

Nordea



Nordea Mortgage Bank Covered Bonds Investor Presentation Q4 2016

Nordea Mortgage Bank Plc – new Finnish covered bond issuing entity

- 100% owned by Nordea Bank AB (publ)
- 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 approx. 30% of the Finnish mortgage market (housing loans)
- Acting in a healthy Finnish housing market
- Covered bonds to be issued are expected to be rated Aaa by Moody's, outstanding covered bonds are rated Aaa
- Finnish cover pool transferred to Nordea Mortgage Bank from Nordea Bank Finland in demerger
- Dedicated liquidity line provided by Nordea Bank Finland to manage daily cash needs and ensure compliance with external and internal requirements regarding liquidity management

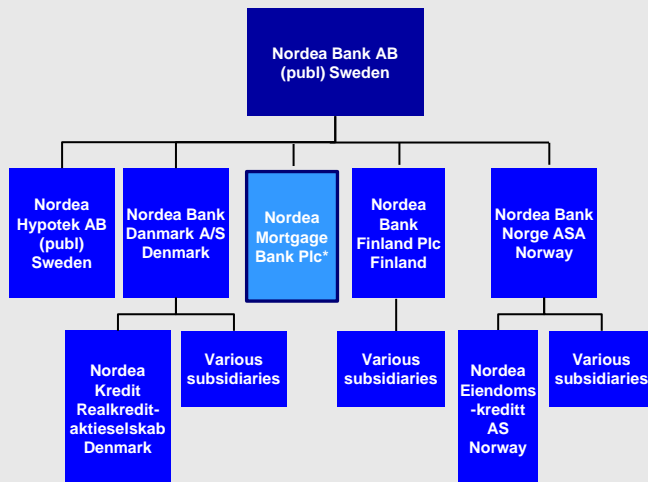
Nordea Mortgage Bank Plc (NMB)

- NMB created through a demerger of Nordea Bank Finland on 1st October:
 - A consequence of the planned legal change of the Nordea Group (where the subsidiaries will become branches of Nordea Bank AB)
 - NMB was created as a mortgage bank to continue issuance of covered bonds out of Finland
- Alignment of covered bond setup across the Nordic countries:
 - One covered bond issuing entity in each country
 - To finance mortgage assets originated locally in each of the countries
- Business as usual for the Finnish mortgage financing:
 - Same cover pool and assets as before
 - No changes in loan origination and inclusion into cover pool
 - Same covered bond legislation
 - Same covered bond rating: Moody's Aaa
 - EUR 25bn covered bond programme that materially corresponds to the NBF programme
 - Covered bonds are expected to remain eligible collateral for Eurosystem central banks

Organisational chart – Nordea Group and Nordea Mortgage Bank Plc

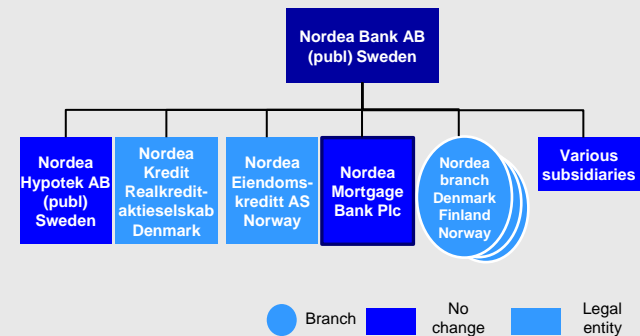
Previous Group structure

Group Structure after demerger*



Current Group structure

Group structure after mergers



Cover pool key characteristics

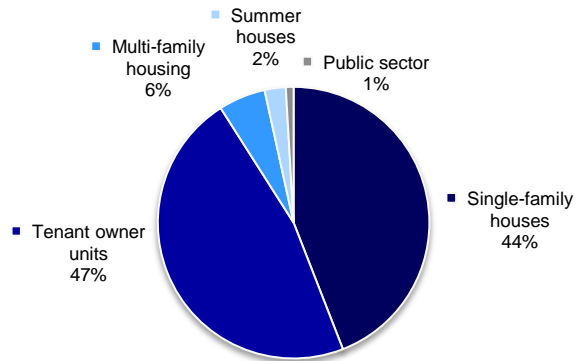
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Pool notional	EUR 22.0bn
Cover pool content	Mortgage loans secured by residential or commercial property. Loans guaranteed by public sector.
Geographic distribution	Throughout Finland with concentration in urban areas
Asset distribution	99% residential, 1% public sector
Weighted average LTV	49.7% (indexed, calculated per property)
Average loan size	EUR 64k (weighted average)
Over collateralisation, OC	36%
Rate type	Fixed rate 2%, Floating rate 98%
Substitute assets	None
Pool type	Dynamic
Loans originated by	Nordea Bank Finland Plc

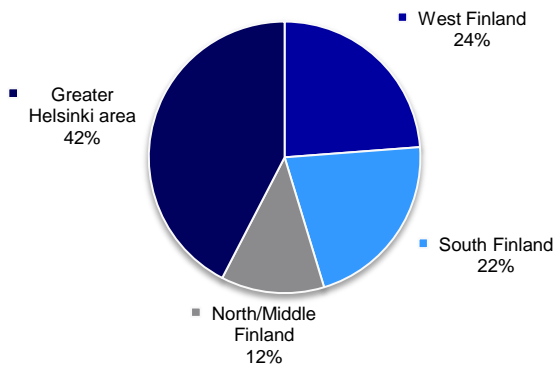
Cover pool key characteristics – Nordea Mortgage Bank

Q4 2016

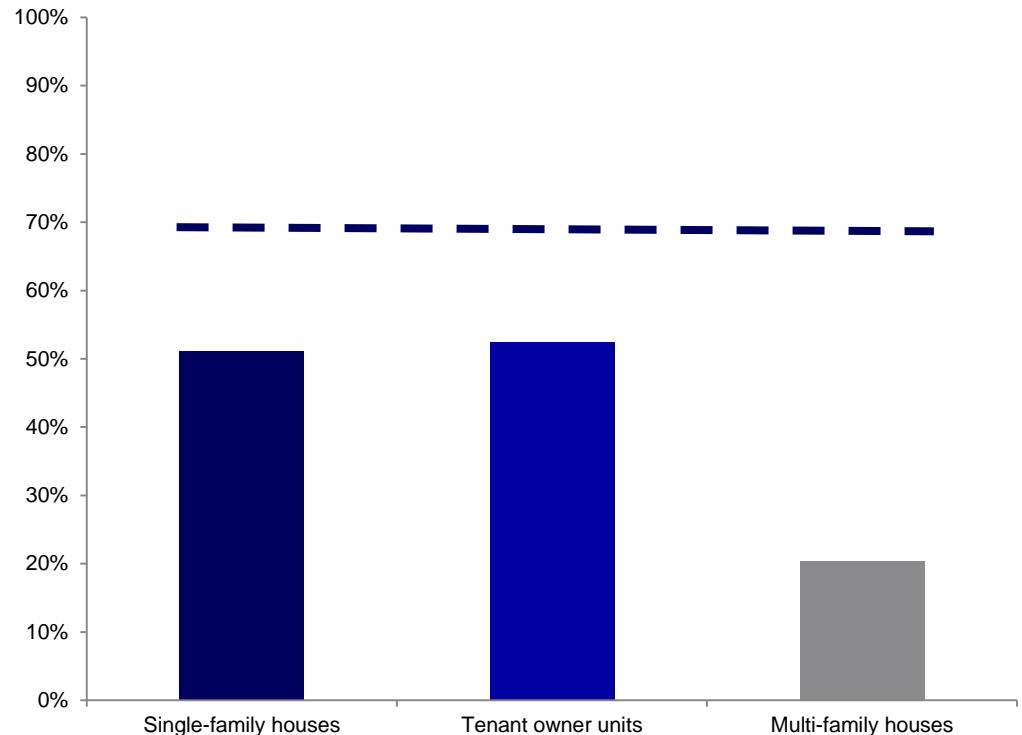
Cover pool balance by loan category



Cover pool balance by geographical area



Weighted Average LTV - Indexed



- Pool mainly includes single-family houses and tenant owner units
- The main part of real estates are located in greater Helsinki but are otherwise evenly distributed between western, northern and southern part of Finland
- Low WALTVs in the pool

Underwriting criteria – harmonised Nordea Group policy

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

Finnish covered bond framework

- 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)

- 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