Financial target and key focus areas

Capital Markets Day
Ian Smith, Group CFO
17 February 2022
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Nordea today

**Business momentum supported by strong financial foundation**

Full year 2021 (compared with 2019)

<table>
<thead>
<tr>
<th>GROWTH</th>
<th>EFFICIENCY</th>
<th>CAPITAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business momentum</strong></td>
<td><strong>Significant positive jaws</strong></td>
<td><strong>Net capital generation</strong></td>
</tr>
<tr>
<td>+14% mortgage lending</td>
<td>+12% income</td>
<td>~200bp capital excess</td>
</tr>
<tr>
<td>+15% SME lending</td>
<td>-5% costs</td>
<td>before M&amp;A and buy-backs¹</td>
</tr>
<tr>
<td>+26% AuM</td>
<td></td>
<td>Shareholder returns</td>
</tr>
<tr>
<td>+12% income</td>
<td>9pp improvement</td>
<td>EUR 4.4bn in dividends and buy-backs¹</td>
</tr>
</tbody>
</table>

**STRONG CAPITAL POSITION**

CET1 ratio 17.0%

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Nordea today

Targets surpassed ahead of schedule

Cost-to-income ratio (%)

<table>
<thead>
<tr>
<th>2019 excl. IAC</th>
<th>NII</th>
<th>NCI</th>
<th>NFV</th>
<th>Other</th>
<th>Costs</th>
<th>2021</th>
<th>2022 target</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>57.4</td>
<td>3.5</td>
<td>2.8</td>
<td>0.6</td>
<td>0.4</td>
<td>2.6</td>
<td>48.3</td>
</tr>
</tbody>
</table>

Return on equity (%)

<table>
<thead>
<tr>
<th>2019 excl. IAC</th>
<th>Operating performance</th>
<th>Cost of risk</th>
<th>Capital</th>
<th>2021</th>
<th>2022 target</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.2</td>
<td>3.4</td>
<td>0.6</td>
<td>-0.9</td>
<td>11.2</td>
<td>&gt;10</td>
</tr>
</tbody>
</table>

Delivering on our strategy 2019–21

Drive income growth initiatives
- Relentless business execution
- Strong lending and deposit growth
- Stable lending and deposit margins
- Lower funding costs
- Strong net inflows in all channels

Optimise operational efficiency
- Clear accountability
- Simplified processes and organisation
- Fewer people: -7% FTEs
- EUR 230m net cost reduction
- Capital efficiency gains; LC&I EC down 23%

Favourable market conditions in 2021
- Strong advisory income
- Exceptional net fair value result
- Loan losses 14bp lower than historical average

IAC = items affecting comparability; NII = net interest income; NCI = net fee and commission income; NFV = net result from items at fair value
Financial target

Key assumptions underpinning our plans

- **Nordic lending market growth**: ~3% CAGR 2021–25
- **Equity market return**: +6% CAGR 2021–25
- **Fixed income market return**: -0.5% CAGR 2021–25
- **Foreign exchange rates**:
  - EUR/SEK 10.24
  - EUR/NOK 10.64
  - EUR/DKK 7.44
Financial target

Raising the bar – higher financial target for 2025

2025 financial target

Return on equity

>13%

Assumes CET1 requirement of 15–16%, including management buffer

Supported in 2025 by

Cost-to-income ratio
45–47%

Loan losses
Normalised ~10bp

Capital and dividend policy
60–70% dividend payout ratio; excess capital distributed through buy-backs
Management buffer of 150–200bp above regulatory CET1 requirement

Assumes CET1 requirement of 15–16%
Financial target

Delivering a step change in profitability

Return on equity (%)

Drivers for 2025 target

1. **Focused and profitable growth and operational efficiency**
   - All business areas to contribute

2. **Loan losses settling below historical average**
   - 2021 very low
   - Expected to normalise by 2025

3. **Capital excellence**
   - Further reduce capital intensity
   - Allocate capital for profitable growth
   - Potential for bolt-on M&As
   - Dividends and buy-backs
   - Very competitive funding
Financial target

*All business areas to contribute; lean corporate costs*

**Return on capital at risk (%)**

<table>
<thead>
<tr>
<th>Business Area</th>
<th>ROCAR</th>
<th>Cost-to-income ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Banking</td>
<td>~18%</td>
<td>~45%</td>
</tr>
<tr>
<td>Business Banking</td>
<td>~16%</td>
<td>~40%</td>
</tr>
<tr>
<td>Large Corporates &amp; Institutions</td>
<td>~16%</td>
<td>~40%</td>
</tr>
<tr>
<td>Asset &amp; Wealth Management</td>
<td>~38%</td>
<td>~40%</td>
</tr>
<tr>
<td>Other</td>
<td>~17%</td>
<td>45–47%</td>
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</tbody>
</table>

1. Capital buffers, goodwill and other group items

**Return on equity** >13%
Operating performance

Focused on income growth and operational efficiency

Cost-to-income ratio improvement (%)

- Underlying
- Reported

Cost-to-income ratio development

- Swedish bank tax: ~1pp negative impact
- Exceptional market conditions: ~1pp positive impact

~+2% jaws CAGR 2021–25
Continuous improvement in underlying cost-to-income ratio

Drive focused profitable growth
- Drive market share gains
- ~4% lending volume CAGR 2021–25
- 4–6% savings AuM CAGR 2021–25

Invest in key levers
- Enhance digital proposition
- More effective savings process
- Strengthen private banking advisory offering
- Continue to increase speed and availability in mortgage process
- Broaden product offering

Rigorous cost efficiency
- Continuous improvement to offset cost inflation and reduce structural costs
- Nominal cost increase driven by higher business activity, investments and regulatory demands

Nordea
Operating performance

**Smart investments and rigorous cost control**

**Cost development**

- **Additional volumes** from business activity
  - Investments to support growth

- **Cost inflation**
  - Salary and price increases, higher depreciation

- **Operational efficiencies**

- **Focused investments**

- **Structural cost reductions**

**Operational efficiency and structural investments**

**Everyday**

- Strong cost culture with process improvements and demand management

**Long term**

- Investments to make the bank better:
  - Digital capabilities
  - Data and analytics
  - ESG data foundation
  - Financial crime prevention
  - Technology platforms

- Delivering improved infrastructure and digital capabilities. Limited standalone cost savings from decommissioning

**+1–2% CAGR**
Cost of risk

Loan losses settling below historical average

**Significant de-risking (EURbn)**

<table>
<thead>
<tr>
<th>Mix change</th>
<th>Focus on Nordic markets</th>
<th>International and shipping, oil and offshore exposure</th>
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<tbody>
<tr>
<td>2011</td>
<td>2021</td>
<td></td>
</tr>
<tr>
<td>313</td>
<td>328</td>
<td></td>
</tr>
<tr>
<td>48%</td>
<td>57%</td>
<td></td>
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<tr>
<td>50%</td>
<td>41%</td>
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**Loan loss ratios (bp)**

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<td>23</td>
<td>26</td>
<td>21</td>
<td>15</td>
<td>14</td>
<td>15</td>
<td>12</td>
<td>7</td>
<td>8</td>
<td>12</td>
<td>14</td>
<td>1</td>
</tr>
</tbody>
</table>

**Significant portfolio de-risking**

- Increased share of household lending
- Focus on our four Nordic home markets
- Reduced international exposure
  - Divested business in Poland, Luxembourg and Baltics
  - Exit from Russia ongoing
- Reduced shipping, oil and offshore portfolio by half; further actions ongoing

**Future loan loss levels rebased**

- 2020–21 resilient credit quality
- 2022–23 unwinding the COVID-19 buffer
- 2024–25 new normal, de-risked portfolio
- Normalised run rate from 2025 ~10bp

*Including fair value adjustments to loans held at fair value in Nordea Kredit; 2019 also excludes items affecting comparability
Capital excellence

Risk exposure amount development

Planned REA growth
- Ambitious lending growth plan
- Sustained focus on capital initiatives
- Continued reduction in capital intensity
- Modest net impact from regulatory changes

2025 preliminary Basel IV phase 1
- <5% REA inflation
- Credit risk negligible
- Market risk & CVA: FRTB
- Operational risk: new methodology

2030 preliminary Basel IV fully loaded
- <10% REA inflation from output floors

Business initiatives developed to further mitigate impact

Current REA (EURbn)

<table>
<thead>
<tr>
<th>Year</th>
<th>2021</th>
<th>2022–25</th>
<th>2026–30</th>
</tr>
</thead>
<tbody>
<tr>
<td>REA</td>
<td>152</td>
<td>164–168</td>
<td>&lt;10% inflation</td>
</tr>
</tbody>
</table>

Capital initiatives:
- Refined capital deployment in BB and LC&I
- Hedging
- Model upgrades

Business initiatives:
- Product shaping
- Repricing

REA = risk exposure amount; CVA = credit valuation adjustment; FRTB = fundamental review of the trading book
* Pending regulatory approval
Capital excellence

Reducing capital excess – path to normalisation

CET1 capital ratio and requirement

Pre COVID-19
During COVID-19
Normalised conditions ~2025

CET1 ratio
CET1 requirement + 150-200bp

~15%
~12%
~15–16%

Capital generation and uses of capital (bp)

2021
2022–25

Excess capital above policy: 480
Normalisation of capital requirements: 280
Basel IV first phase: 100
Capital generation: 65
Annual dividends: 1,000
Second buy-back programme: 700
Organic growth: 65
Capital initiatives incl. model approvals: ~200–300
Bolt-on M&A and buy-back potential incl. contingency: ~100

Net ~60bp

Normalised CET1 requirement

- Continued reactivation of countercyclical capital buffers and buffers for systemic risk
- Regulatory requirement expected to settle around 13%; up to additional 1% allowance for prudence
- Management buffer of 150–200bp above regulatory requirement
- Implied CET1 ratio of 15–16%

Focus on capital excellence

- Capital deployment for profitable growth
- Capital efficiency initiatives
- Excess capital returned to shareholders
Sustainability at the core

**Green transition – balancing opportunities and risks**

Maximise opportunities by supporting customers

**Transition financing needs in Nordics¹**

<table>
<thead>
<tr>
<th>Year</th>
<th>EURbn</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>2022</td>
<td></td>
<td>12</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2023</td>
<td></td>
<td>22</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2024</td>
<td></td>
<td>37</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2025</td>
<td></td>
<td>45</td>
<td></td>
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</tr>
</tbody>
</table>

**Transition financing needs in Nordics¹** (EUR116bn)

**ESG share of AuM and net flow²**

<table>
<thead>
<tr>
<th>Year</th>
<th>EURbn, %</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td></td>
<td>37%</td>
<td>63%</td>
</tr>
<tr>
<td>2021</td>
<td></td>
<td>33%</td>
<td>67%</td>
</tr>
</tbody>
</table>

**Climate-vulnerable exposure**

<table>
<thead>
<tr>
<th>Sector assessment (total lending, EURbn)</th>
<th>Climate-vulnerable sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assessment (total lending, EURbn)</td>
<td>328</td>
</tr>
<tr>
<td>Assessment completed Oil, gas and offshore, Shipping, Mining</td>
<td>86</td>
</tr>
<tr>
<td>Assessment under way Power, Utilities, Real estate management</td>
<td>8%</td>
</tr>
<tr>
<td>Assessment planned Other climate-vulnerable sectors</td>
<td>62%</td>
</tr>
</tbody>
</table>

**Example of learnings**

**Replace proxies with customer data**

**Support customers**

**Transition financing**

Commitment, capability, balance sheet capacity, and depth and breadth of customer relationships will make Nordea winner among fierce competition.

**Sustainable savings**

Globally well positioned for high-growth, high-margin and capital-light business.

**Sector deep dive assessments**

Engage to support customers in establishing credible green transition paths (e.g. investments in green vessels).

**Transition to reduce emissions**

and de-risk operations (e.g. offshore).

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¹ Sources: Boston Consulting Group (BCG) and Global Financial Markets Association (GFMA)
² ESG = article 8 and 9 funds, prior years not shown as Sustainable Finance Disclosure Regulation (SFDR) classification not available prior to 2020
Raising the bar: Ready to deliver on higher target

The preferred financial partner in the Nordics

Creating value for shareholders

Well equipped for the future

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2025: Return on equity >13%

Revenue growth
- Lending growth ~4% CAGR capturing further market share
- Net interest margin largely stable
- Savings growth of 4–6% CAGR

Cost-to-income ratio to 45–47%
Continuous improvement in underlying cost-to-income ratio

Cost of risk normalised at ~10bp
Settling below historical average following portfolio de-risking

CET1 ratio ~15–16%
Normalisation of capital requirements; active capital management

60–70% dividend payout ratio p.a. complemented by buy-backs
Planned total shareholder distributions of EUR 15–17bn 2022-25
Appendix

Key assumptions underpinning our plans – capital requirements

Current requirements
~3% reduction vs Pre COVID-19

2025 ‘Baseline’
- Systemic risk 1.5% increase (from 2% today to 3.5%)
- CCyB increase 1.5% increase (from 0.2% today to 1.7%)

2025 ‘High’
- Systemic risk 2% (from 2% today to 4%)
- CCyB 2% increase

CCyB (%):

<table>
<thead>
<tr>
<th>Year</th>
<th>CCyB</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre COVID-19</td>
<td>2.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Q4 2021</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>2025 Baseline</td>
<td>2.5</td>
<td>0.0</td>
</tr>
<tr>
<td>2025 High</td>
<td>2.5</td>
<td>0.0</td>
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</table>