



Nordea

# Nordea Kredit Covered Bonds

Q4 2020 Debt Investor Presentation



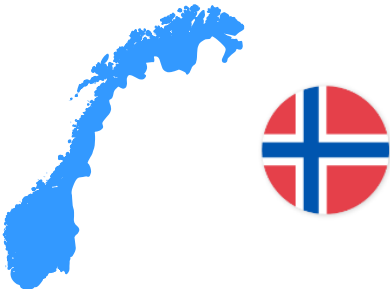
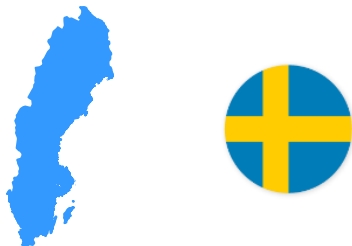

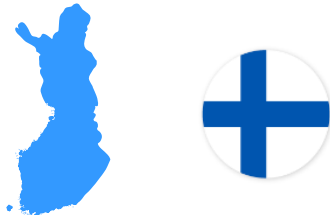
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# 1. Nordea covered bond issuance in brief

# Nordea covered bond operations

Q4 2020

Four aligned covered bond issuers with complementary roles	Nordea Eiendomskreditt	Nordea Hypotek	Nordea Kredit	Nordea Mortgage Bank	
					
	Legislation	Norwegian	Swedish	Danish	Finnish
	Cover pool assets	Norwegian residential mortgages	Swedish residential mortgages primarily	Danish residential & commercial mortgages	Finnish residential mortgages primarily
	Cover pool size	EUR 17.6bn (eq.)	EUR 59.5bn (eq.)	Balance principle	EUR 22.9bn
	Covered bonds outstanding	EUR 13.5bn (eq.)	EUR 38.8bn (eq.)	EUR 58.1n (eq.)*	EUR 19.6bn
	OC	31%	53%	8%*	17%
	Issuance currencies	NOK	SEK	DKK, EUR	EUR, GBP
	Rating (Moody's / S&P)**	Aaa/ -	Aaa / -	- / AAA	Aaa / -

- Covered bonds are an integral part of Nordea's long term funding operations
- Issuance in Scandinavian and international currencies
- ECBC Covered Bond Label on all Nordea covered bond issuance



## 2. Nordea Kredit in brief

# Nordea Kredit – in brief

## Q4 2020

- 100% owned subsidiary of Nordea Bank Abp - the largest Nordic financial institution
- Operates as a mortgage credit institution with the main purpose of granting mortgage credit loans funded by issuing covered bonds
- Founded in 1993 and supervised by the Danish FSA (DFSA, Finanstilsynet)
- Market share 13.9% of the Danish mortgage credit market
- All covered bonds are rated AAA by Standard & Poor's
- Dedicated liquidity line provided by Nordea Bank Abp to manage daily cash needs and ensure compliance with external and internal requirements regarding liquidity management
- Profit before tax 2020: DKK 1,640m
- Cost-income ratio 2020: 22.2%
- Capital ratio 2020 (of which Tier 1): 25%
- More information at [nordeakredit.dk](https://nordeakredit.dk)

### 3. Cover pool key characteristics

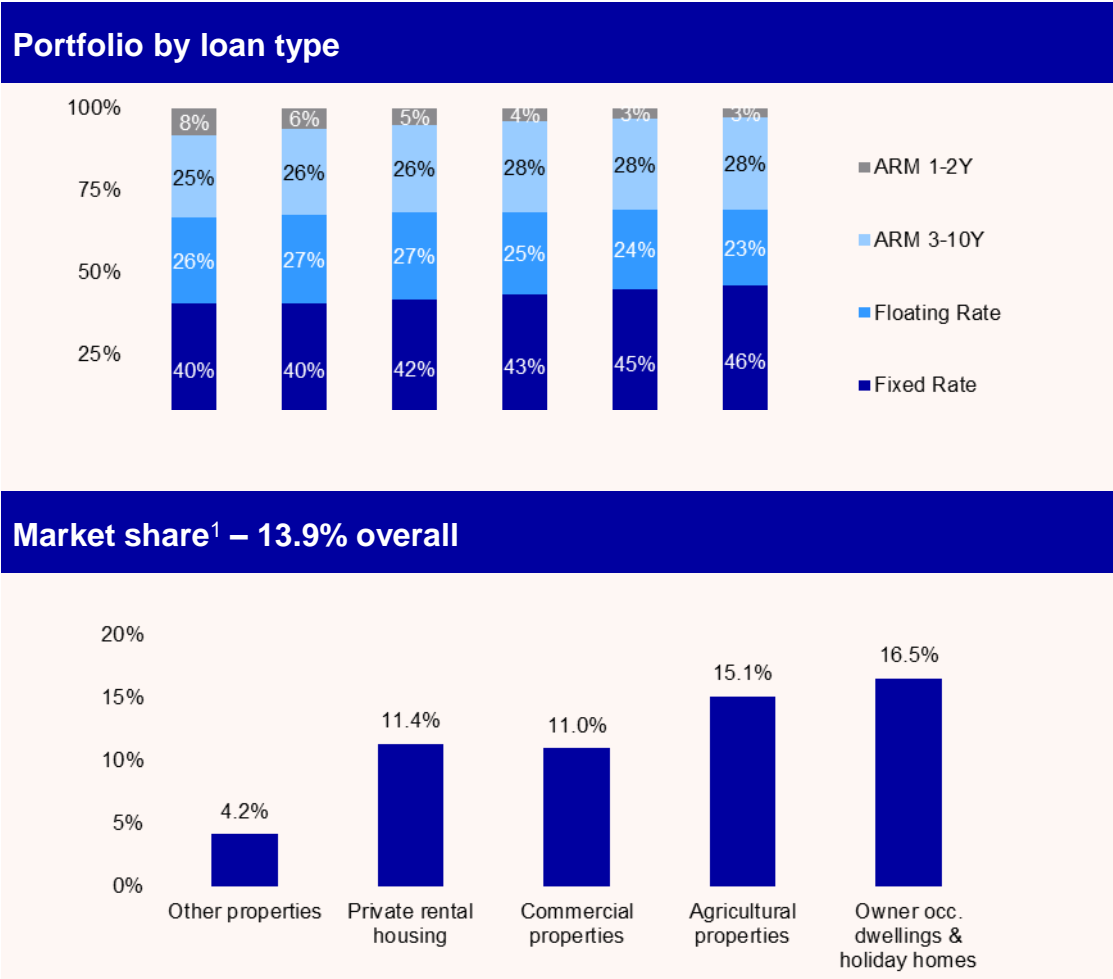
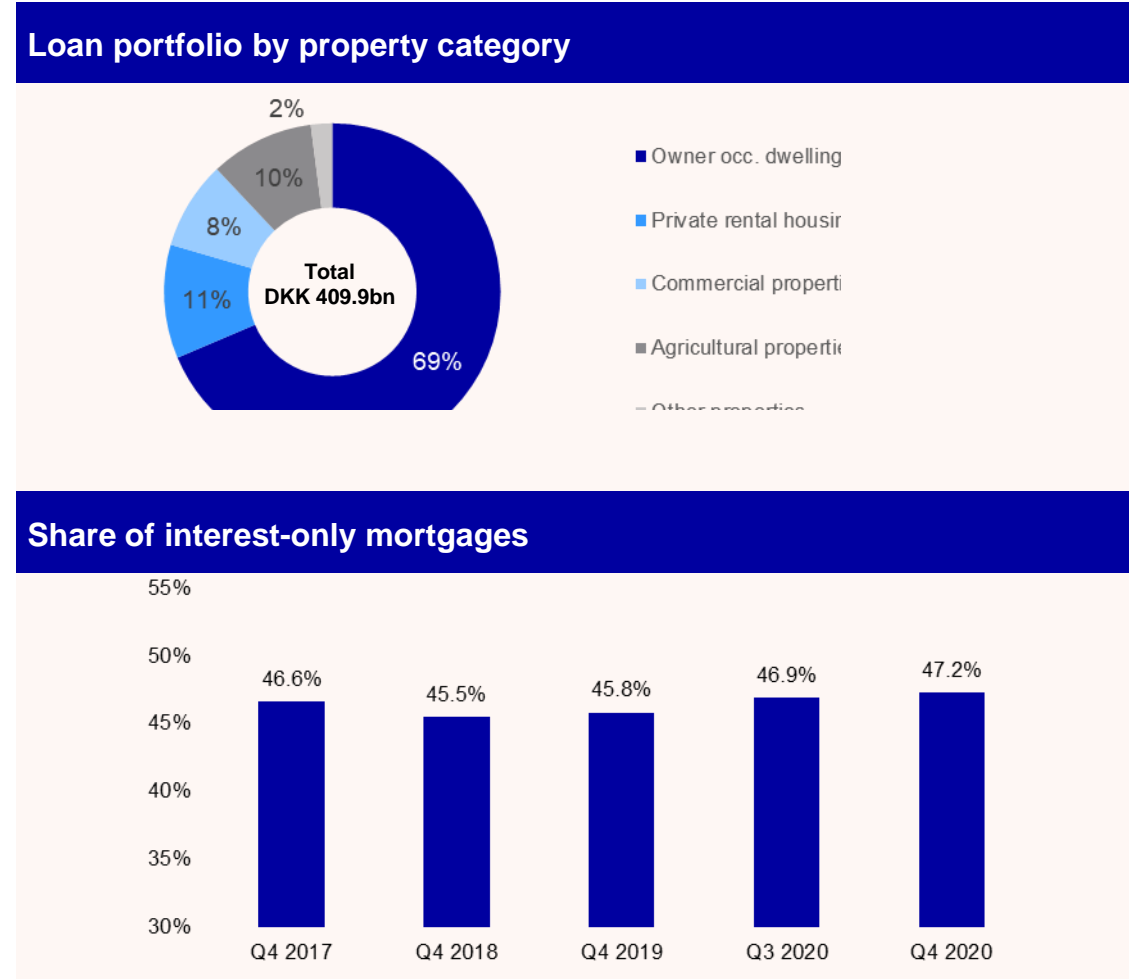
## Cover pool key characteristics

Q4 2020

<b>Outstanding covered bonds</b>	EUR 58.1bn.
<b>Cover pool content</b>	Mortgage credit loans secured by mainly residential property (total: EUR 62.7bn.)
<b>Geographic distribution</b>	Throughout Denmark with concentration in urban areas
<b>Weighted average LTV</b>	56.8%
<b>Average residential loan size</b>	EUR 197,440
<b>Over collateralisation, OC</b>	8.0%
<b>Rate type</b>	Fixed rate 74.6%, Floating rate 25.4%
<b>Amortization</b>	Interest only 47.5%, Amortizing 52.5%
<b>Substitute assets</b>	EUR 7,490m.
<b>Pool type</b>	Static
<b>Loans originated by</b>	Nordea Kredit CC2



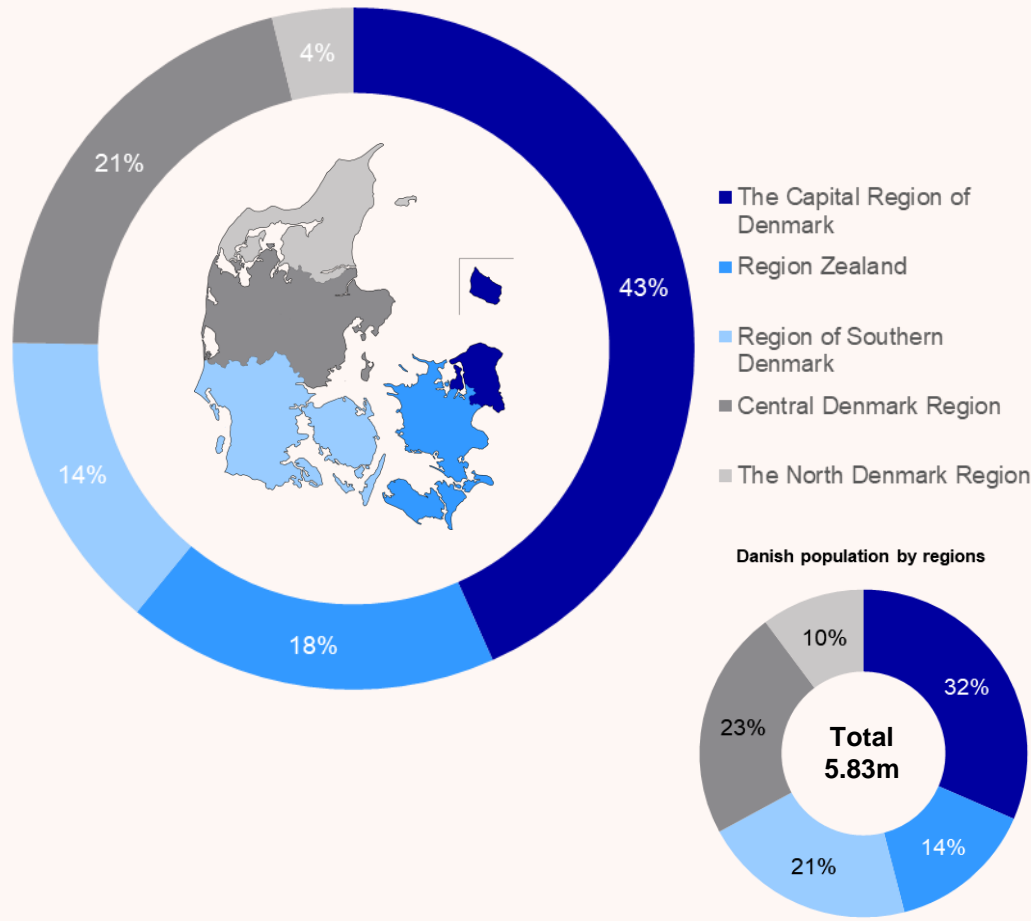
# Loan portfolio



<sup>1)</sup> Market share of the Danish mortgage credit market

# Loan portfolio by regions – and green bonds

## Portfolio by regions



## Green bonds

Since November 2019 Nordea Kredit has offered corporate customers green mortgage loans funded by designated green covered mortgage bonds (Current ISIN DK0002046689).

Green loans can be granted against a mortgage on climate-friendly properties according to the criteria set out by Nordea Kredit in the Nordea Green Bond Framework.

Total volume of these green covered mortgage bonds amounted to DKK 3.8bn by the end of 2020.



## 4. Asset quality

# Loan to value (LTV) – loans for residential and commercial properties

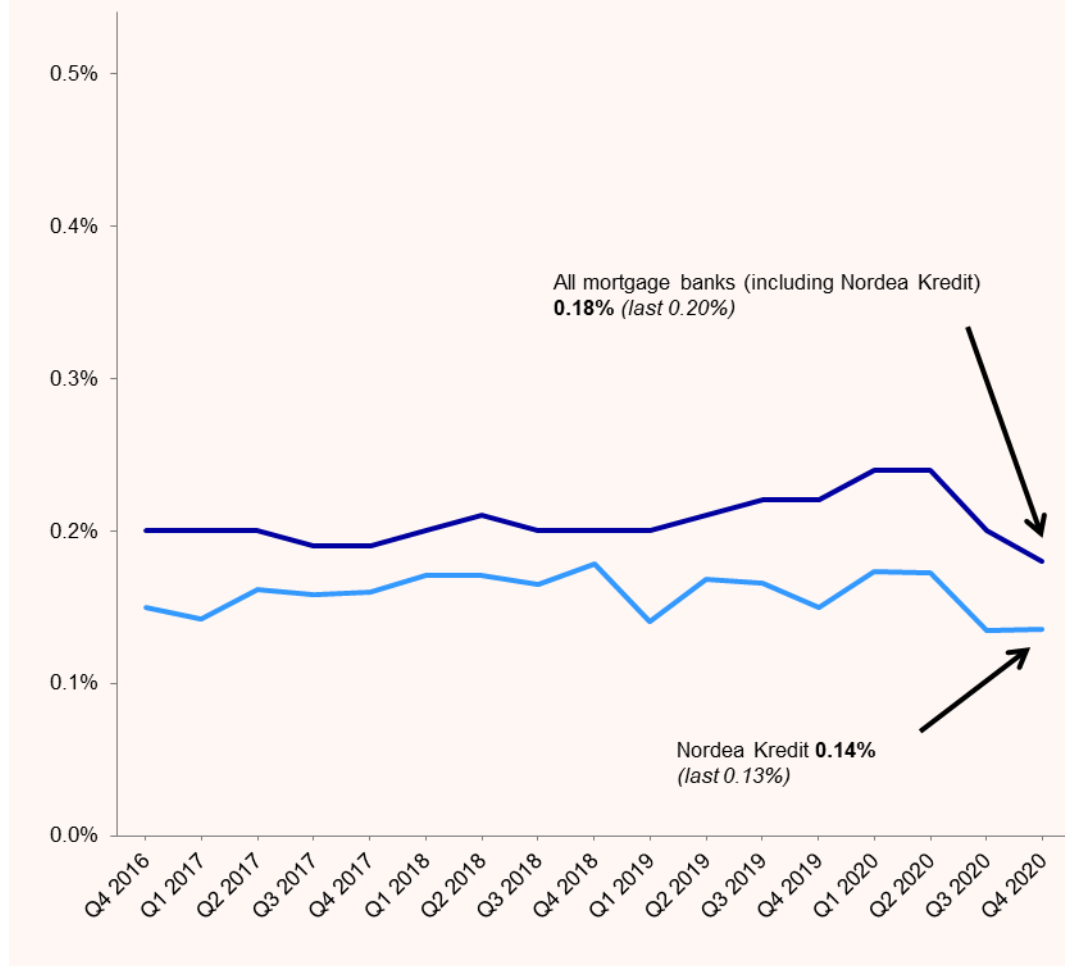
Q4 2020

Loan type	Residential loans	Commercial loans
Weighted average LTV - indexed	58.3%	45.1%

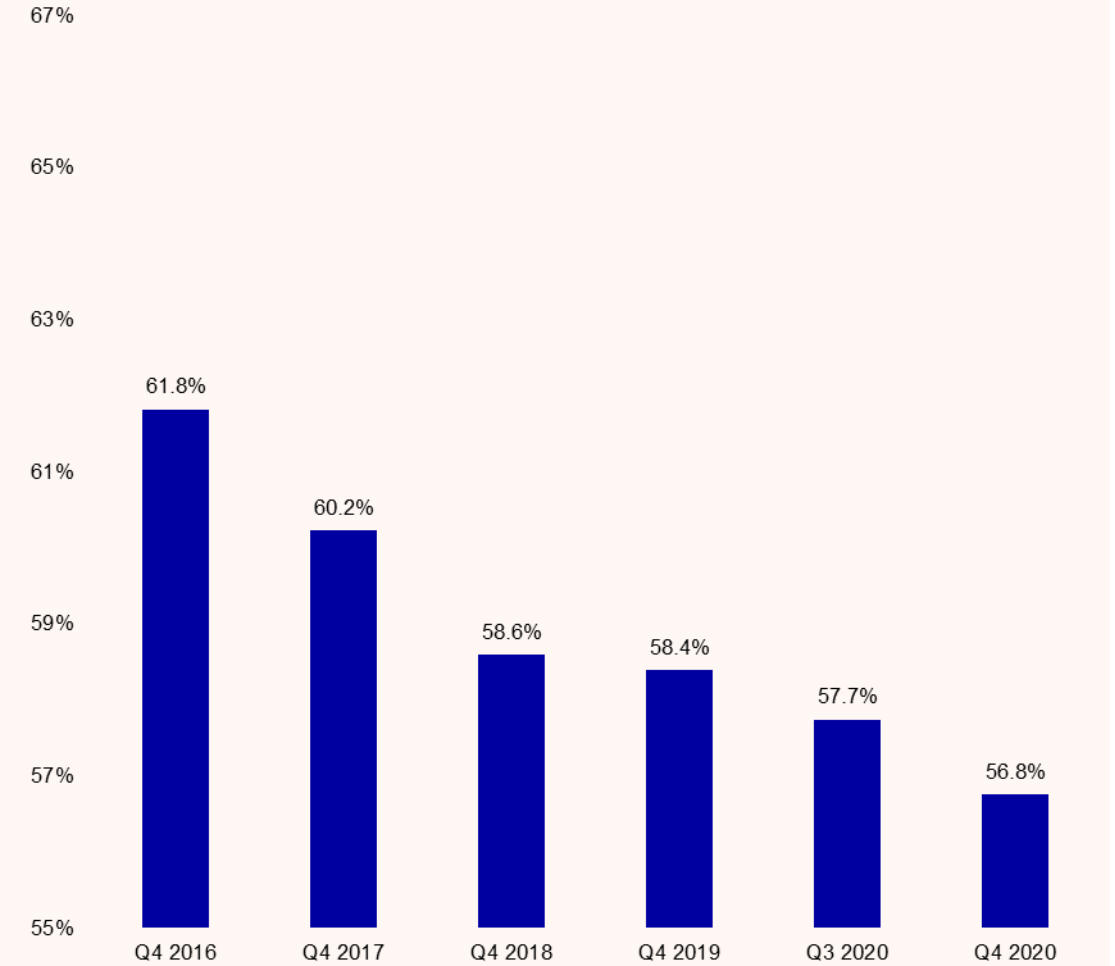
LTV buckets	Nominal (DKKm)	% Loans	Nominal (DKKm)	% Loans
>0 - <=40 %	219,191	67.3%	59,916	74.2%
>40 - <=50 %	42,170	13.0%	10,449	12.9%
>50 - <=60 %	31,648	9.7%	6,681	8.3%
>60 - <=70 %	20,769	6.4%	2,408	3.0%
>70 - <=80 %	9,250	2.8%	737	0.9%
>80%	2,427	0.7%	528	0.7%
Total	325,455	100.0%	80,719	100.0%

# Asset quality

## Arrears (owner occupied dwellings and holiday homes)<sup>1</sup>



## Loan to value (LTV) weighted average (all loans)



<sup>1</sup>) Arrears as a percentage of the Q3, 2020 scheduled payments – 3½ months after due date



## 5. Underwriting criteria

# Underwriting criteria

## Q4 2020

### Private households

- Behavioural score and individual credit assessment are conducted based on income information, e.g. payslips and tax information
- "Before-after loan" household budgets are made and used in the assessment (based on 30 years annuity and fixed interest rate)
  - In case of adjustable or floating interest rates, an additional stress test based on the variable interest rate +1 percentage point is conducted
  - If the LTV (loan to value) is > 60 and LTI (loan to income) is > 4, the customer can choose:
    - Fixed rate loans and
    - Amortising variable rate, fixed for minimum 5 years
- An individual valuation is made of the pledged property

### Corporates, agriculture etc.

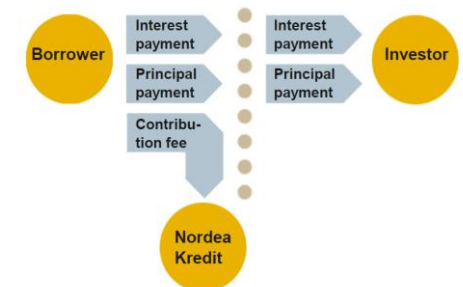
- A financial analysis of the customer is made, including adjustments for current market conditions
- Key ratios and other requirements in Nordea general real estate lending policy are verified
- Rating of the customer according to Nordea's in-house models
- An individual valuation is made of the pledged property
- Yearly repricing based on reassessment

## 6. Covered bond framework

# Danish covered bond framework

## Q4 2020

- Legal framework
  - The Financial Business Act
  - The Mortgage-Credit Loans and Mortgage-Credit Bonds, etc. Act with several detailed executive orders
- Registration
  - An issuing institution is required to maintain a static cover pool
  - Mortgage deeds are registered in the Public Land Registry
- Limits on LTV ratios – based on the value of the property at loan origination
  - 80% for housing loans (residential property)
  - 60% for commercial loans (legislative limit 70%)
  - Static cover pools – issuer must provide supplementary capital if LTV-limits are breached
- Matching rules
  - Nordea Kredit complies with the strict balance principle utilising match funding, hence Nordea Kredit only has insignificant interest rate and foreign exchange risk
- Public supervision
  - The DFSA performs supervision and on site inspections on an ongoing basis

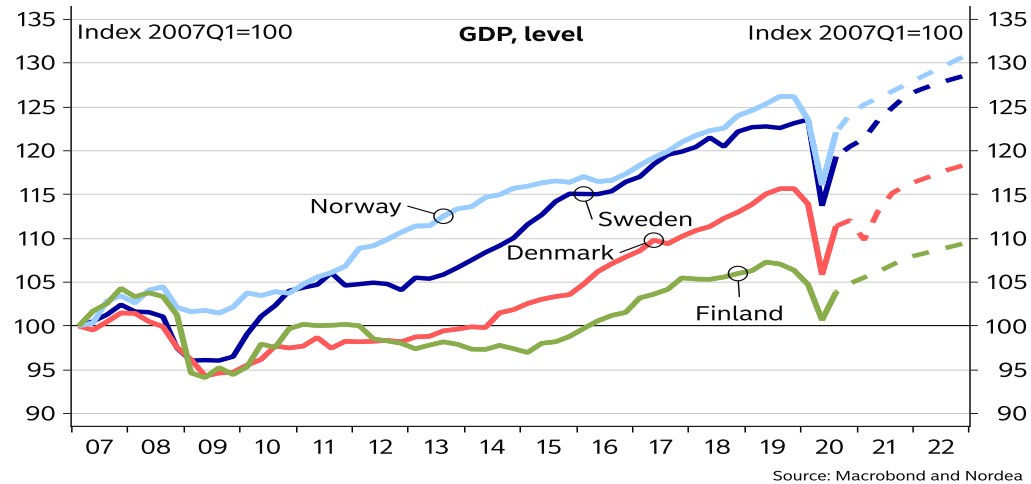


## 7. Macro



# Nordic economies – strong rebound in sight

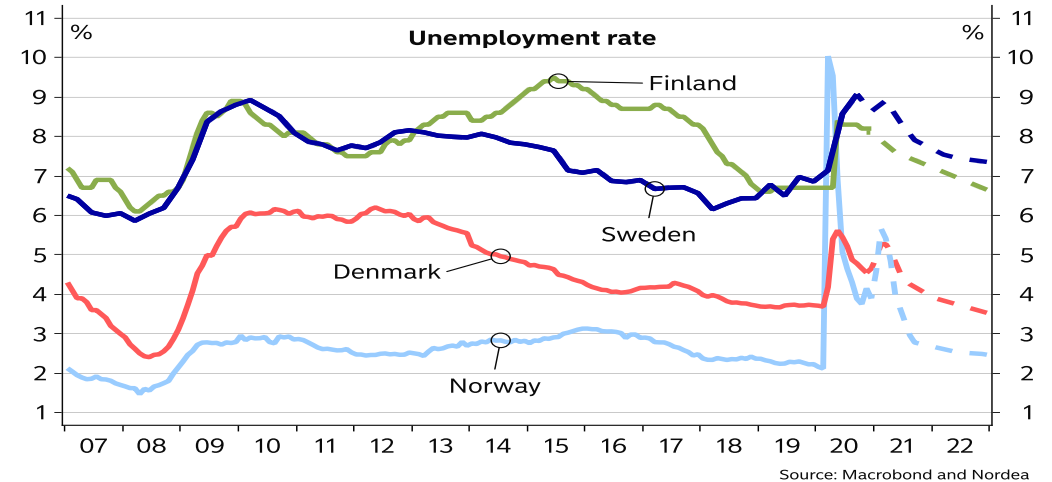
## GDP development



## Comments

- After the dramatic setback in 2020 due to the coronavirus, there appears to be light at the end of the tunnel for 2021
- While the second wave is hindering the recovery, vaccines are expected to bring long-awaited relief and the prospect of a return to normal. Nordic households' relatively strong finances pave the way for a broad recovery as pent-up demand unwinds when restrictions are lifted
- The labour market has showed resilience, largely due to government subsidies such as short-term furloughs. The hard-hit services sector will rebound swiftly, and GDP is expected to reach pre-crisis levels around towards late 2021

## Unemployment rate

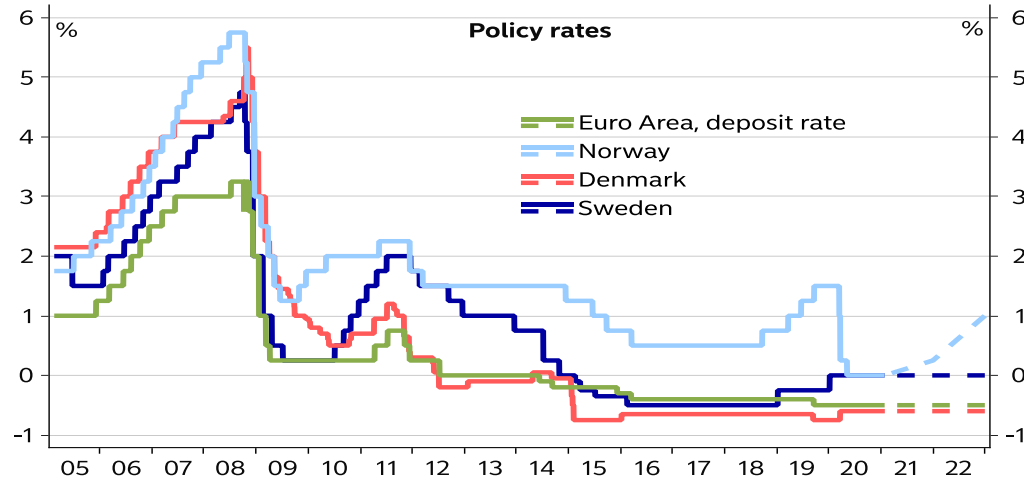


## GDP, forecasts from Economic Outlook January 2021

Country (% y/y)	2020E	2021E	2022E
Denmark	-3.7	2.5	3.5
Finland	-3.0	3.0	2.0
Norway	-3.4	2.7	4.3
Sweden	-2.9	4.0	3.0

# Nordic rates – Nordics well-equipped to handle the long-term consequences of COVID-19

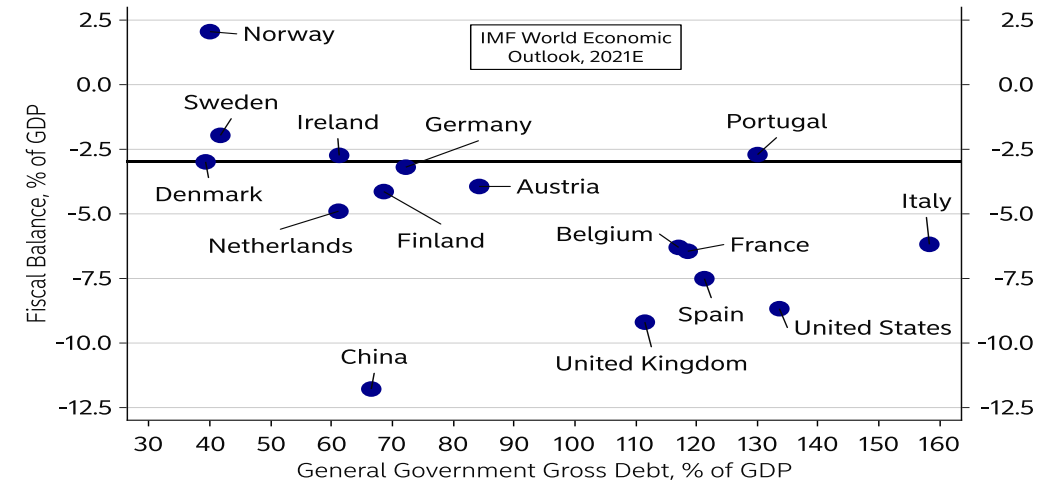
## Policy rates



## Comments

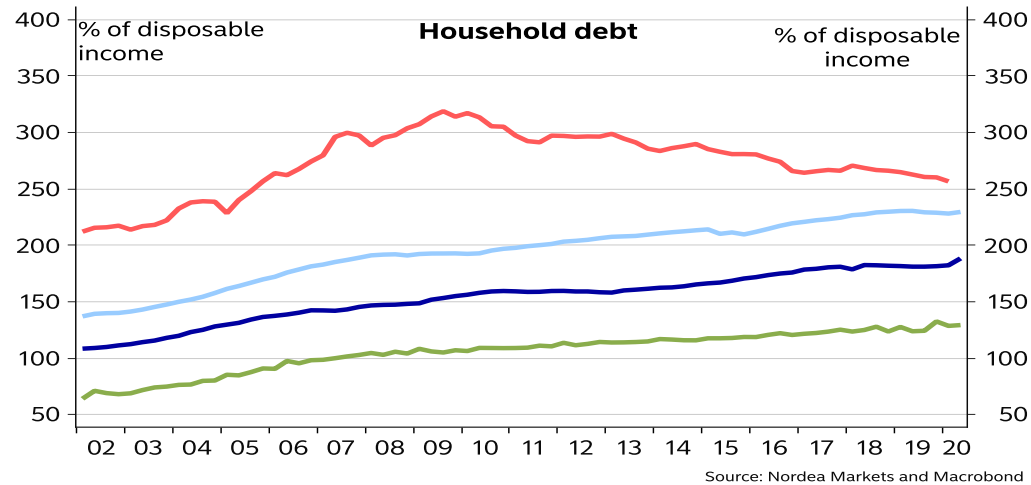
- In December, Norges Bank brought forward its first rate hike by more than six months and now expects to start hiking rates in early 2022. However, due to their conservative assumptions regarding the roll-out of vaccines, we expect the bank to raise the policy rate before the end of this year. This means that Norges Bank is likely to be the first central bank in the world to hike rates after the start of the pandemic. Policy rates in the Euro Area, Sweden and Denmark are expected to remain unchanged throughout the forecast period
- The Riksbank and ECB launched new large-scale asset purchase programmes (QE) as a response to the COVID-19 crisis. The ECB is expected to purchase financial assets to a corresponding 7% of Euro Area GDP in 2021, while the Riksbank's purchases amount to an expected 8% of GDP
- Solid public finances prior to the crisis have enabled the Nordic governments to act swiftly during the crisis, and large recovery packages have been announced in 2021 as well. Fiscal deficits are expected to narrow this year and approach zero in 2022 except for Finland. The Nordics are relatively well-equipped to handle the long-term consequences of the pandemic

## Public balance/debt, % of GDP, 2021E



# Households remain resilient

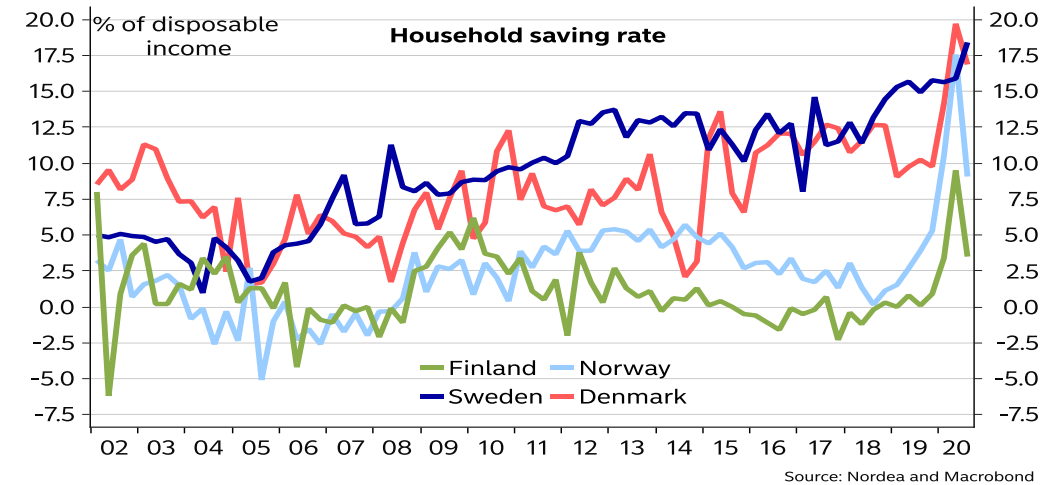
## Household debt



## Comments

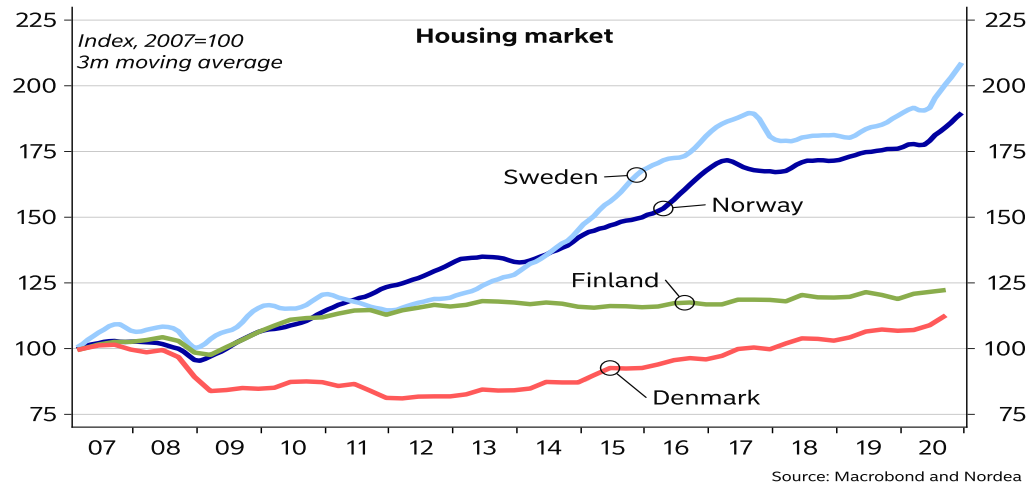
- Household savings have increased dramatically during the crisis, largely because of a decline in spending. Despite high debt levels, Nordic households' strong finances are expected to support economic growth as soon as restrictions are lifted. Low interest rates and economic stimulus continue to support credit growth and the housing market
- Early labour market measures, automatic stabilisers and other measures to stimulate demand help to soften the blow on households and businesses. Robust public finances prior to the crisis increase the credibility of the measures and harsh fiscal tightening is neither needed in the short term nor expected, which is important for households' income expectations

## Household savings

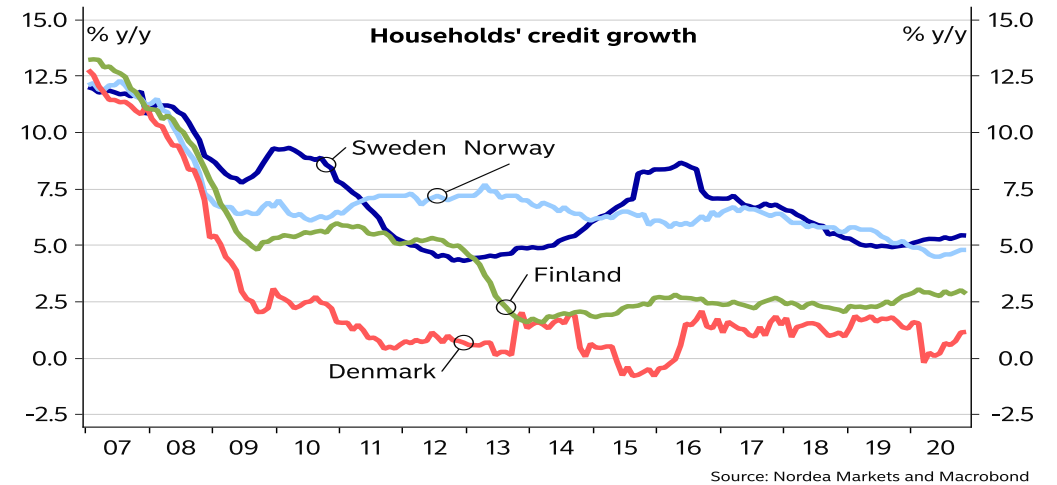


# Nordic housing markets heat up

## House prices



## Households' credit growth



## Comments

- Contrary to expectations, house prices have increased to record-high levels in all the Nordic countries during the crisis. This is not least because of unprecedented expansionary fiscal and monetary policy in support of households and businesses
- The crisis has had a limited effect on those groups on the labour market which are more active on the housing market, while demand has surged due to preferences shifting towards larger housing and single-family homes. At the same time, people's mobility has been severely restricted, causing a sharp decline in the number of homes on the market which in turn has contributed to driving prices higher
- House prices are expected to continue to rise in all four countries this year and next year. However, interest rates are not likely to go much lower, and at some point, the expansionary fiscal policies will come to an end. Moreover, as mobility levels increase, housing supply will increase again. Against this backdrop, the pace of price growth will slow. If the housing market remains in good shape, the economy will as well, so the benign trend in house prices helps all the Nordic countries to get through the crisis

## 8. Contacts & Links



# Contacts

If you have any questions, please feel free to contact:



**Peter Brag**

Senior Treasury Manager, Long Term Funding

+45 3333 1663

[Peter.brag@nordea.com](mailto:Peter.brag@nordea.com)



**Lau Kingo**

Chief Treasury Manager, Long Term Funding

+45 3333 1751

[Lau.kingo@nordea.com](mailto:Lau.kingo@nordea.com)

## Links to more information

### Nordea Kredit

- Nordea Kredit ECBC harmonised transparency templates.  
*Link: <https://www.nordea.com/en/investor-relations/reports-and-presentations/bonds/nordea-kredit-covered-bonds/>*
- Nordea Kredit financial reports.  
*Link: <https://www.nordea.com/en/investor-relations/reports-and-presentations/subsidiary-reports/nordeas-danish-subsiidiary-reports/>*

### Legislation

- Danish mortgage financing is supervised by the DFSA (Finanstilsynet).  
*Link: <https://finansstilsynet.dk/en>*
- Relevant legislation can be found in English at the DFSA's English website.  
*Link: <https://finansstilsynet.dk/en/Lovgivning>*
- All mortgage bank legislation can be found in Danish at the DFSA's Danish website.  
*Link: <http://finansstilsynet.dk/da/Lovgivning/Lovsamling>*