

Nordea

Nordea Mortgage Bank Covered Bonds

Q3 2020 Debt investor presentation

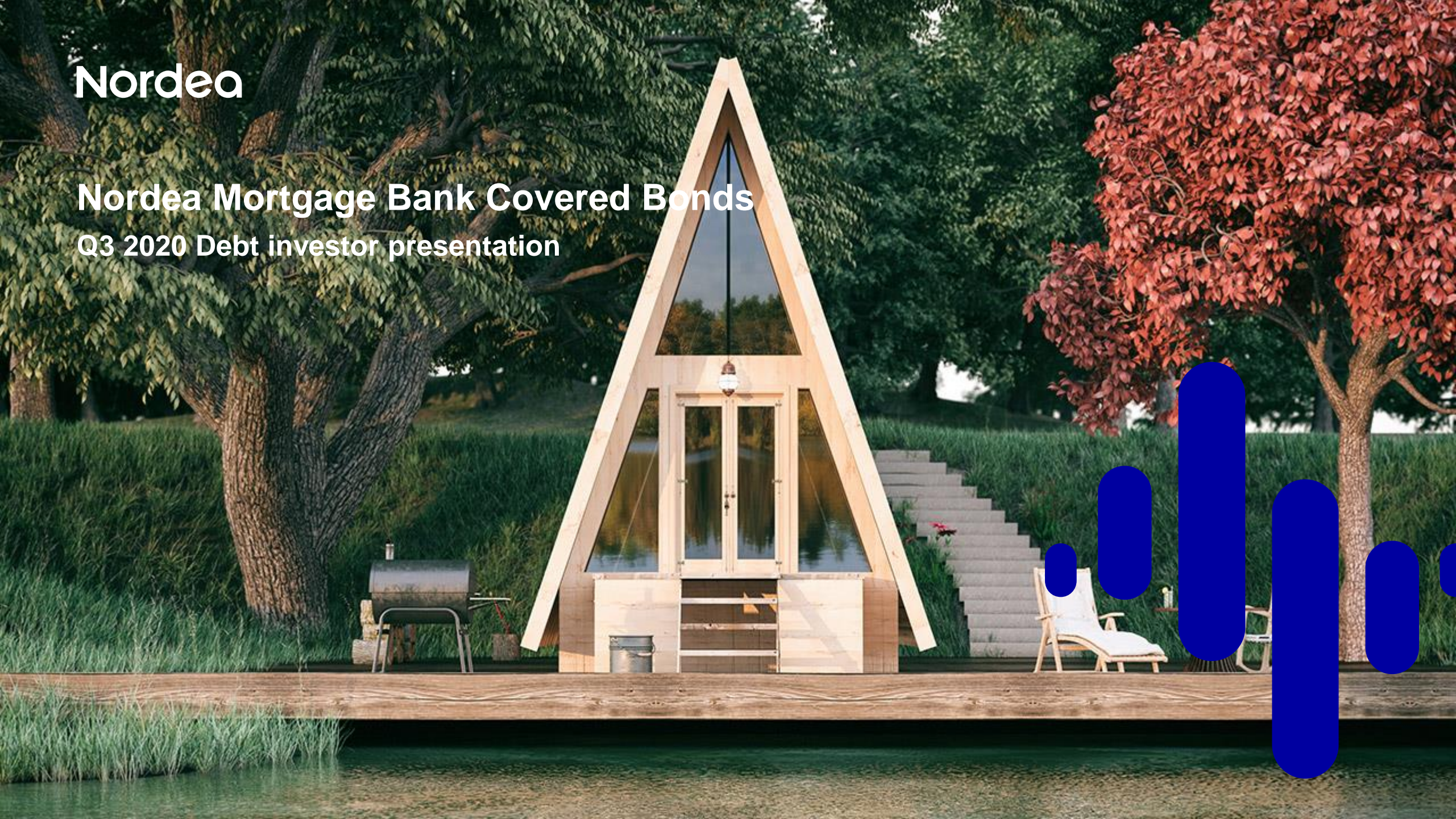


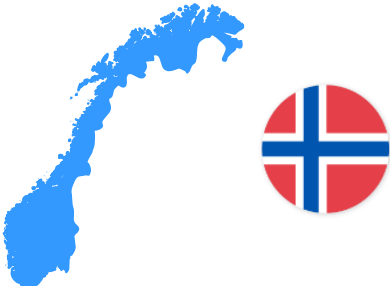
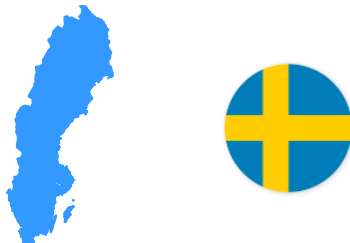

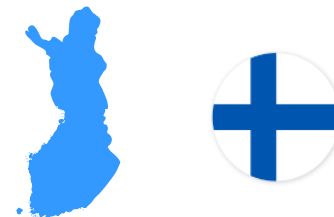
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1. In brief

Nordea covered bond operations

Q3 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 16.6bn (eq.)	EUR 55.3bn (eq.)	Balance principle	EUR 22.6bn
	Covered bonds outstanding	EUR 13.2bn (eq.)	EUR 34.2bn (eq.)	EUR 57.9n (eq.)*	EUR 19.8bn
	OC	25%	62%	8%*	14%
	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



Nordea Mortgage Bank Plc – overview

Q3 2020

- 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
- 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 ~29% 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

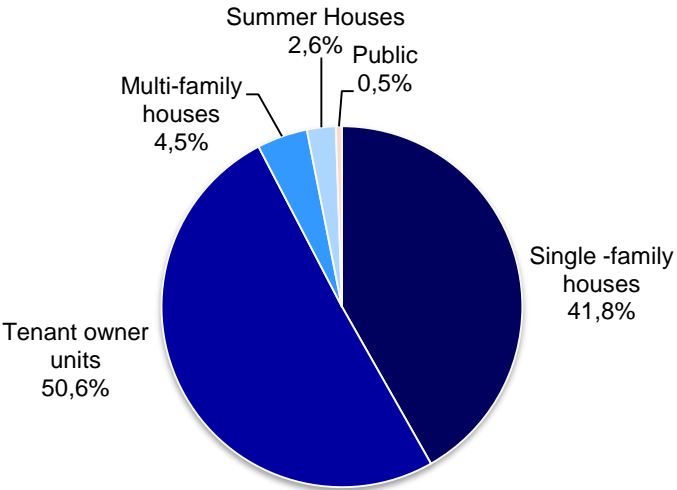
Q3 2020

Cover pool summary	
Pool notional	EUR 22.6bn
Outstanding Covered Bonds	EUR 19.8bn
Cover pool content	Mortgage loans secured by residential property. Loans guaranteed by public sector
Geographic distribution	Throughout Finland with concentration in urban areas
Asset distribution	99.5% residential, 0.5% public sector
Weighted average LTV*	50.4% (indexed, calculated per property)
Average loan size*	EUR 69.1k
Over collateralisation, OC	14%
Rate type**	Fixed rate 1.3%, Floating rate 98.7% (30.4% capped)
Amortisation**	Bullet/ interest only 6.7%, Amortising 93.3%
Substitute assets	None
Pool type	Dynamic
Loans originated by	Nordea Bank Abp (as of 1 October 2018)

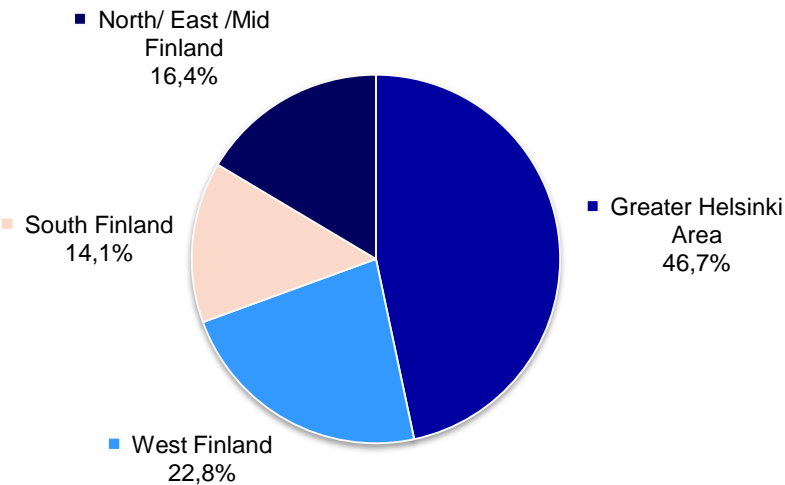
Cover pool key characteristics (2)

Q3 2020

Cover pool balance by loan category



Cover pool balance by region



3. Asset quality

Loan To Value (LTV)

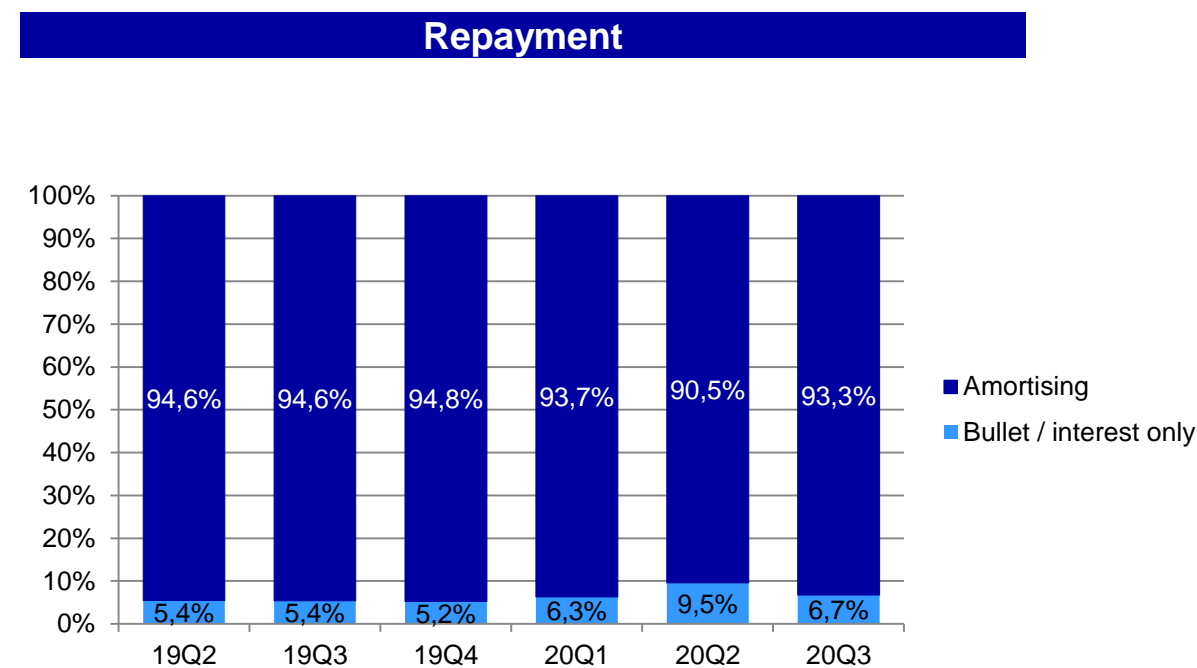
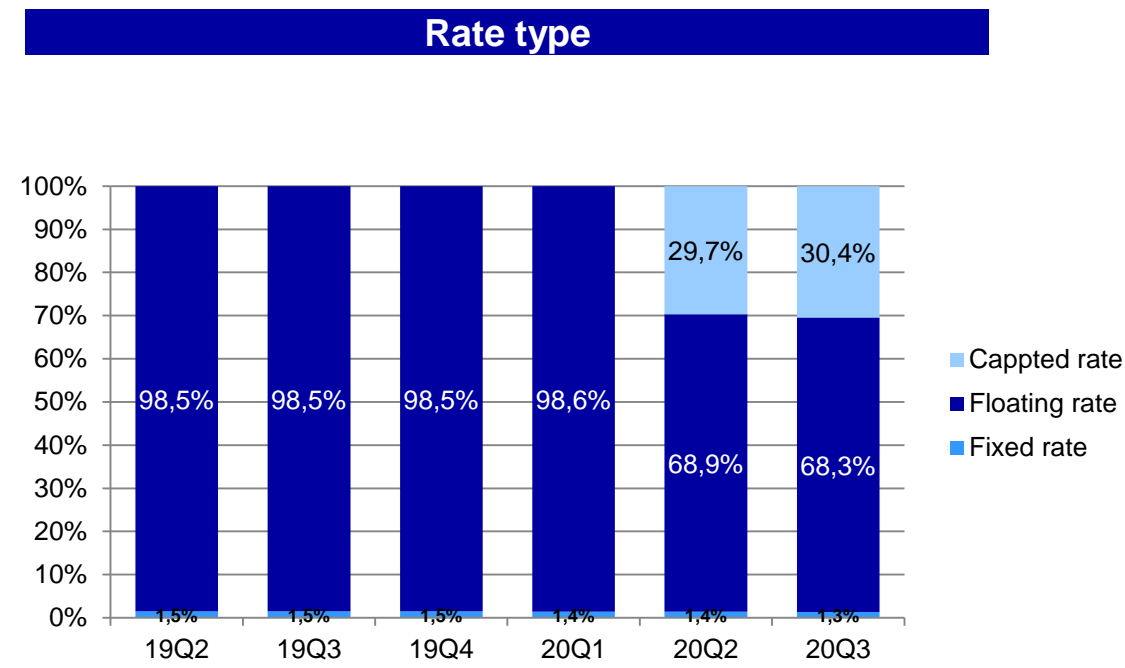
Continuous distribution where each loan can exist in multiple buckets

Q3 2020

Weighted Average LTV – Unindexed		51.8%	
LTV buckets	Nominal (EURm)	% Residential Loans	
>0 - <=40 %	16 926,4	75,3%	
>40 - <=50 %	2 450,8	10,9%	
>50 - <=60 %	1 850,6	8,2%	
>60 - <=70 %	1 243,9	5,5%	
Total	22 471,7	100%	
Weighted Average LTV - Indexed		50.4%	
LTV buckets	Nominal (EURm)	% Residential Loans	
>0 - <=40 %	17 221,5	76,6%	
>40 - <=50 %	2 358,2	10,5%	
>50 - <=60 %	1 740,8	7,7%	
>60 - <=70 %	1 151,2	5,1%	
Total	22 471,7	100%	

Loan structure

Q3 2020



Underwriting criteria

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- 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

Q3 2020

- 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)

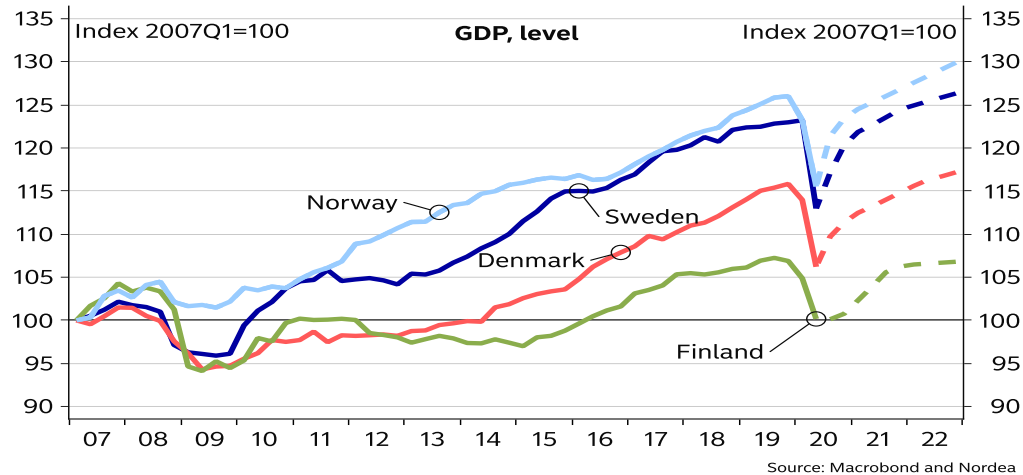
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- Bankruptcy remoteness and preferential claim
 - Isolation of registered collateral assets, registered derivatives from all other assets and liabilities of the insolvent issuer
 - Holders of covered bonds together with counterparties of registered 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

5. Macro

Nordic economies – a solid rebound

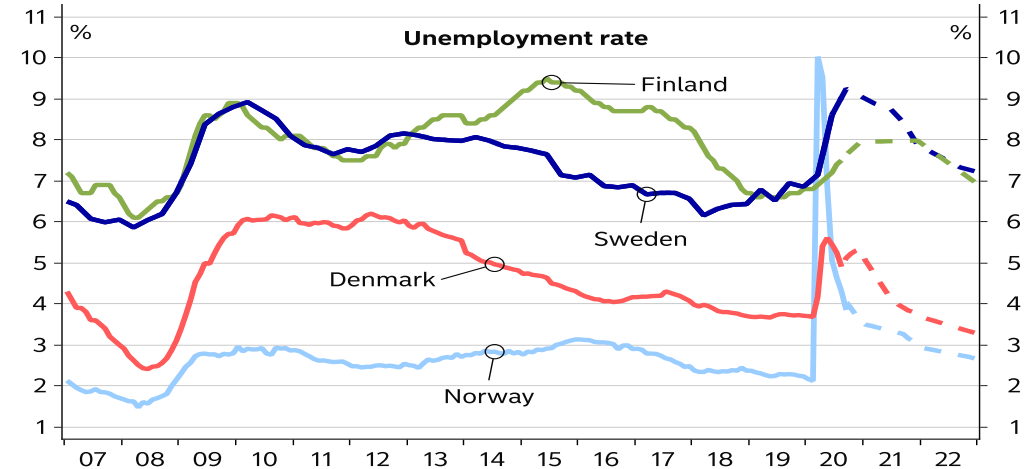
GDP development



Comments

- The Nordic economies are experiencing a solid rebound after the historically large setback in the first half of 2020 due to the COVID-19. However, the pandemic is not yet over, and risks remain elevated.
- The Nordics have managed to control the virus relatively quickly and in combination with rising household confidence, the economic prospects in the region look rather positive from a global perspective.
- The Swedish economy is seeing a broad recovery and Finland has fared better than expected. The Danish economy is in better shape now compared to past crises, and the interest rate has been a powerful tool in Norway.

Unemployment rate

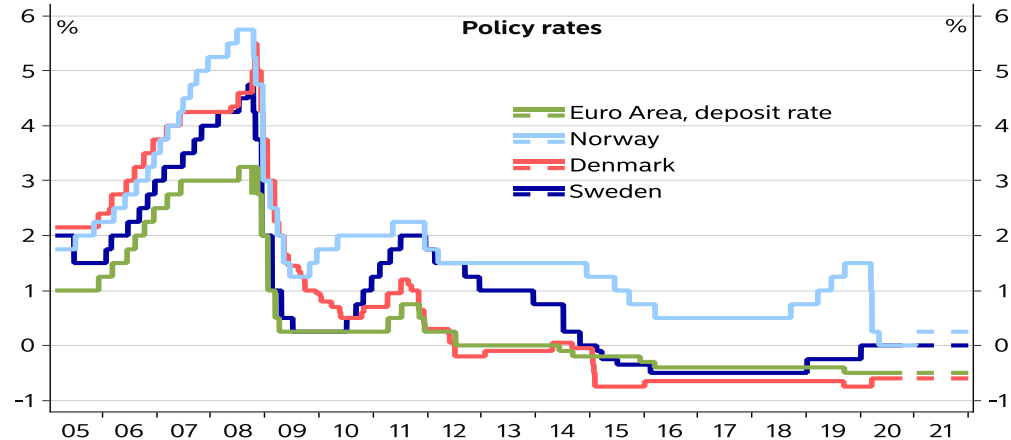


GDP, baseline scenarios

Country	2018	2019	2020E	2021E	2022E
Denmark	2.4	2.3	-4.5	3.0	2.5
Finland	1.5	1.1	-5.0	3.0	2.0
Norway	2.2	2.3	-3.5	4.0	2.5
Sweden	2.1	1.3	-3.5	4.0	2.0

Nordic rates – low for very long

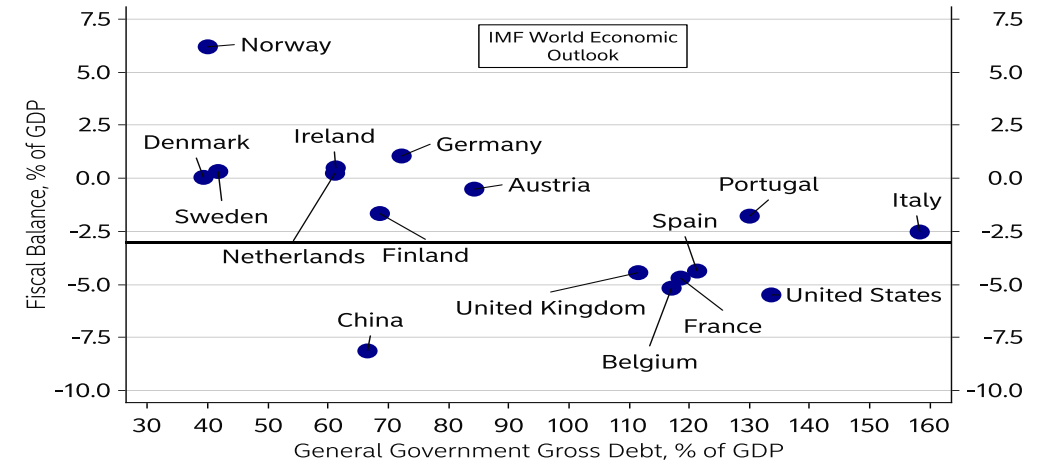
Policy rates



Comments

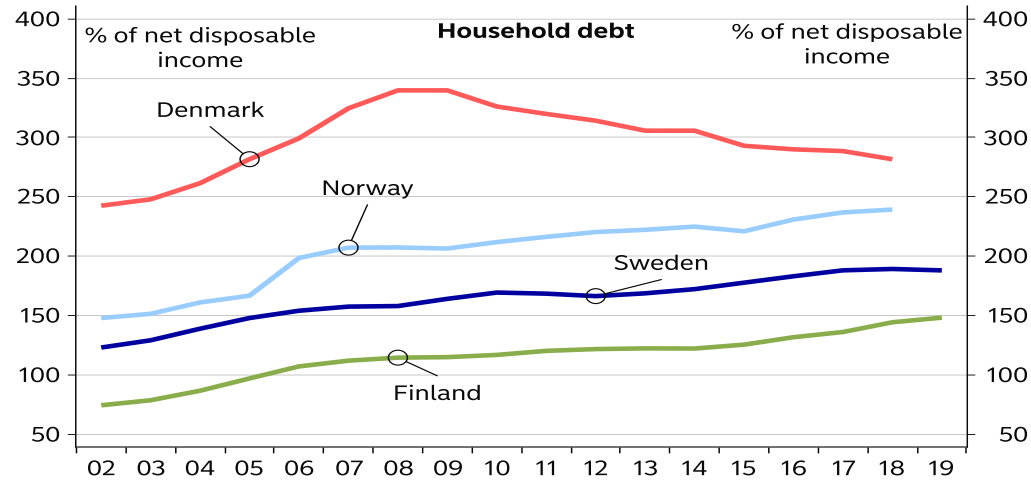
- Norway saw three rate cuts totalling 150 bp in the beginning of the crisis. Policy rates have been left unchanged in Sweden and the Euro Area while Denmark hiked the interest rate marginally due to technical reasons. Monetary and fiscal policy will remain accommodative for a long time and we expect policy rates to be left unchanged throughout the forecast period.
- The Riksbank and ECB have launched new large-scale asset purchase programmes (QE) as a response to the corona crisis. The ECB is expected to purchase financial assets to a corresponding 12 percent of Euro Area GDP this year, while the Riksbank's purchases amount to 8 percent of GDP. All together, global ultra-expansionary monetary policy has contributed to calming and stabilizing international markets amidst the crisis.
- Nordic public finances were in good shape prior to the crisis and governments stood ready to act swiftly. Lower revenue and increased spending will lead to large fiscal deficits this year, hence prompting governments debt/GDP ratios to balloon. However, Nordic public finances will remain in a favorable position and are well-equipped to handle the long-term consequences of the pandemic.

Public balance/debt, % of GDP, 2021E



Households remain resilient

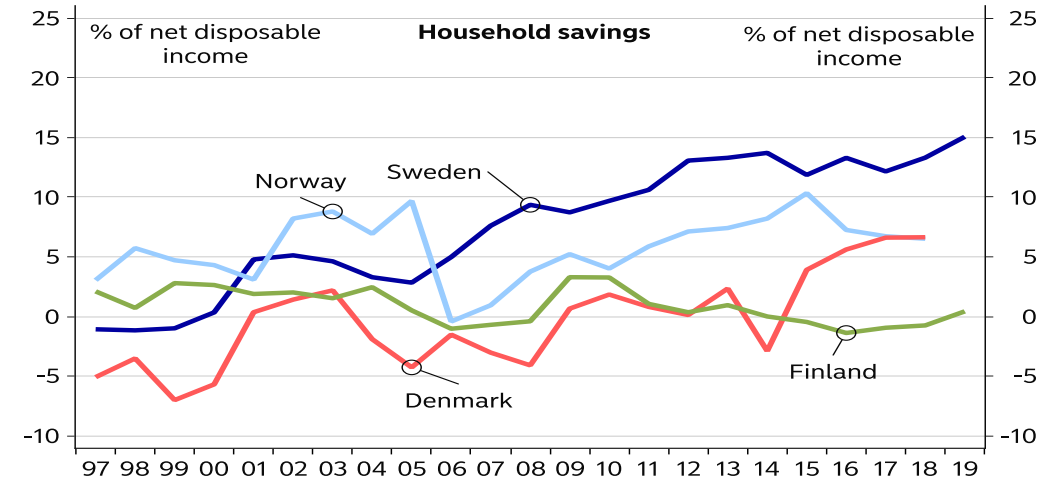
Household debt



Comments

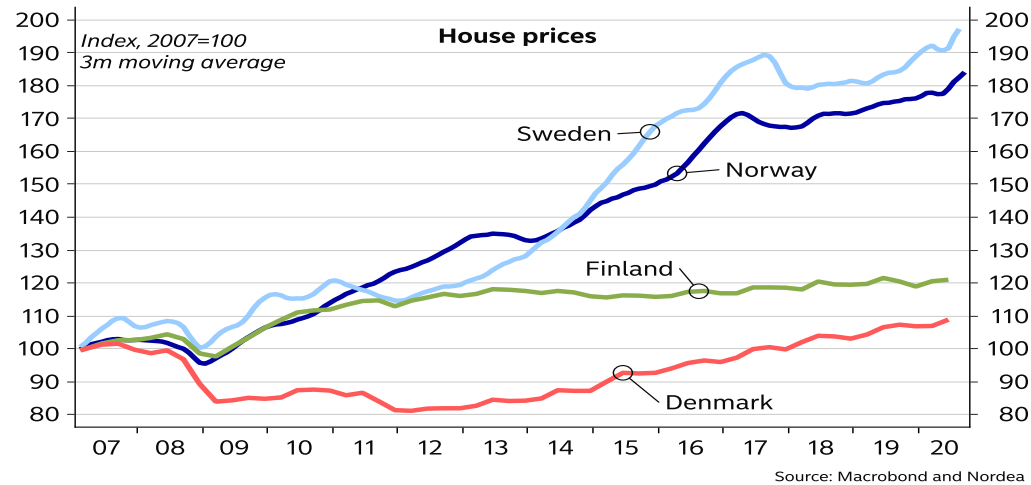
- Despite the high debt levels amongst households, low interest rates for longer continue to support credit growth, which in turn helps to stabilize the housing market. There is some uncertainty related to households' elevated indebtedness, but this is not deemed to create problems over our forecast period.
- Early labor market measures, automatic stabilizers and other measures to stimulate demand help to soften the blow on households. Robust public finances prior to the crisis increases 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

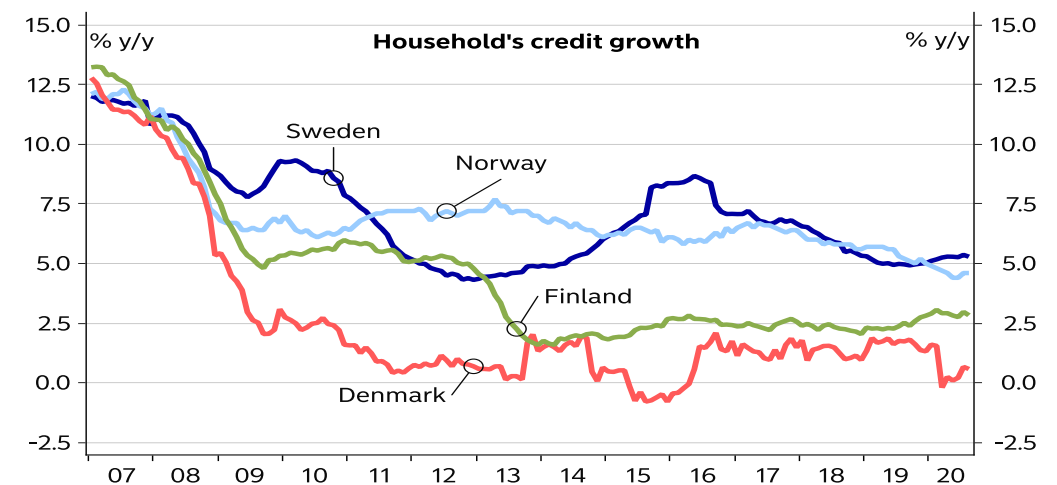


House price development in the Nordics

House prices



Households' credit growth



Comments

- In **Sweden**, the housing market has rebounded, and prices were back at pre-crisis levels already during the summer. With low-anchored interest rates and a slightly more positive outlook for the labour market, much points to a continued rise in prices during the autumn. **Denmark's** housing market has been surprisingly strong, underpinned by declining financing costs. However, an expected step-up in supply, seasonal effects and an increase in unemployment will dampen the market towards year-end. Primarily due to recent rate cuts by Norges Bank but also thanks to a stronger household confidence, the housing market in **Norway** is experiencing a strong trend. In **Finland**, the housing market has picked up during the summer, but prices have remained flat.
- If the economic outlook would worsen, key risks are found in the housing market as steep declines would cause severe stress in the financial system and result in long-term stagnation of the economy. Holiday homes are particularly price-sensitive, but the negative effect is expected to be partly offset by increased demand as a result of changes in travel patterns.

6. Further information

Nordea Mortgage Bank – outstanding benchmark covered bonds

Breakdown by ISIN				
ISIN	Currency	Amount (EURm)	Maturity	Coupon
XS0591428445	EUR	1 000	2021-02-10	4
XS1554271590	EUR	1 500	2022-01-24	0,025
XS2157194643	EUR	6 000	2022-05-16	FRN
XS1308350237	EUR	1 250	2022-10-19	0,625
XS1784067529	EUR	1 250	2023-02-28	0,25
XS1522968277	EUR	1 000	2023-11-21	0,25
XS1132790442	EUR	1 000	2024-11-05	1
XS1825134742	EUR	1 000	2025-05-23	0,625
XS1963717704	EUR	1 500	2026-03-18	0,25
XS1204140971	EUR	1 000	2027-03-17	0,625
XS2013525410	EUR	1 000	2027-06-18	0,125
XS1784071042	EUR	750	2033-02-28	1,375
Total		18 250		

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