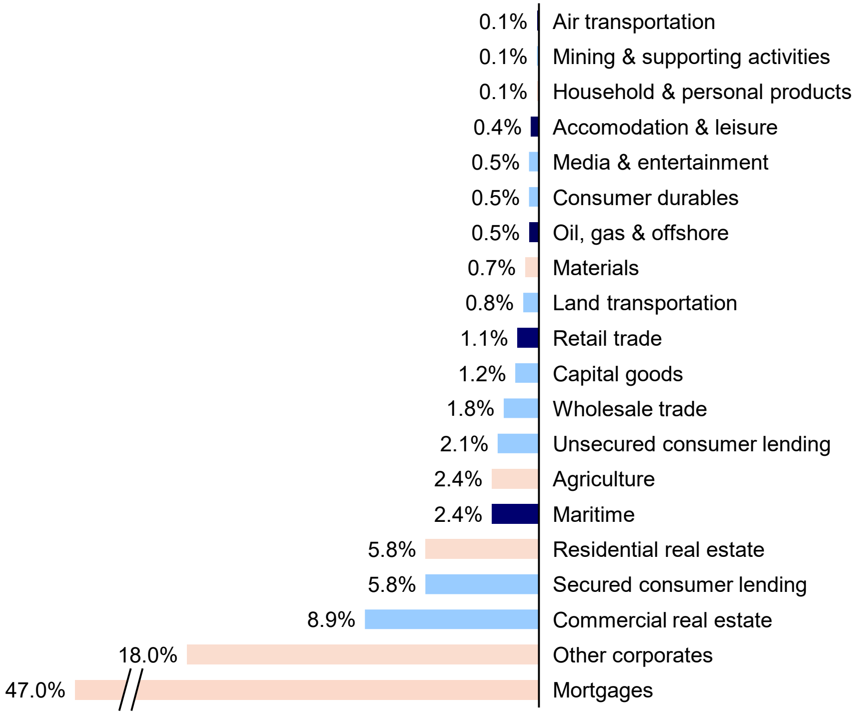
Well diversified portfolio across countries and segments



Updated analysis of COVID-19 impact by segment

EUR 14bn, 4%	**Significantly** affected
EUR 66bn 22%	**Partially** affected
EUR 224bn 74%	**Insignificantly** affected

Five segments with 4% of total exposure significantly affected



Nordic societies have well structured social safety nets, strong fiscal positions and effective legal systems

* Excluding repos

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Loan loss projections – full-year 2020 below EUR 1bn (less than 41 bps)

Analyses behind loan loss projection

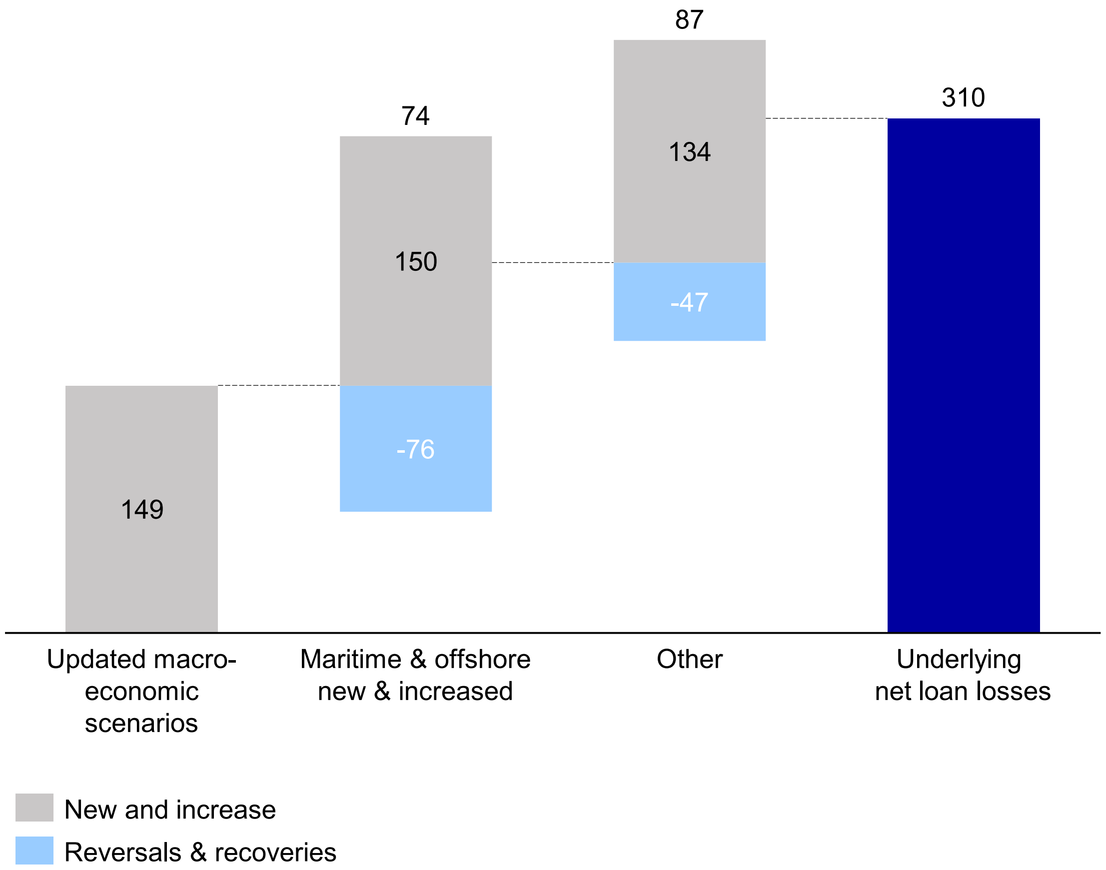
- ✓ *Review of individual exposures in affected sectors*
- ✓ *Bottom-up business assessment on full credit portfolio*
- ✓ *COVID-19 stress test*

Comments

- Estimates based on three convergent analyses
  - Based on updated baseline macro-economic forecasts
  - Include projected credit quality evolution
  - Supplement IFRS 9 model outcome
- Conservative macro assumptions, closely aligned with official forecasts (ECB and Nordic)
- Projection includes coverage for structural updates to IFRS 9 models
  - Takes into account future ECB non-performing loans requirements

Underlying net loan losses – at EUR 310m while overall stable credit quality

Drivers of underlying net loan losses, EURm

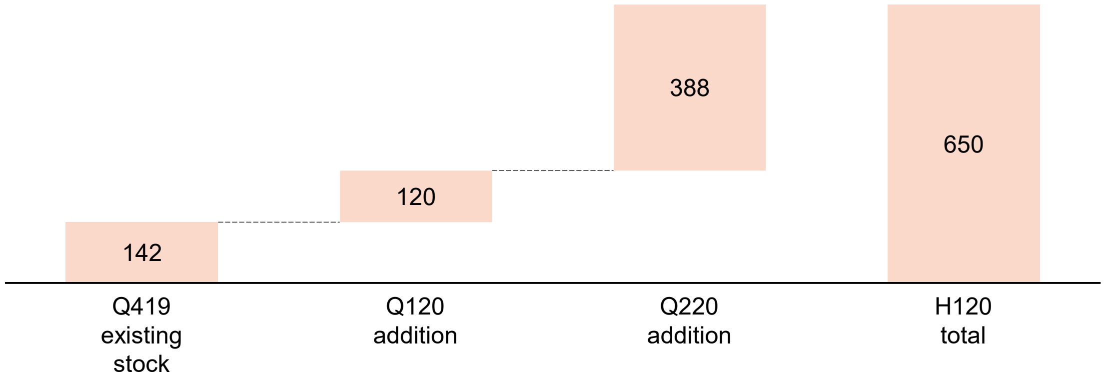


Comments

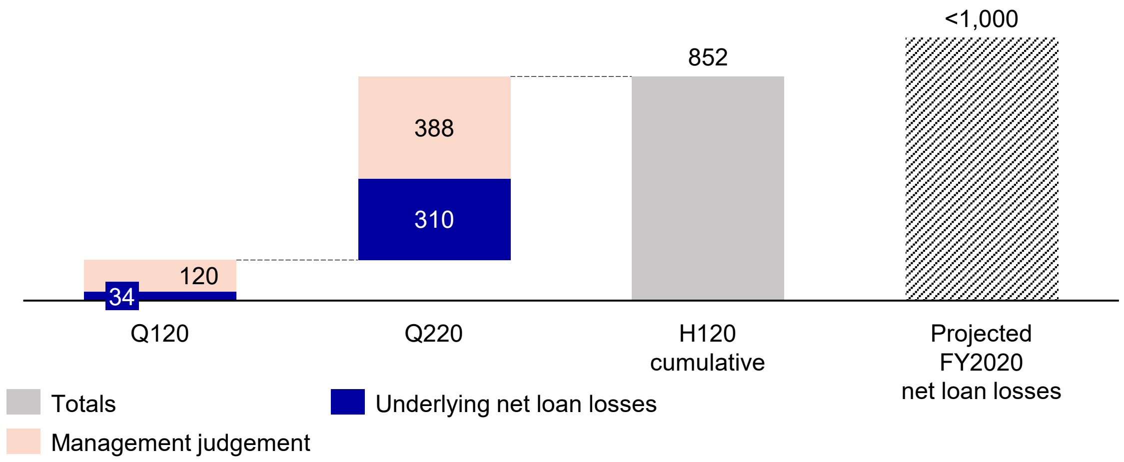
- Total underlying net loan losses in Q2 at EUR 310m
- Three drivers of increased losses:
  - Collective provisions based on updated macro scenarios
  - Additional provisions in maritime and offshore due to decreased collateral valuations and oil price volatility
  - Some increased provisions on commercial real estate and unsecured consumer lending
- Otherwise loan losses stable vs. previous quarters
  - Reflects generally stable credit portfolio quality development (staging distribution)

Management judgement - EUR 650m built up to cover future loan losses

Management judgement developments, EURm



Net loan losses, EURm



Comments

- New management judgement of EUR 388m in the quarter
- Total management judgement buffer of EUR 650m:
  - EUR 430m for cyclically driven loan losses
  - EUR 110m for IFRS 9 model improvements
  - EUR 110m for non-performing loans requirement
- Total provisions in H12020 amount to EUR 852m
- Loan loss projection for 2020 already mostly covered by the provisions made this year
  - Significant management judgement buffer in place to cover future losses
- Total allowances on balance sheet increased to EUR 3bn (2.4bn in Q1)

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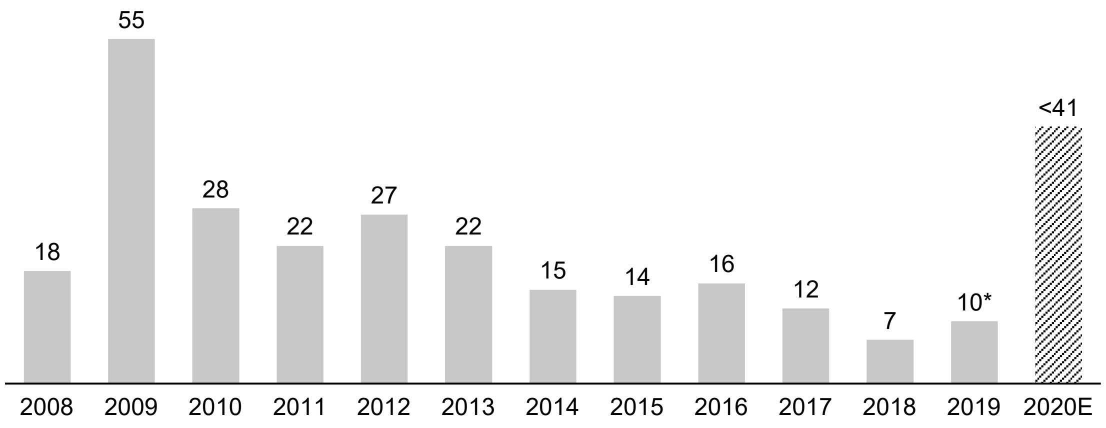
Credit quality – portfolio significantly de-risked over past 10 years

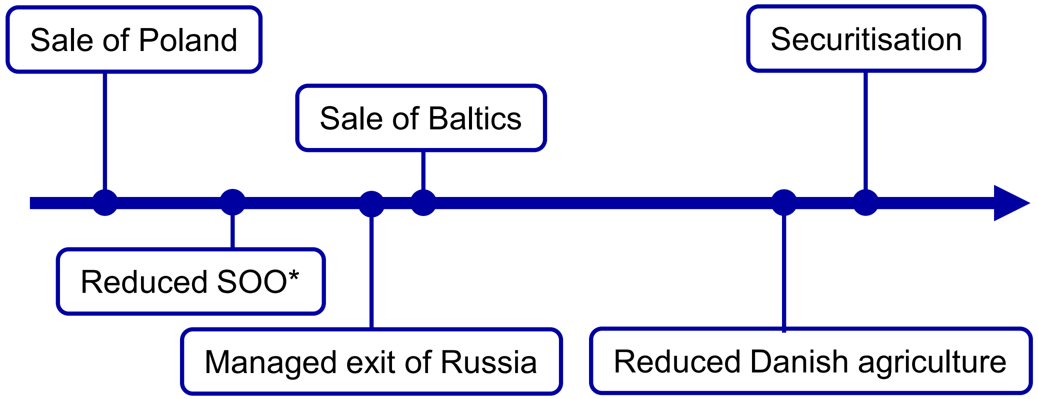
Historic loan loss ratios, bps



Comments

- Track record of strong credit quality
- Average cost of risk 24 bps since 2008
- Risk profile improved by divestments and reductions in high-risk exposures

Significant de-risking



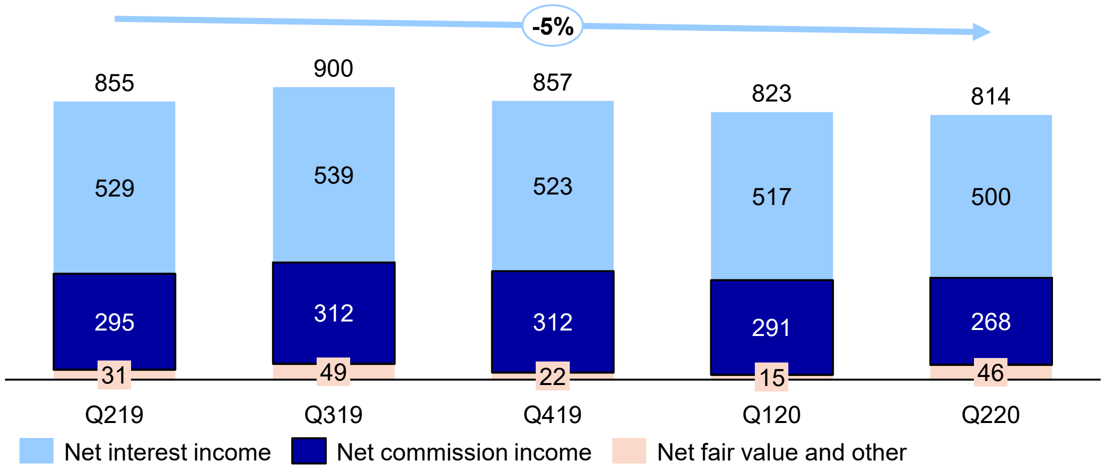
Outlook

- For the full year 2020, our projections point to total net loan losses below EUR 1bn corresponding to a loan loss level of less than 41 bps

* Shipping, oil and offshore

Personal Banking – strong mortgage volume growth

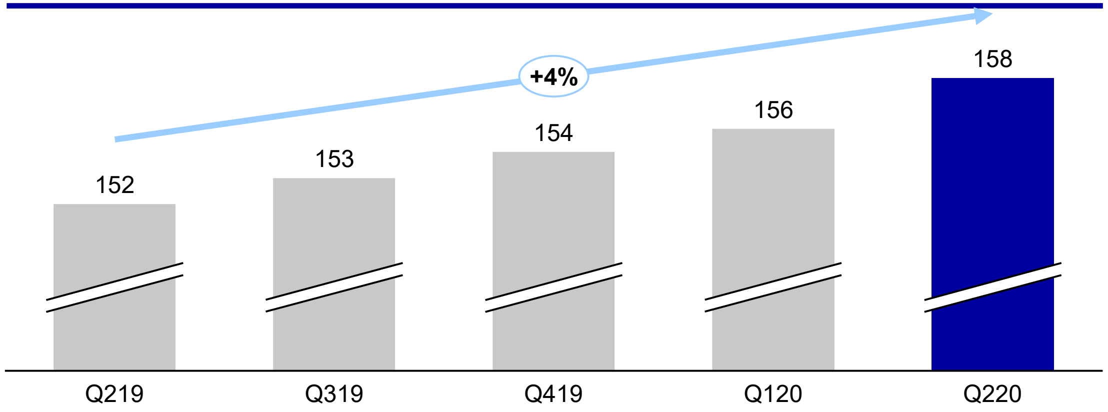
Total income, EURm



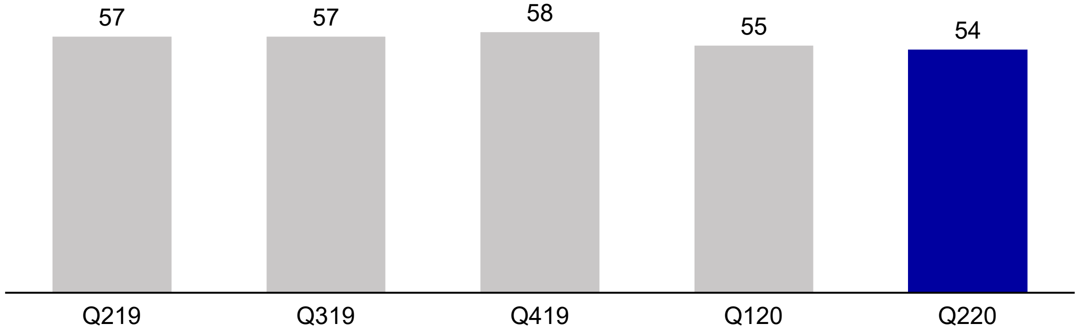
Comments

- Strong mortgage volume growth and high activity
  - Rate movements pressuring both lending and deposit margins
  - Customer satisfaction steadily improving
- Net commission income impacted by market turbulences and country lockdowns
  - Savings income subdued from lower AuM levels
  - Payments income reflect lower consumer activity
- Costs efficiency improves, cost to income down to 54%

Lending*, EURm



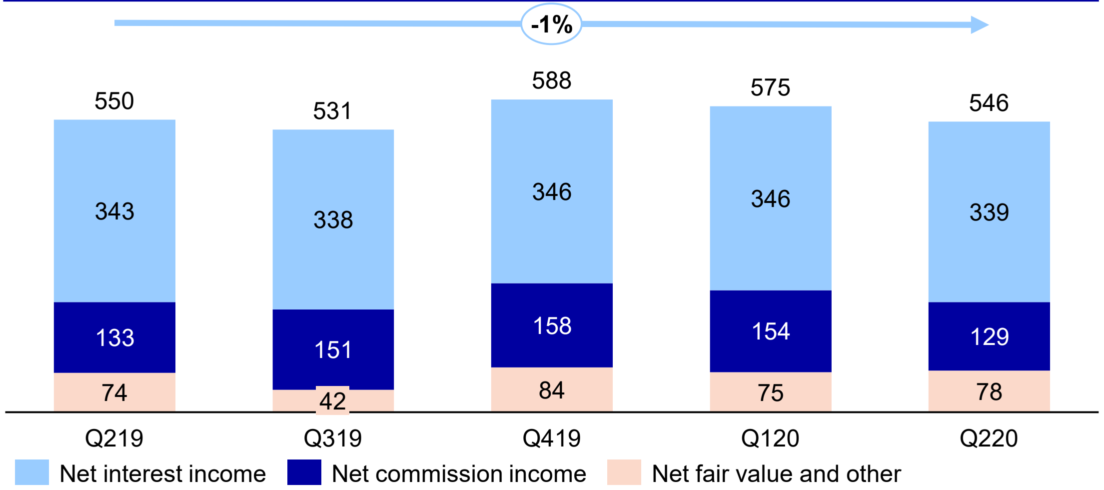
Cost to income ratio**, %



* Excluding FX effects
** With amortised resolution fees

Business Banking – higher business volumes and lower costs

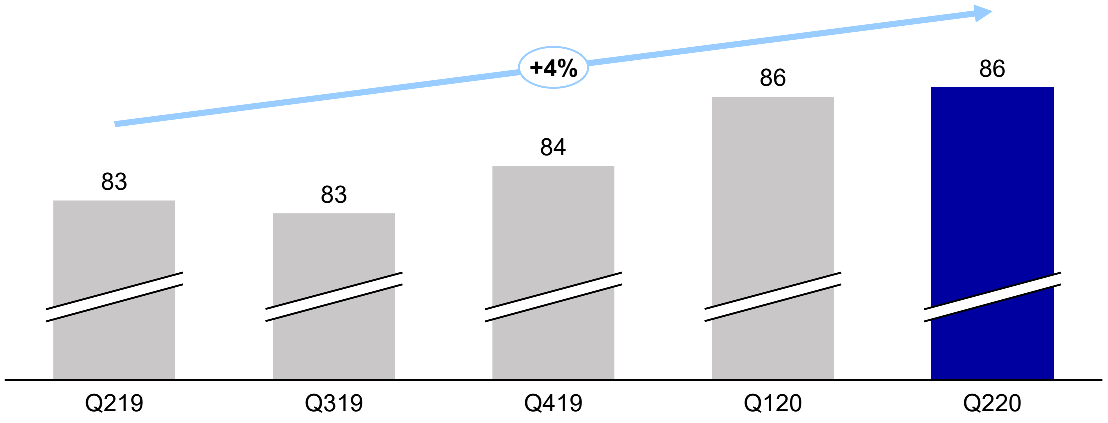
Total income, EURm



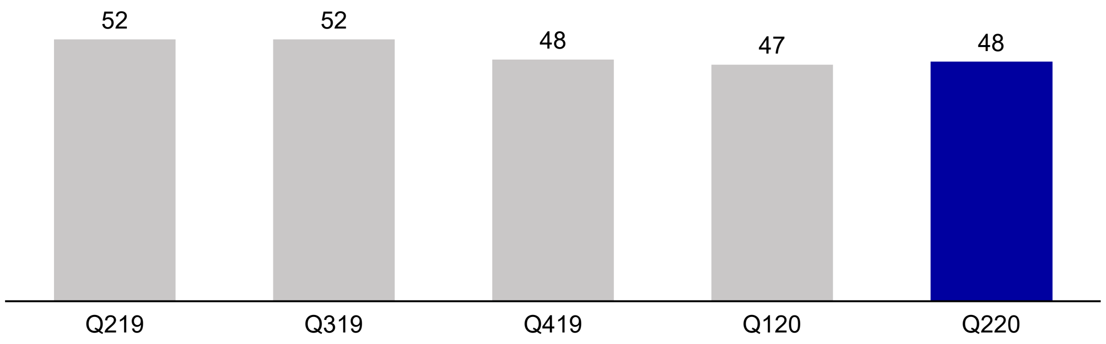
Comments

- Strong volume growth in all countries
  - Lending volumes up 4% and deposit volumes up 15%
- Lower economic activity impacting net commission income
  - Payment volumes and corporate cards usage down
- 20-30% more customer meetings than usual
- Costs efficiency improves, cost to income down to 48%

Lending*, EURm



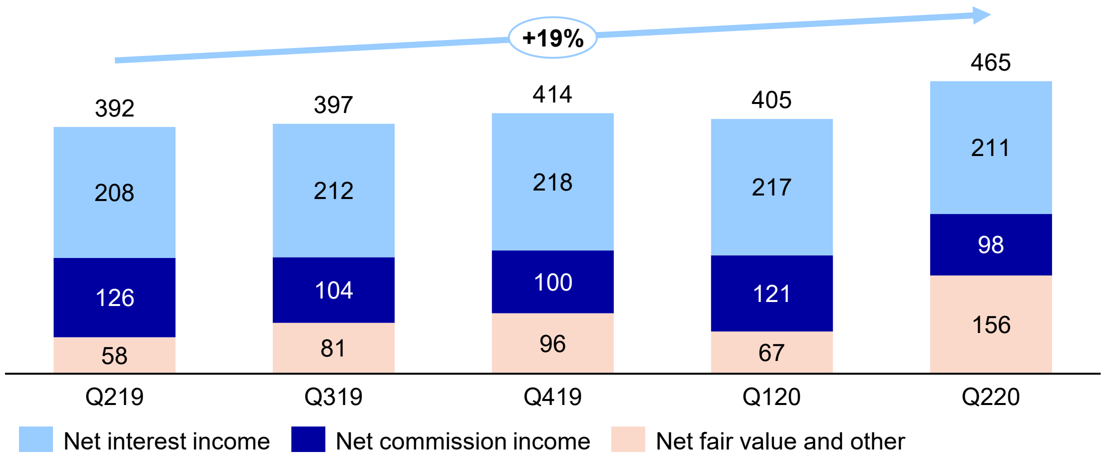
Cost to income ratio**, %



* Excluding FX effects
** With amortised resolution fees

Large Corporates & Institutions – continue to execute on re-positioning plan

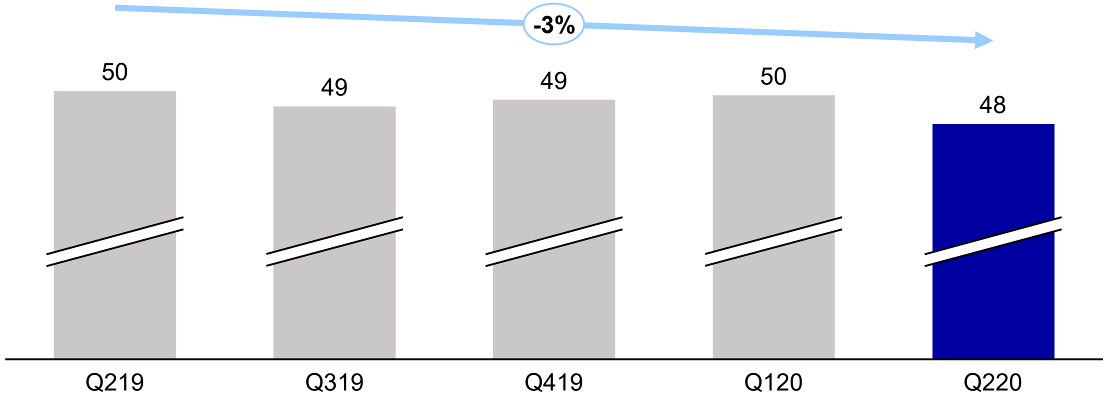
Total income, EURm



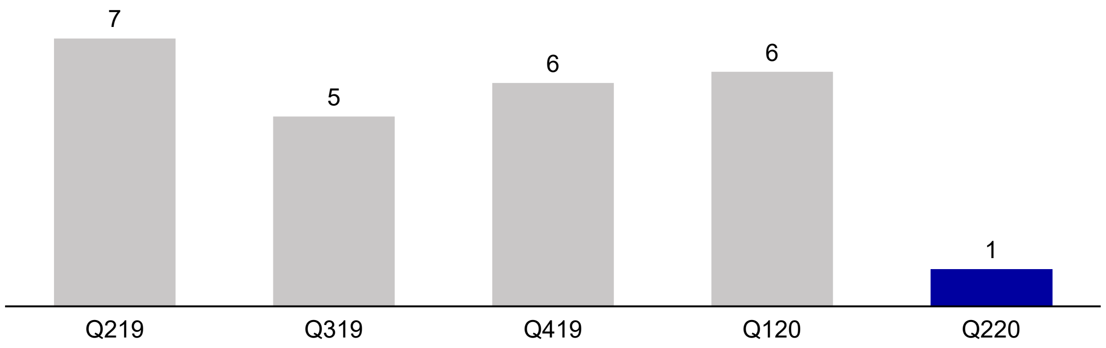
Comments

- Income up 19% mainly driven by net fair value and increase in market making activities in the quarter
  - Lending demand tapering off from peak levels in March/April
- Ranked No.1 both for all Nordic Sustainable Bonds and Nordic Corporate Sustainable Bonds
- Economic capital in Markets adversely affected by increase in market volatility
- Cost efficiency improves, cost to income down to 44%

Lending*, EURm



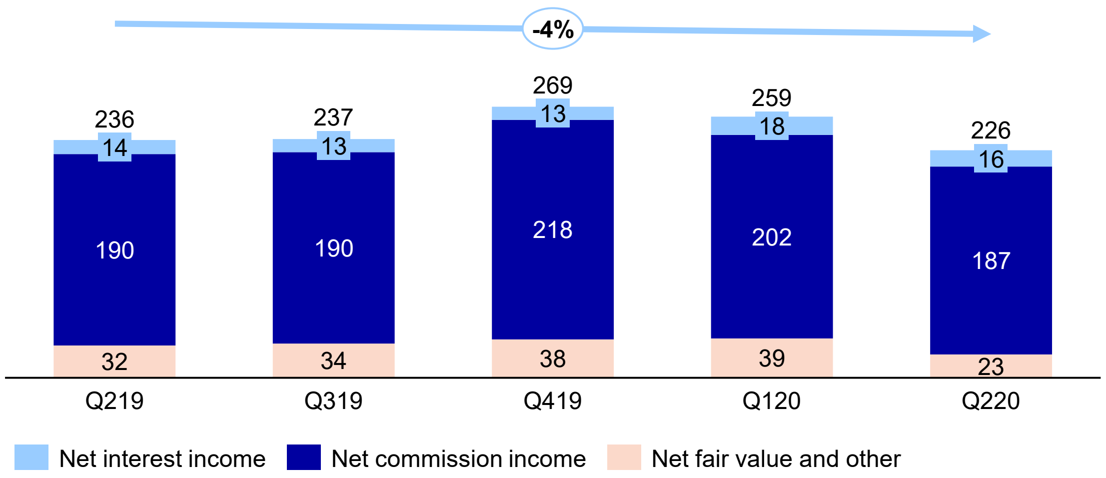
Return on capital at risk**, %



* Excluding repos
** With amortised resolution fees and excluding additional provisions in Q319

Asset & Wealth Management – strong inflow and investment performance

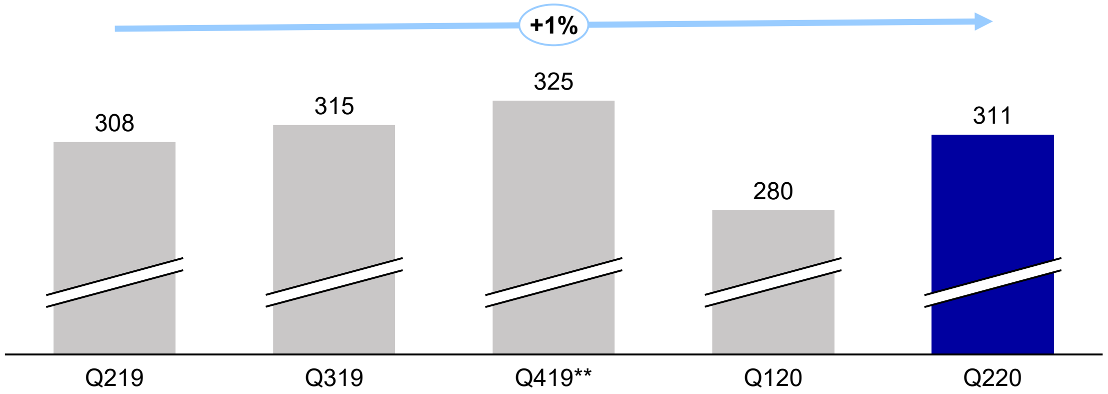
Total income, EURm



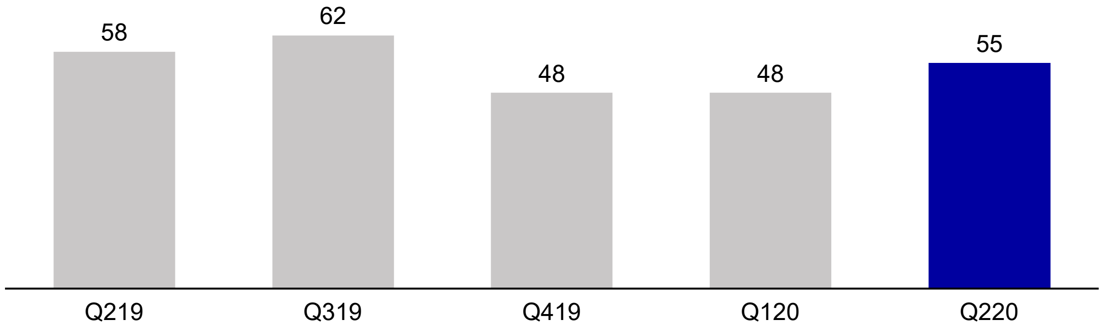
Comments

- Strong growth in AuM from low levels in April
  - Positive market development and good investment performance
  - Strong net inflow (EUR 4bn), mainly driven by Private Banking and Institutional sales
- Net commission income down 2%
  - Lower average AuM and slightly lower transaction related income in Private Banking
- Cost efficiency improves, cost to income down to 55%

Assets under management, EURbn



Cost to income ratio*, %



* With amortised resolution fees
** From Q419 excluding Private Banking International

Nordea is committed to delivering on financial targets

Cost to income ratio in FY22

50%

Return on equity in FY22

>10%

Capital policy

150-200 bps
management buffer
above the regulatory CET1 requirement

Dividend policy

60-70% pay-out of distributable profits to shareholders
Excess capital intended to be distributed to shareholders through buybacks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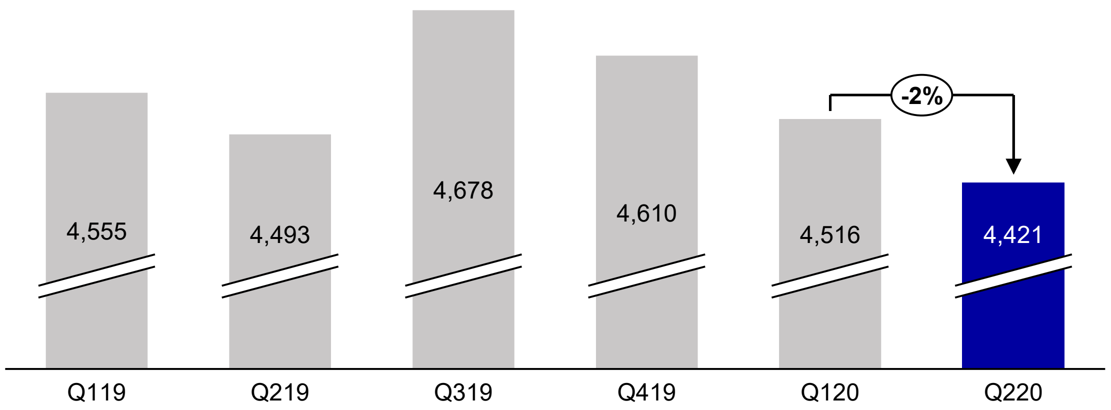
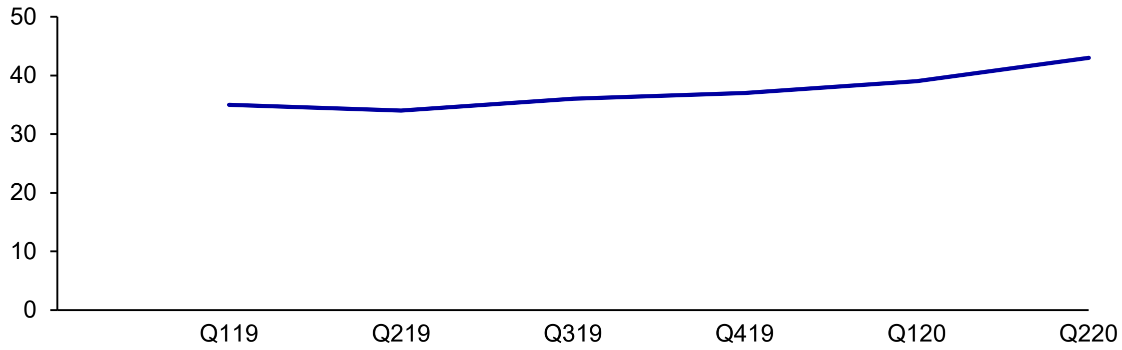
Appendix

Asset quality – impaired loans further reduced

Stage 3 impaired loans at amortised cost, EURm



Stage 3 impaired loans allowance ratio, %



Comments

- Impaired loans decreased further by 2%
- Reflects overall stable credit quality and net migration out of stage 3
- Allowance ratio for impaired loans rose to 43%, following increased provisioning in Q2

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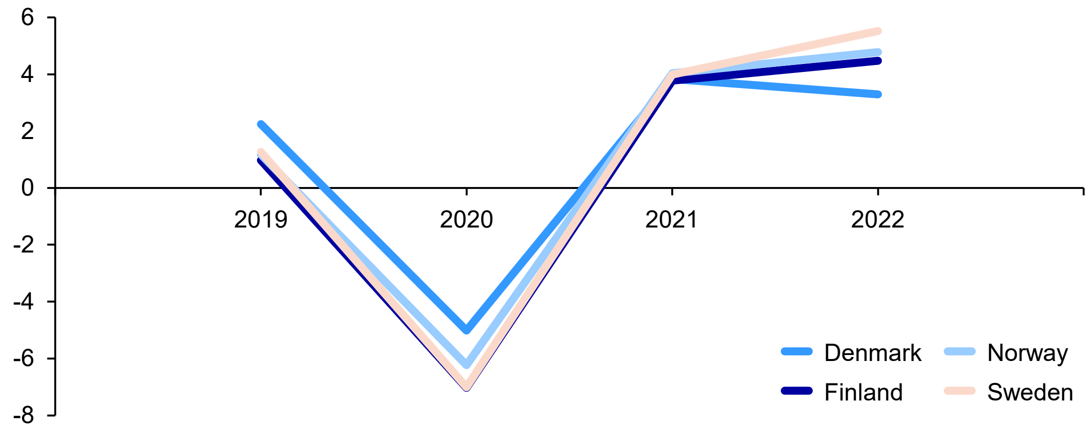
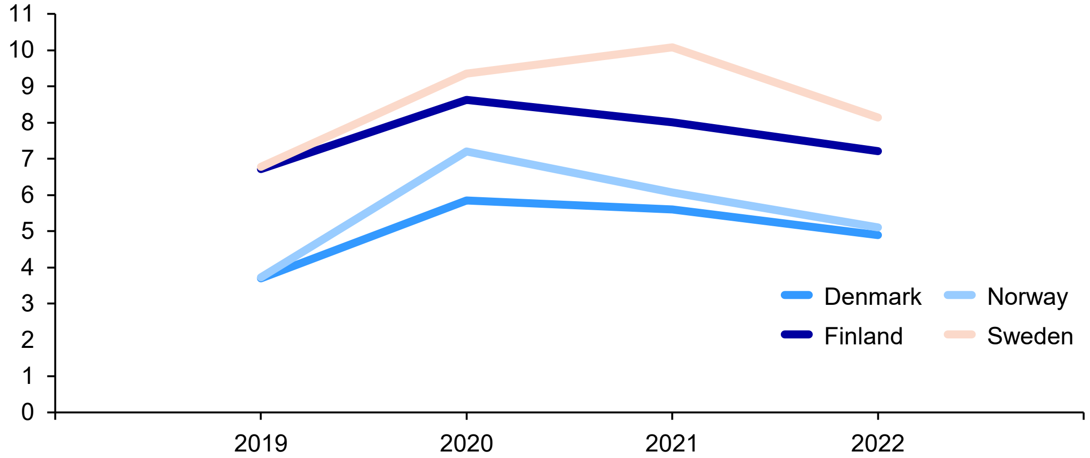
IFRS 9 model update – macro-economic assumptions behind scenarios used

Baseline annual GDP growth, %



Baseline unemployment rate, %



Comments

- Scenarios are conservative and recently updated in line with Nordic central banks and ECB forecasts
- Base scenario, 60% weight
  - Gradual removal of restrictions to continue in H220
  - Leading to a moderate recovery
  - Remaining uncertainty on consumption and investments
- Upside scenario, 20% weight
  - Stronger recovery in Q320
  - Lockdowns rapidly phased out without 2nd wave
  - Fiscal and monetary policy provides a solid boost
- Adverse scenario, 20% weight
  - Lockdowns removed at a slower pace
  - Severe 2nd round effects on consumption, investments
  - Deeper global recession impacting Nordic economies

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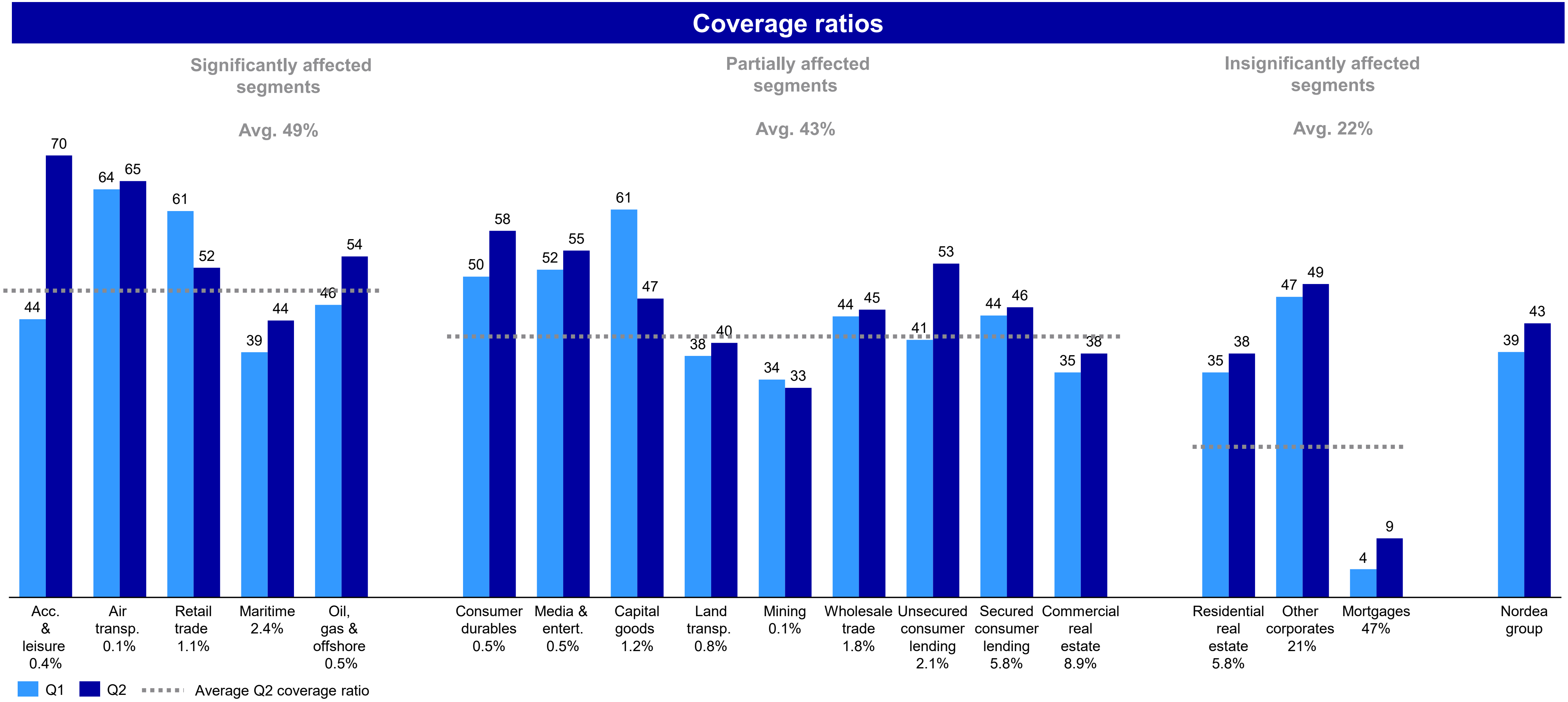
Coverage ratios – further improved in the second quarter



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