

Nordea

Q2 2023 Debt investor presentation

# Nordea Mortgage Bank Covered Bonds

Cover pools 1 & 2



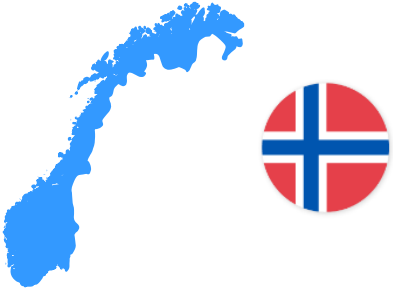
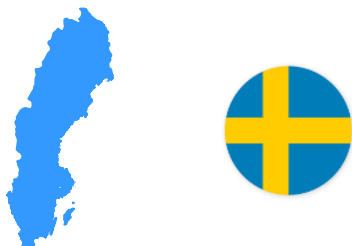

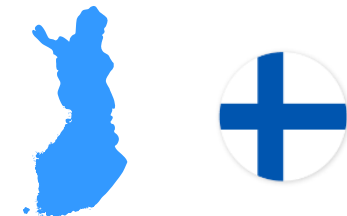
# Table of contents

<b>1. In brief</b>	<b>3</b>
<b>2. Cover pool key characteristics</b>	<b>6</b>
<b>3. Asset quality</b>	<b>9</b>
<b>4. Covered bond framework</b>	<b>13</b>
<b>5. Macroeconomy</b>	<b>16</b>
<b>6. Further information</b>	<b>20</b>

# 1. In brief

# Nordea covered bond operations

Q2 2023

Four aligned covered bond issuers with complementary roles	Nordea Eiendoms kreditt	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 22.2bn (eq.)	EUR 59.2bn (eq.)	Balance principle	Pool 1: EUR 21.6bn/ Pool 2: EUR 4.6bn
	Covered bonds outstanding	EUR 14.9bn (eq.)	EUR 34.2bn (eq.)	EUR 60.6bn (eq.)*	Pool 1: EUR 18.1bn/ Pool 2: EUR 3bn
	OC	49%	73%	7%*	Pool 1: 20% / Pool 2: 54%
	Issuance currencies	NOK	SEK	DKK, EUR	EUR, GBP
	Rating (Moody's / S&P)	Aaa / -	Aaa / -	- / AAA	Aaa / -
	Included in Nordea Green Framework	Yes	Yes	Yes	Yes
Issued Green CB's	Yes (inaugural issue in 2021)	Yes (inaugural issue in 2022)	Yes (inaugural issue in 2019)	Yes (inaugural issue in 2022)	

- Covered bonds are an integral part of Nordea's long term funding operations
- Issuance in Scandinavian and international currencies
- All Nordea covered bond issuance entities (MCIs) are covered by Nordea's updated 2022 Nordea green funding framework



<sup>4</sup> \* The figures in Nordea Kredit only include capital centre 2 (SDRO). Nordea Kredit no longer reports for CC1 (RO), as this capital centre only accounts for a minor part (<1%) of the outstanding volume of loans and bonds

# Nordea Mortgage Bank Plc – overview

Q2 2023

- 100% owned subsidiary of Nordea Bank Abp - the largest Nordic financial institution
- Operates as a mortgage credit institution with the main purpose of issuing covered bonds
- Issuing covered bonds according to the Finnish covered bond legislation;
  - Legacy bonds - old Covered Bond Act (688/2010), secured by Covered Pool I
  - New covered bonds - new Mortgage and Covered bond Act (151/2022), secured by Covered Pool II
- Market share of Nordea ~30% of the Finnish mortgage market (housing loans)
- Acting in a healthy and conservative Finnish housing market
- Dedicated liquidity line provided by Nordea Bank Abp to manage daily cash needs and ensure compliance with external and internal requirements regarding liquidity management
- Covered bonds rated Aaa by Moody's

## 2. Cover pool characteristics



# Cover pool key characteristics

Q2 2023

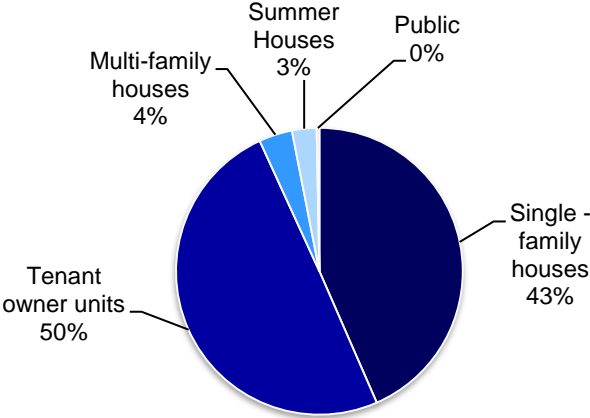
Cover pool summary	Cover pool 1 (Legacy)	Cover Pool 2 (New)
<b>Pool notional</b>	EUR 21.6bn	EUR 4.6bn
<b>Outstanding Covered Bonds</b>	EUR 18.1bn	EUR 3.0bn
<b>Cover pool content</b>	Mortgage loans secured by residential property. Loans guaranteed by public sector	Mortgage loans secured by residential property. Loans guaranteed by public sector
<b>Geographic distribution</b>	Throughout Finland with concentration in urban areas	Throughout Finland with concentration in urban areas
<b>Asset distribution</b>	99.7% residential, 0.3% public sector	99.7% residential, 0.3% public sector
<b>Weighted average LTV*</b>	51.5% (indexed, calculated per property)	54.9% (indexed, calculated per property)
<b>Average loan size*</b>	EUR 78.7k	EUR 91.1k
<b>Over collateralisation, OC</b>	19.5%	54.0%
<b>Rate type**</b>	Fixed rate 1.1%, Floating rate 98.9%	Fixed rate 1.1%, Floating rate 98.9%
<b>Amortisation**</b>	Bullet/ interest only 3.4%, Amortising 96.6%	Bullet/ interest only 3.4%, Amortising 96.7%
<b>Substitute assets</b>	None	None
<b>Pool type</b>	Dynamic	Dynamic
<b>Loans originated by</b>	Nordea Bank Abp. (as of 1 October 2018)	Nordea Bank Abp. (as of 1 October 2018)

# Cover pool key characteristics (2)

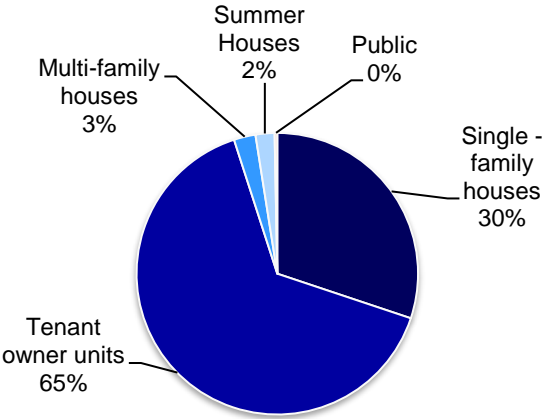
Q2 2023

Cover pool balance by loan category

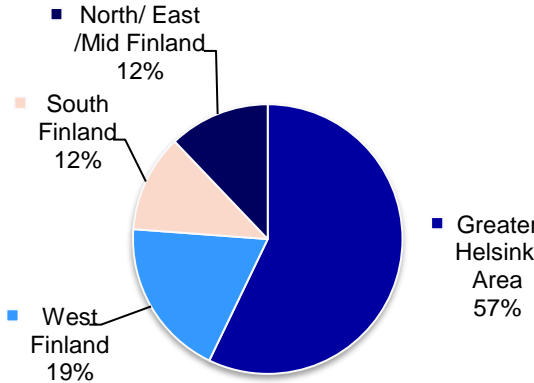
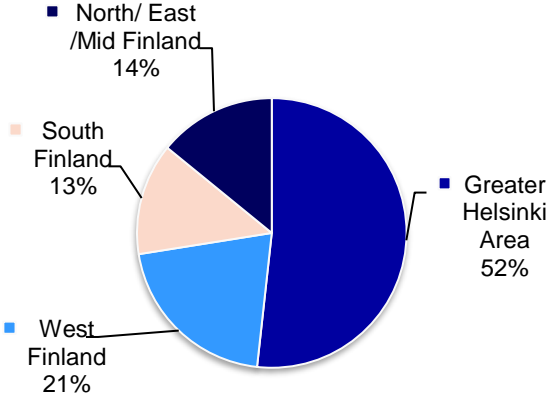
Cover Pool 1



Cover Pool 2



Cover pool balance by region





### 3. Asset quality

# Loan To Value (LTV)

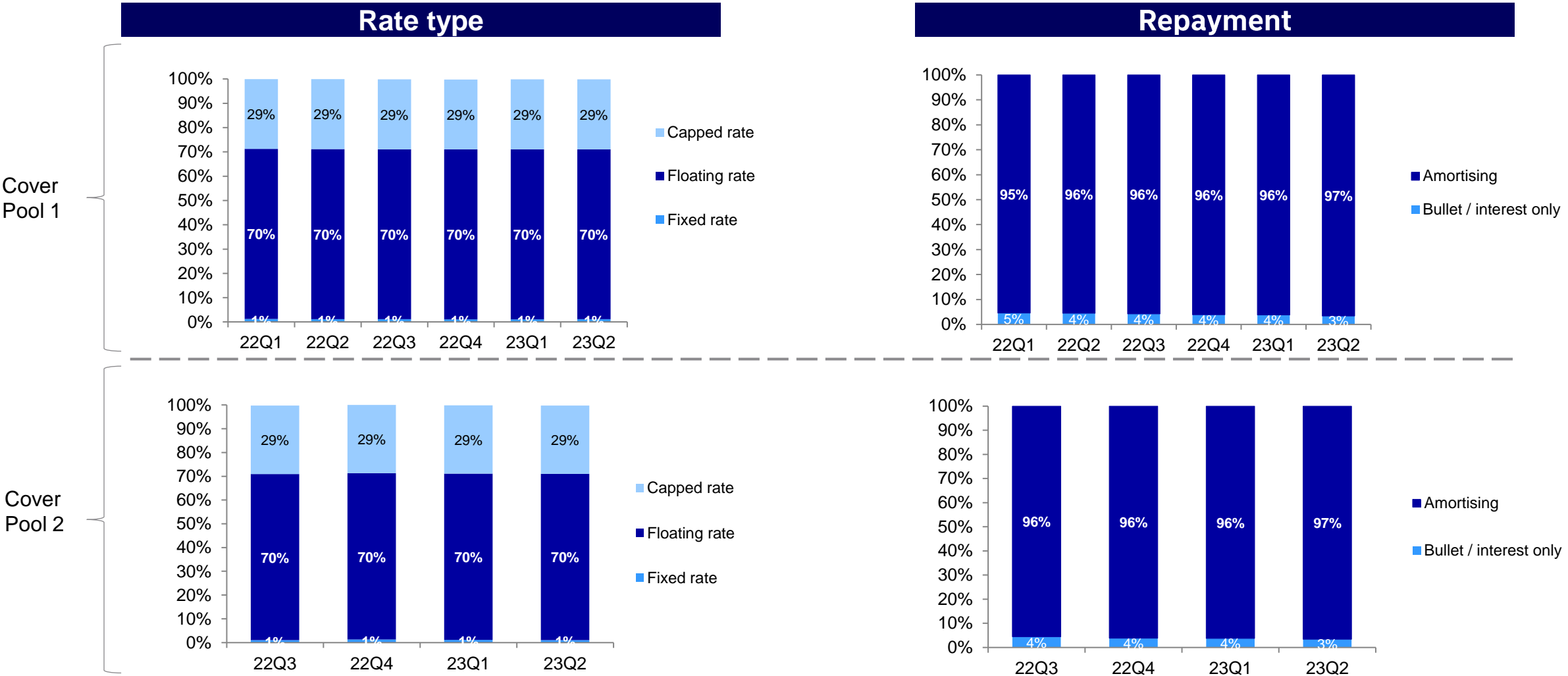
Continuous distribution where each loan can exist in multiple buckets

Q2 2023

Cover Pool 1 - Weighted Average LTV – Indexed	51.5%	
LTV buckets	Nominal (EURbn)	% Residential Loans
>0 - <=40 %	16.3	75%
>40 - <=50 %	2.3	11%
>50 - <=60 %	1.75	8%
>60 - <=70 %	1.2	6%
Total	21.5	100%
Cover Pool 2 - Weighted Average LTV - Indexed	54.9%	
LTV buckets	Nominal (EURbn)	% Residential Loans
>0 - <=40 %	3.4	73%
>40 - <=50 %	0.5	10%
>50 - <=60 %	0.4	8%
>60 - <=70 %	0.3	6%
>70 - <=80 %	0.2	4%
Total	4.6	100%

# Loan structure

Q2 2023



# Underwriting criteria

- Residential mortgage loans
  - Nordea's credit decision is based on the borrower's repayment 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

## 4. Covered bond framework

# Finnish covered bond framework

	Cover pool 1 – old until July 2022	Cover pool 2 – new as per July 2022
Legal framework	Finnish Covered Bond Act (statute 688/2010)	Finnish Mortgage Banks and Covered Bonds Act (statute 151/2022)
LTV ratios	Limit on LTV ratio – based on the current value <ul style="list-style-type: none"> <li>• 70% for housing loans (residential property)</li> <li>• 60% for commercial loans (commercial property)</li> </ul>	Limit on LTV ratio – based on the current value <ul style="list-style-type: none"> <li>• 80% for housing loans (residential property)</li> <li>• 60% for commercial loans (commercial property)</li> </ul>
Coverage	Matching cover requirements <ul style="list-style-type: none"> <li>• Total value of the cover pool must be greater than the aggregate outstanding principal amount of the covered bonds</li> <li>• Net present value of the cover pool must be at least 2% above the net present value of the liabilities under the covered bonds</li> </ul>	Overcollateralization requirements <ul style="list-style-type: none"> <li>• Value of the cover pool must be at least 2% above the value of the payment liabilities under the covered bonds calculated on a net present value basis or on a nominal value basis depending on which method provides a lower value for the cover pool</li> <li>• In addition, the overcollateralization must cover the estimated winding-down costs of the covered bonds</li> </ul>
Liquidity risk mitigation	Liquidity requirements <ul style="list-style-type: none"> <li>• Average maturity of the covered bonds must not exceed the average maturity of the loans entered in the register</li> <li>• 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</li> </ul>	Liquidity Buffer Requirement <ul style="list-style-type: none"> <li>• Cover pool must also include liquid assets in the amount that covers the maximum net liquidity outflow during the next following period of 180 days</li> <li>• When determining the net liquidity outflow, the issuer may use the soft bullet maturity date as the date when the covered bond matures</li> </ul>

## Finnish covered bond framework, continued

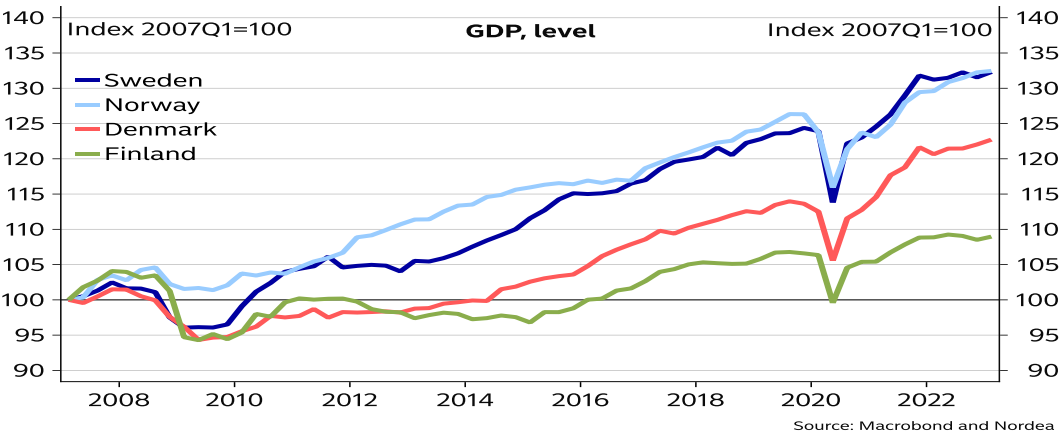
	Cover pool 1 & 2
Registration	<ul style="list-style-type: none"> <li>• Collateral assets remain on the balance sheet of the issuer</li> <li>• Covered bonds, collateral and relevant derivative contracts are entered in a separate register</li> </ul>
Bankruptcy remoteness	Isolation of registered collateral assets and registered derivatives from all other assets and liabilities of the insolvent issuer
Preferential claim	Holders of covered bonds together with counterparties of registered derivatives and creditors of management and settlement costs in bankruptcy would rank pari passu and have a preferential claim to the cover pool assets
Post-bankruptcy procedures	<ul style="list-style-type: none"> <li>• 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)</li> <li>• The cover pool, derivatives and covered bonds to be kept separated from the bankruptcy estate and remain outstanding until their maturity unless the coverage requirements can no longer be met, in which case the bankruptcy administrator will upon request or consent of the supervisor accelerate the covered bonds and liquidate the cover pool assets</li> <li>• Covered bond creditors, counterparties of registered derivatives and creditors of management and settlement costs would rank pari passu and have a preferential claim on the proceeds of the liquidation of the cover pool</li> </ul>



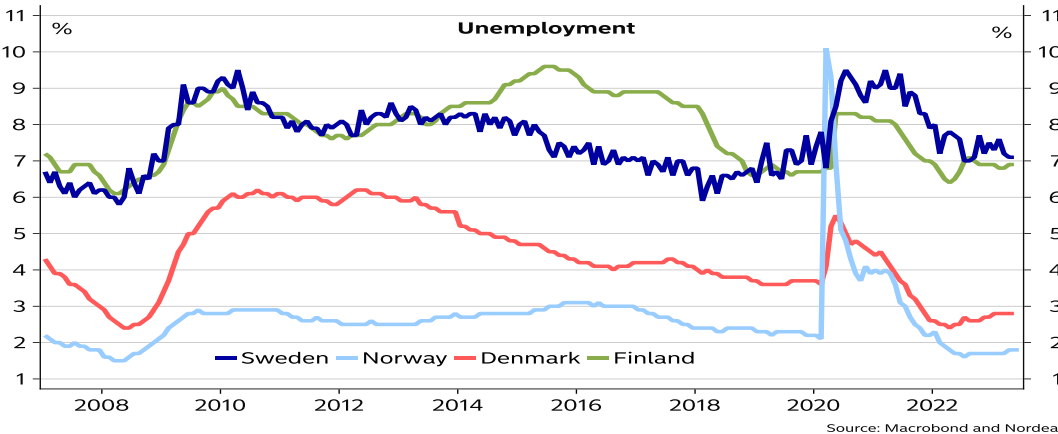
## 5. Macroeconomy

# Resilient economies are facing headwinds

## GDP development



## Unemployment rate



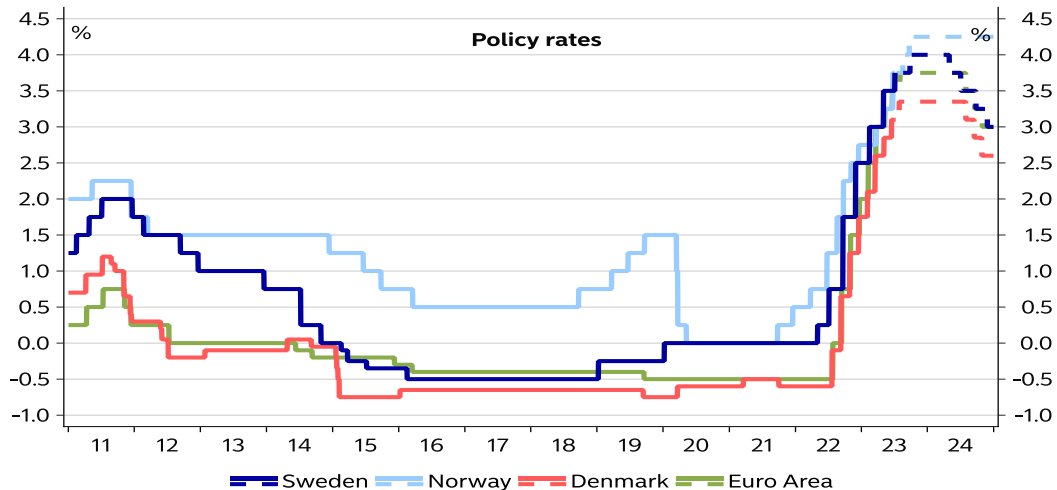
## GDP, % y/y, Economic Outlook May 2023

Country	2021	2022	2023E	2024E
Denmark	6.8	2.7	0.5	1.5
Finland	3.2	1.6	0.0	1.0
Norway (mainland)	4.2	3.8	0.5	0.5
Sweden	6.0	2.8	-1.2	0.4

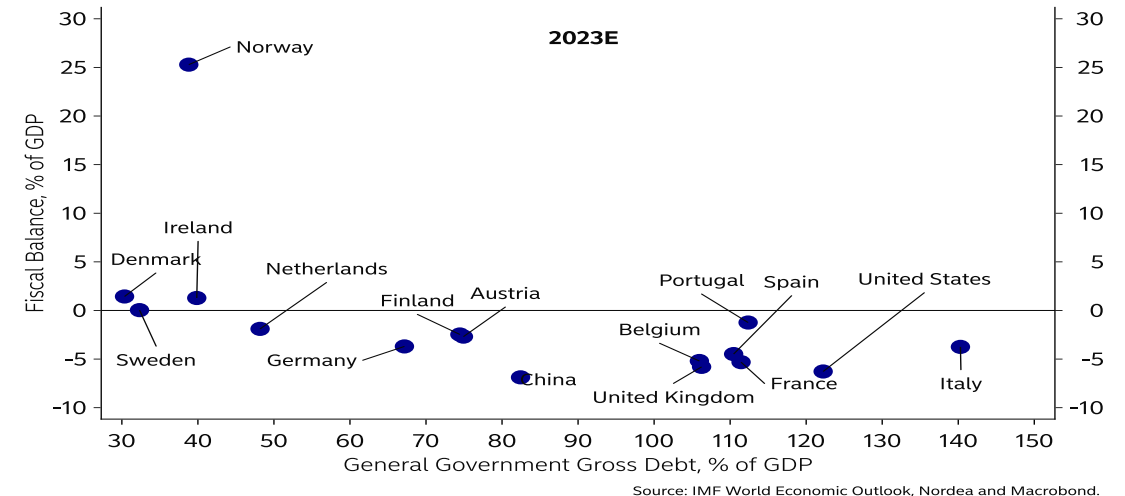
- The Nordic economies have been among the best performing economies globally since the pandemic.
- However, on the back of surging inflation and interest rates, coupled with weaker global growth, the resilient Nordic economies are facing headwinds.
- The stronger than anticipated labour market is set to weaken as economic growth dampens.

## Higher for longer interest rates

### Policy rates



### Public balance/debt, % of GDP, 2023E (IMF)

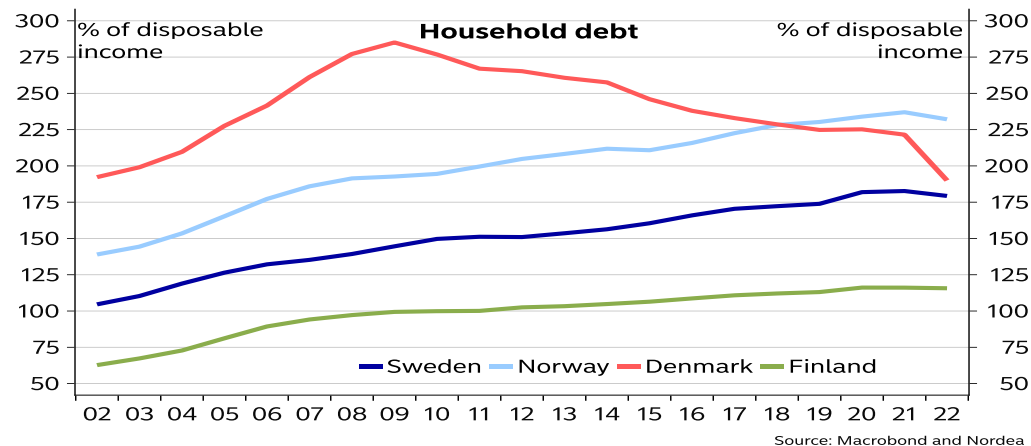


- Central banks are continuing to hike interest rates to combat the high inflation.
- Norges Bank has hiked from 0 to 3.75% since autumn 2021 and are expected to continue until they reach 4.25% in September 2023.
- The Swedish Riksbank raised the policy rate to 3.75% in June and are expected to hike one more time to 4.00% in September 2023.
- The ECB delivered a 25bp hike in June to 3.50%. We predict that the policy rate in the Euro Area and Denmark will peak in July at 3.75% and 3.35% respectively.
- The ECB and the Riksbank are reducing the size of their balance sheets.
- Solid public finances will help Nordic governments to handle the economic slowdown ahead.

# Households

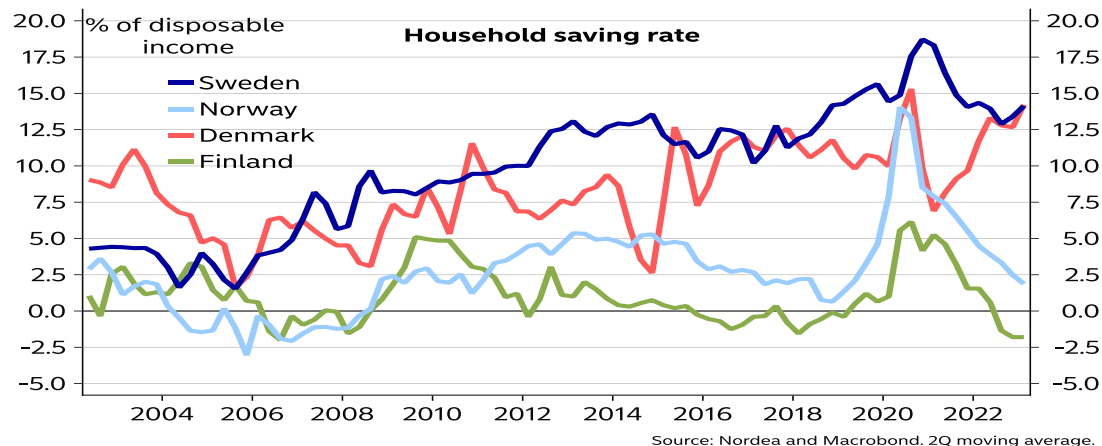
## Feeling the squeeze

### Household debt

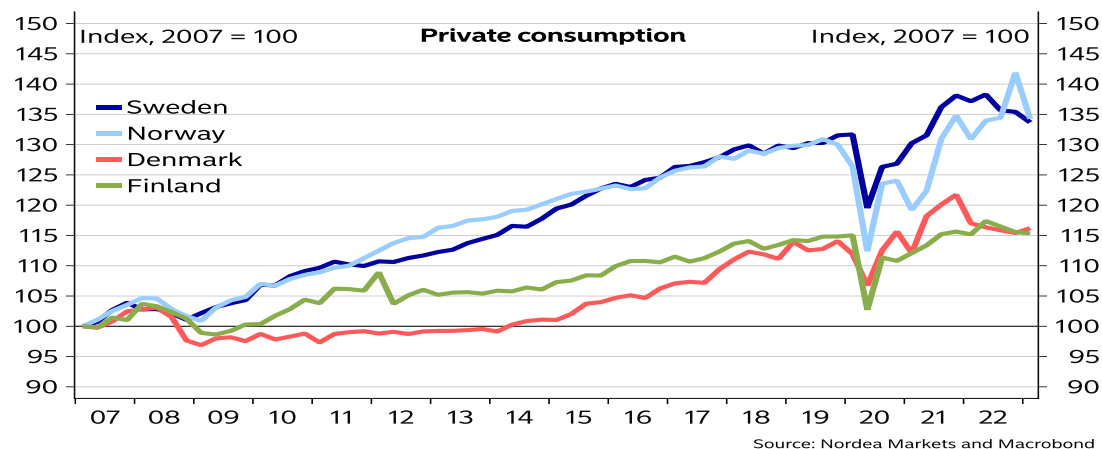


- High and broad-based inflation and still rising interest rates continues to pressure households' purchasing power. Households are feeling the squeeze and consumption is set to decline this year in all the Nordic countries.
- Household debt is beginning to decrease as interest rates continues to rise.

### Household savings



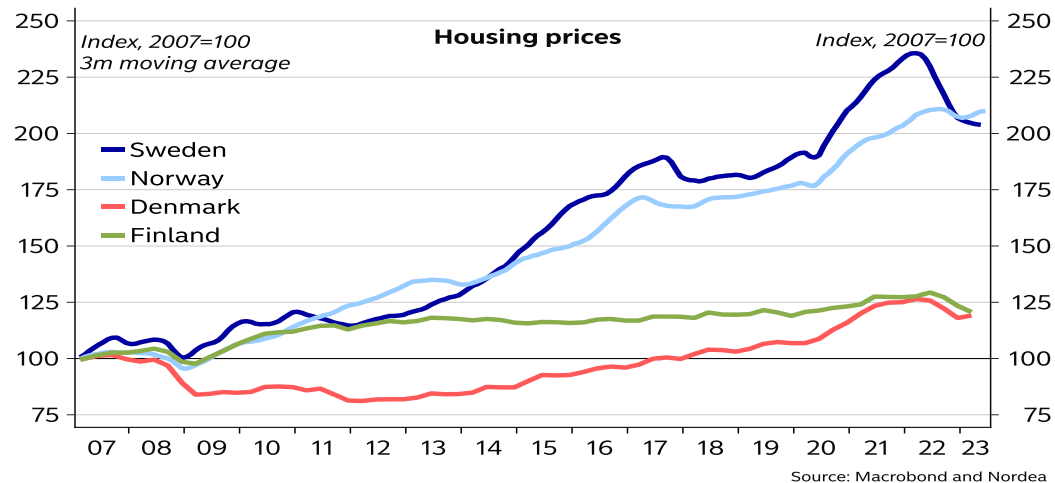
### Private consumption



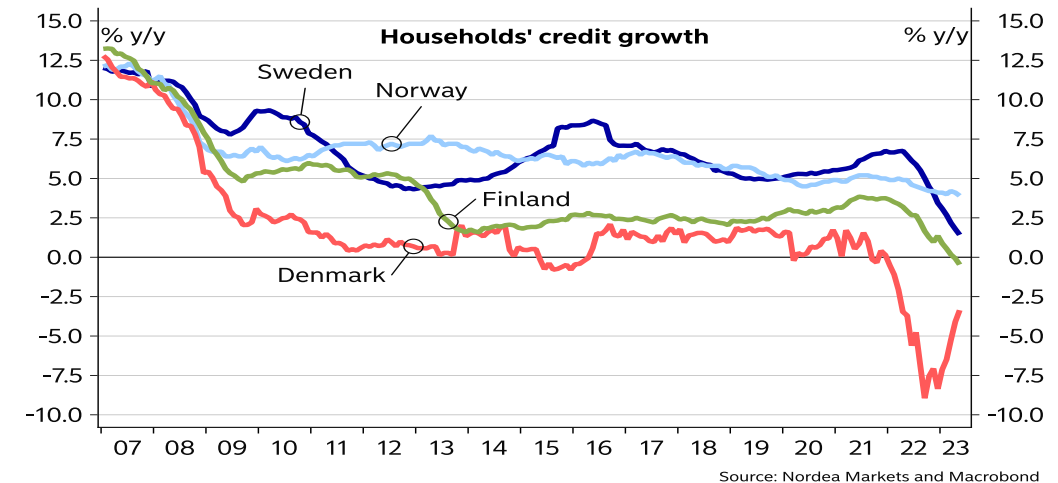
## Housing markets

# Higher interest rates imply downside risks on the housing market

### Housing prices



### Households' credit growth



- Housing prices rose to record-high levels in all the Nordic countries in 2022.
- Housing prices have fallen in all Nordic countries on the back of surging borrowing costs. However, prices have recently started to stabilize.
- The risks are still on the downside for housing prices going forward, accounting for the higher interest rates.
- Households' credit growth in the Nordic countries, except for Denmark, have been on a downward trend the past couple of quarters. In May 2023, both Finland and Denmark had negative credit growth.

## 6. Further information

# Nordea Mortgage Bank – outstanding benchmark covered bonds

Q2 2023

Breakdown by ISIN					
Cover Pool	ISIN	Currency	Amount (EURm)	Maturity	Coupon
1	XS1522968277	EUR	1 000	21/11/2023	0.25%
1	XS1132790442	EUR	1 000	05/11/2024	1%
1	XS1825134742	EUR	1 000	23/05/2025	0.625%
1	XS2157194643	EUR	8 500	16/11/2025	FRN
2	XS2561746855	EUR	1 000	01/12/2025	2.625%
1	XS1963717704	EUR	1 500	18/03/2026	0.25%
1	XS1204140971	EUR	1 000	17/03/2027	0.625%
1	XS2013525410	EUR	1 000	18/06/2027	0.125%
1	XS2463702907	EUR	1 500	30/03/2029	1%
2	XS2589317697	EUR	1 000	20/02/2030	3%
2	XS2532376949	EUR	1 000	14/09/2032	2.5%
1	XS1784071042	EUR	750	28/02/2033	1.375%
Total			20 250		



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