Nordea

Second quarter results 2020

Disclaimer

This presentation contains forward-looking statements that reflect management's current views with respect to certain future events and potential financial performance. Although Nordea believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct. Accordingly, results could differ materially from those set out in the forward-looking statements as a result of various factors.

Important factors that may cause such a difference for Nordea include, but are not limited to: (i) the macroeconomic development, (ii) change in the competitive climate, (iii) change in the regulatory environment and other government actions and (iv) change in interest rate and foreign exchange rate levels.

This presentation does not imply that Nordea has undertaken to revise these forward-looking statements, beyond what is required by applicable law or applicable stock exchange regulations if and when circumstances arise that will lead to changes compared to the date when these statements were provided.

Executive summary

- Solid result – continued strong momentum across business areas and countries
  - High activity level kept revenues largely unchanged
  - Increasing volumes in lending and deposits, net commission income impacted by the lockdowns
  - Challenging times have proven the resilience of our business model
- We are progressing according to our plan towards 2022 financial targets
  - Cost to income ratio decreased to 52% - with increasing customer satisfaction
  - Return on equity impacted by loan loss provisions
  - We remain committed to delivering on our business plan and financial targets
- Strong financial position to support our customers and maintain dividend capacity
  - CET1 ratio at 15.8%, 5.6%-points above requirement
- Strong credit quality remains – significant buffer built up in the quarter
  - Full-year 2020 net loan losses projected below EUR 1bn (less than 41bps)
  - Underlying Q2 net loan losses EUR 310m including IFRS 9 model updates
  - New management judgement allowances of EUR 388m in the quarter building up the buffer to EUR 650m – to cover future loan losses

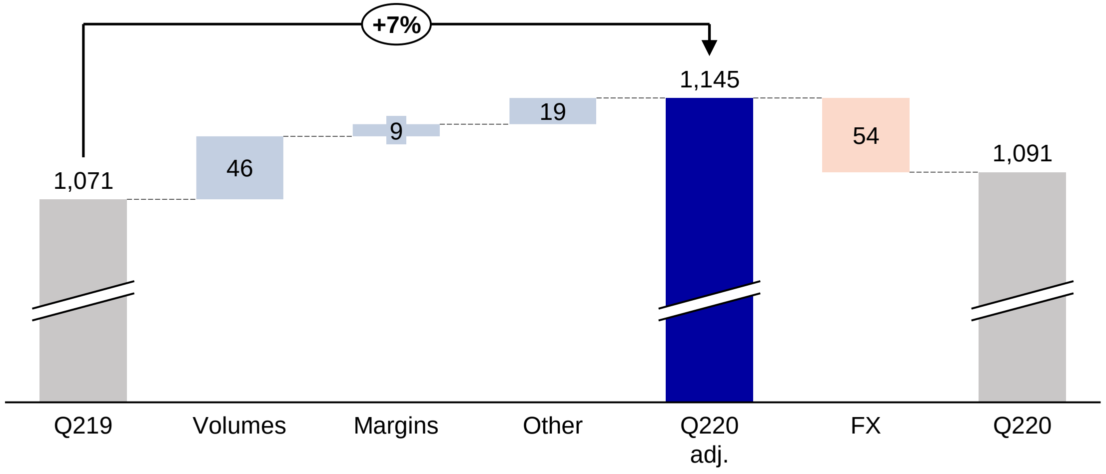
Group quarterly results Q2 2020

Income statement EURm, excluding one-offs*	**Q220**	**Q219**	**Q2/Q2**	**Q120**	**Q2/Q1**
Net interest income	1,091	1,071	2%	1,109	-2%
Net fee and commission income	673	743	-9%	765	-12%
Net fair value result	318	283	12%	109	192%
Other income	10	44	-77%	18	-44%
Total operating income	**2,092**	**2,141**	**-2%**	**2,001**	**5%**
Total operating expenses	-1,088	-1,180	-8%	-1,248	-13%
Profit before loan losses	**1,004**	**961**	**4%**	**753**	**33%**
Net loan losses	-698	-61		-154	
Operating profit	**306**	**900**	**-66%**	**599**	**-49%**
Cost/income ratio with amortised resolution fees, %	52	58		57	
Return on equity with amortised resolution fees, %	3.0	8.5		6.9	

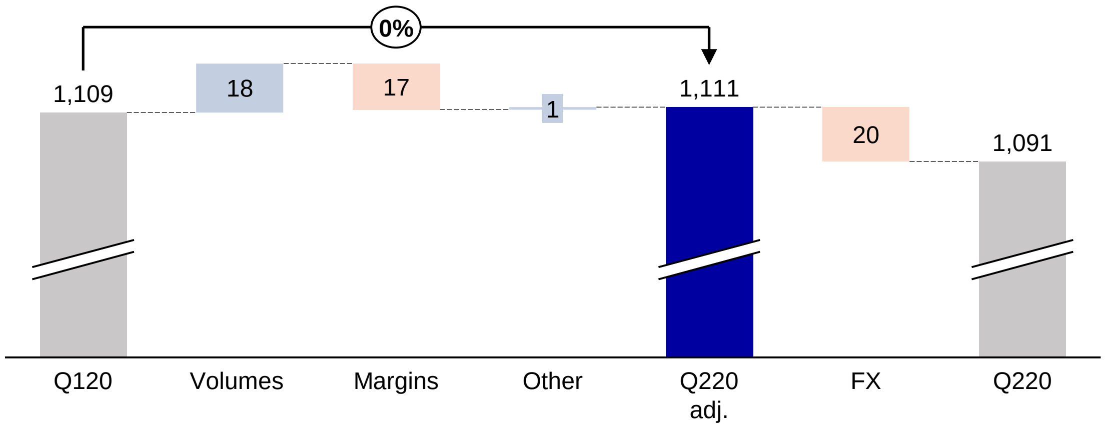
*Costs: Q119: AML provision (95m)

Net interest income – continued volume growth

Year over year bridge, EURm



Quarter over quarter bridge, EURm



Comments

- Volume growth in all countries
  - Strong growth in mortgages in all countries, +6% in local currency
  - Strong growth in both household and corporate deposits
- Slightly improving margins compared to previous year
  - Despite lower deposit margins in the quarter
- Negative impact from significant FX movements

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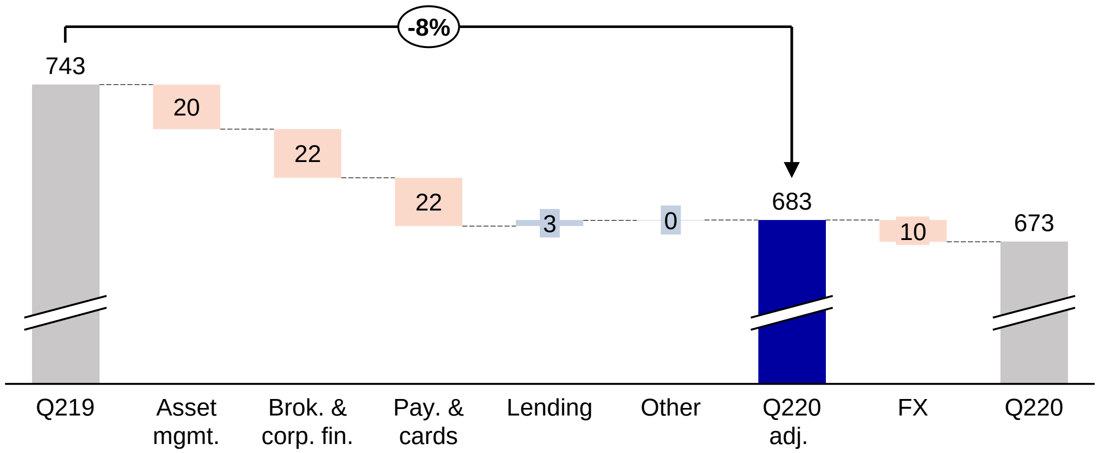
Net fee and commission income – impacted by COVID-19, strong recovery in AuM

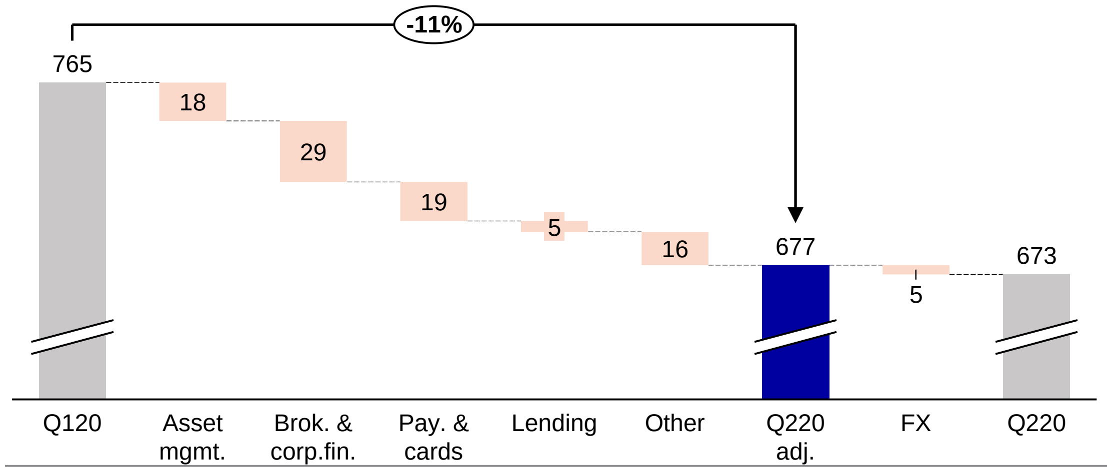
Year over year bridge, EURm



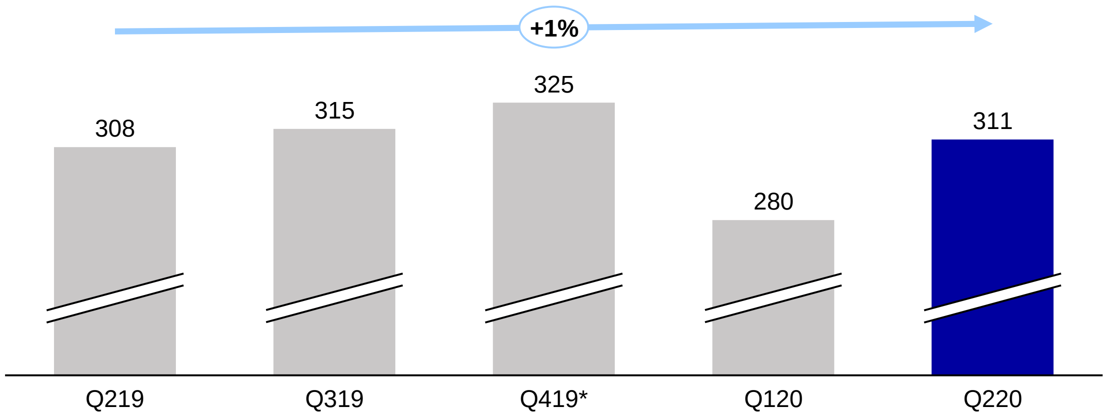
Comments

- Asset management fees down due to market turmoil, but strong recovery in AuM
  - Highest quarterly net inflow since Q316
  - Good investment performance
- Corporate advisory income recovering in June
- Payment and card activity down due to lockdowns

Quarter over quarter bridge, EURm



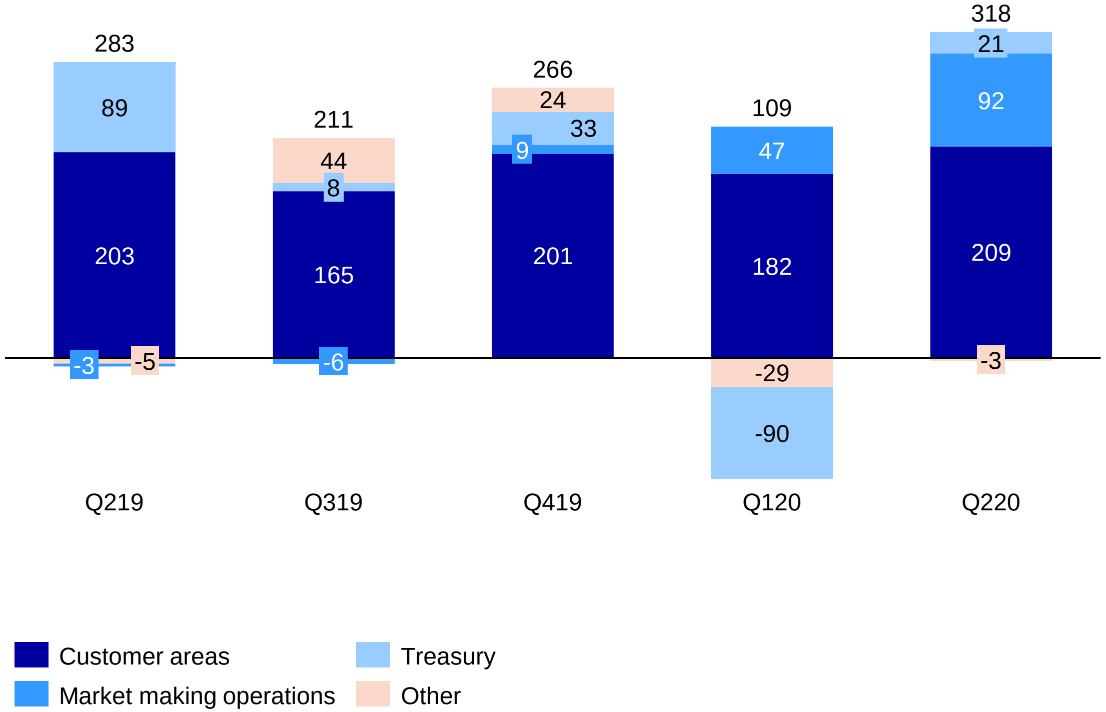
Assets under management, EURbn



* From Q419 excluding Private Banking International

Net fair value – good recovery in the quarter

NFV development, EURm

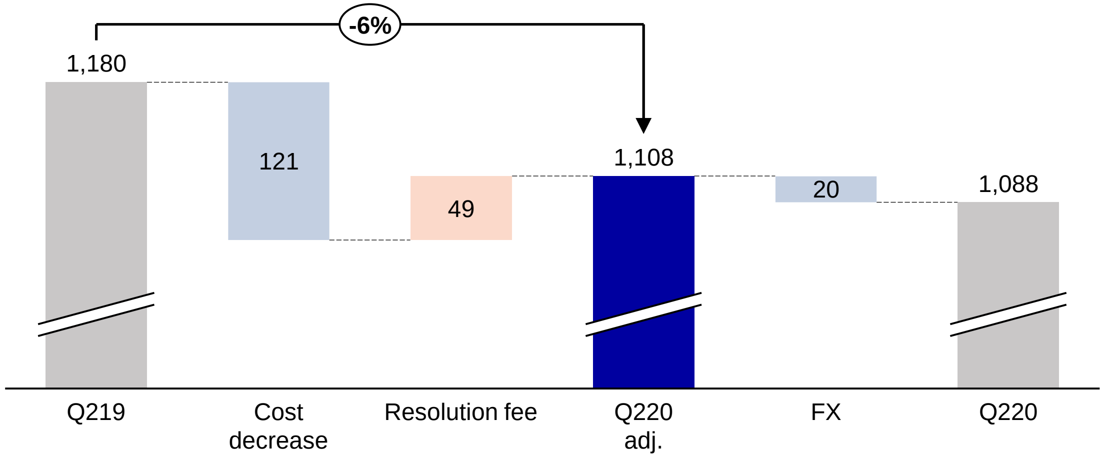


Comments

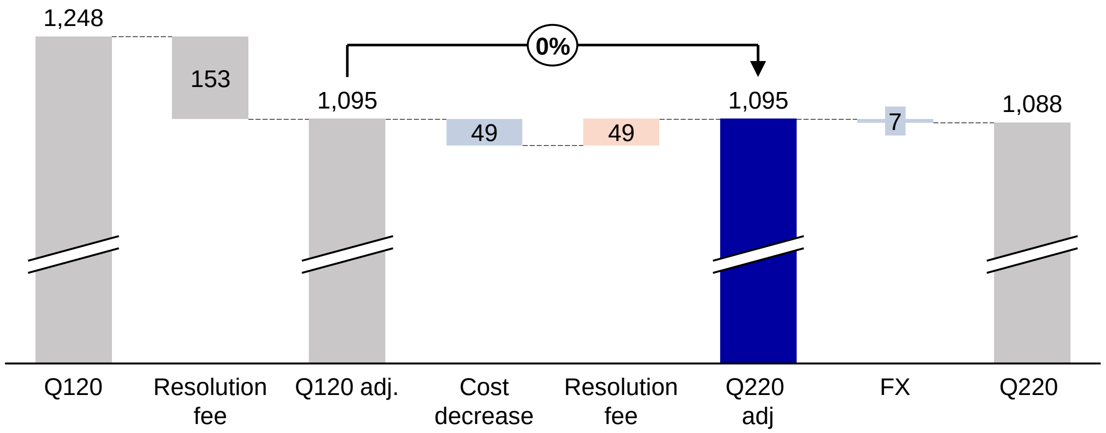
- Solid development in customer areas
- Higher market making and trading income in Markets supported by improved valuations of inventory after a turbulent Q1
- Treasury income improving due to revaluations

Costs – continue to deliver on cost plan and building a strong cost culture

Year over year bridge, EURm



Quarter over quarter bridge, EURm



Comments

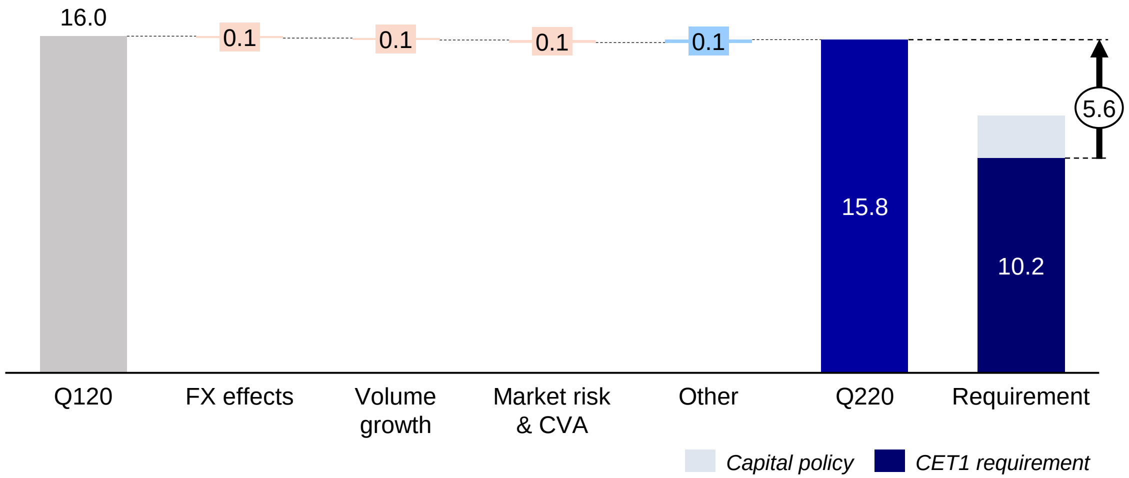
- Delivering on cost plan
- Staff costs down by 11%
- New ways of working supporting cost reductions
- Slightly lower IT spend in the quarter

Outlook

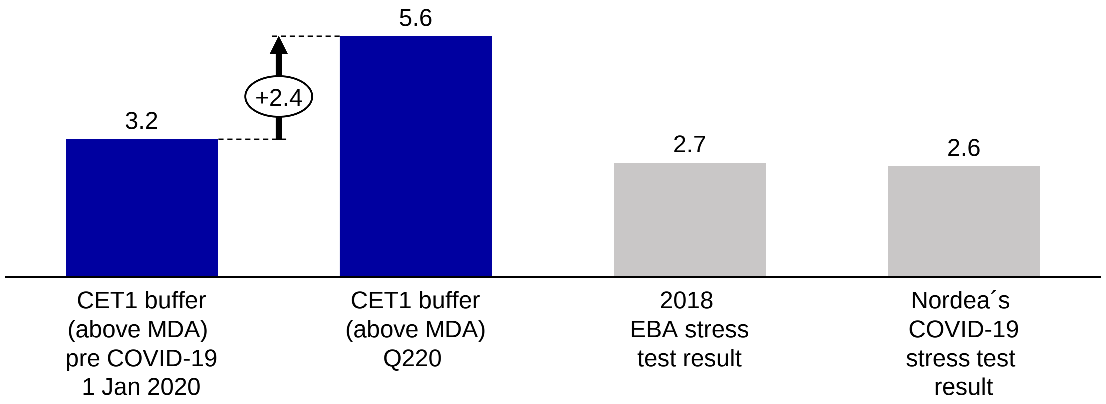
- Costs for 2020 to be below EUR 4.7bn

Capital – strong position to support customers while maintaining dividend capacity

CET1 capital ratio development, %



CET1 capital buffer, %



Comments

- CET1 capital ratio at 15.8%
  - Risk exposure amount (REA) increased by EUR 2.5bn to EUR 155bn
  - Limited credit REA migration in Q2
- Capital buffer of 5.6%-points
  - Continued dividend accruals for 2019 and 2020
  - Current capital buffer is twice the amount consumed in a stress scenario
- Dividend capacity remains intact

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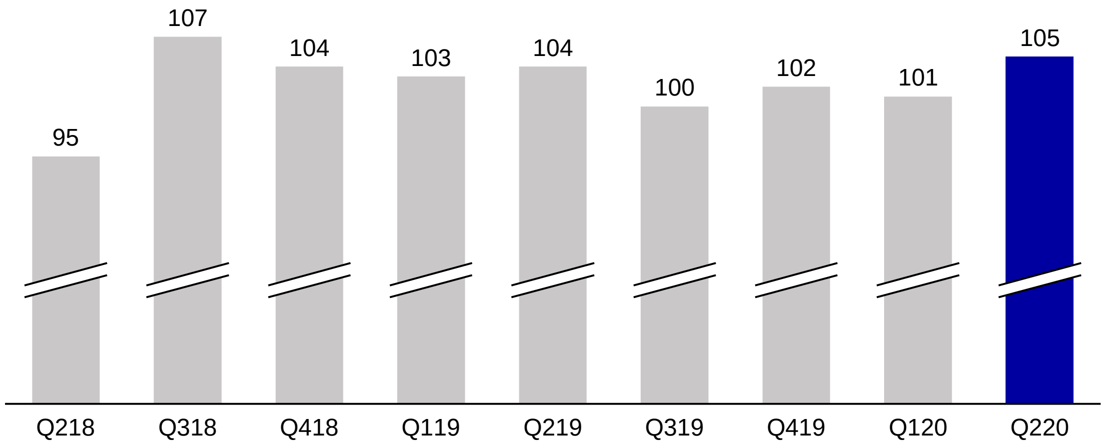
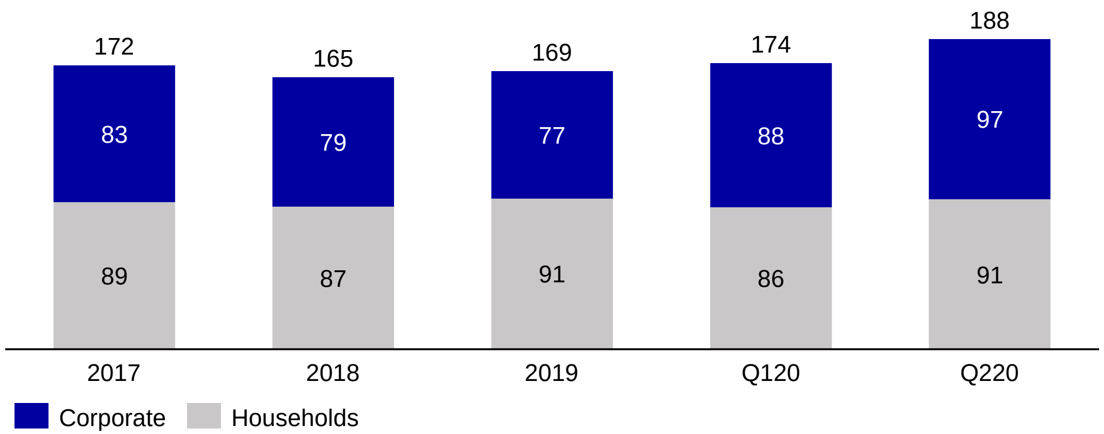
Liquidity – solid position and normalising funding markets

Liquidity buffer development, EURbn



Deposits*, EURbn



Comments

- Robust liquidity position
  - Liquidity buffer over EUR 100bn
  - Liquidity coverage ratio (LCR) of 160%
  - EU net stable funding ratio (NSFR) of 113%
- Deposits increased 4% in the quarter in local currencies
- Approx. EUR 9bn long-term debt issued during Q2
  - All key funding markets are functioning well at tighter spread levels
- During Q2, Nordea participated in selected central bank liquidity facilities including ECB's TLTRO facility

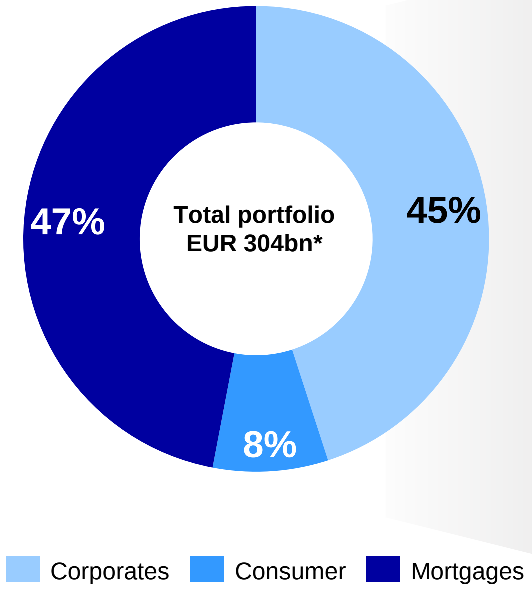
* Including repos

Credit portfolio – summary

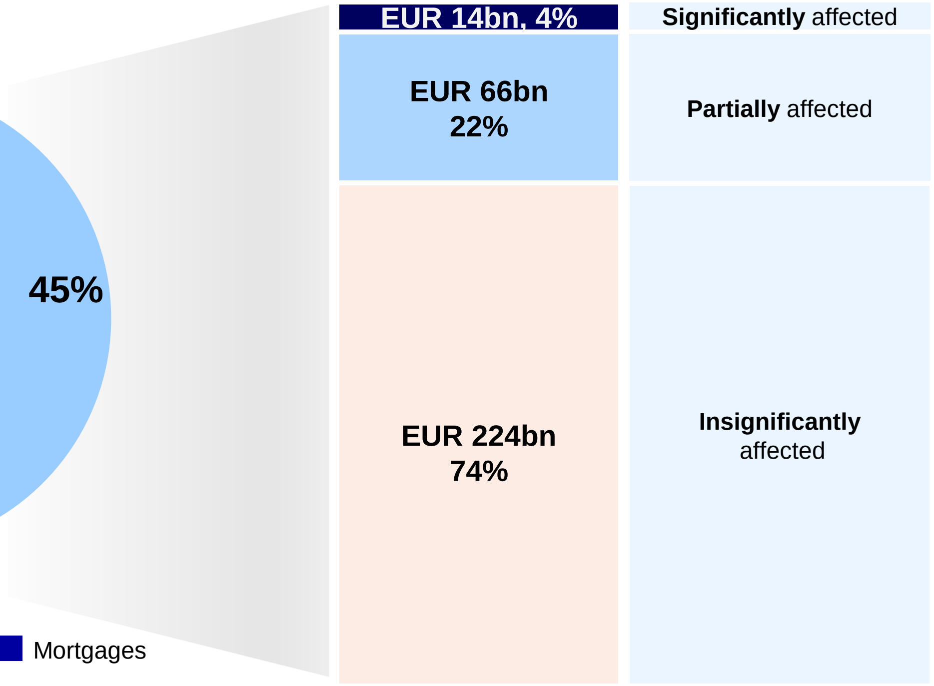
Starting point	➢ Our loan book is well-diversified and has strong underlying credit quality
Development in Q2 and FY2020 projection	➢ Full-year 2020 net loan losses projected below EUR 1bn (less than 41bps) ➢ Underlying Q2 net loan losses at EUR 310m, while overall stable credit portfolio quality development ➢ New management judgement allowances of EUR 388m in the quarter building up the buffer to EUR 650m - to cover for estimated future loan losses
Active credit management	➢ Credit portfolio significantly de-risked over the past 10 years

Loan book – well-diversified with strong underlying credit quality

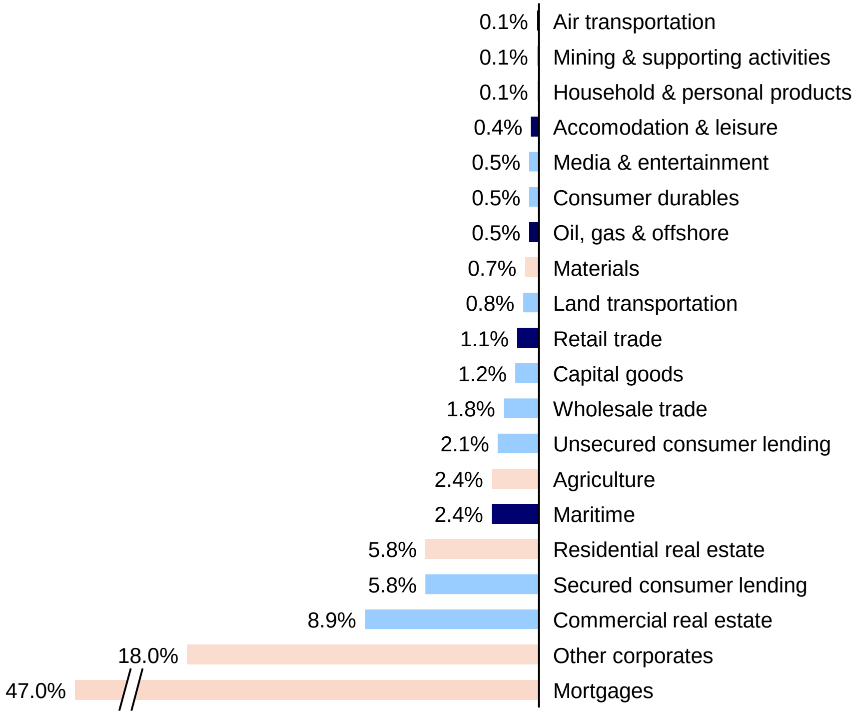
Well diversified portfolio across countries and segments



Updated analysis of COVID-19 impact by segment



Five segments with 4% of total exposure significantly affected



Nordic societies have well structured social safety nets, strong fiscal positions and effective legal systems

* Excluding repos

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Loan loss projections – full-year 2020 below EUR 1bn (less than 41 bps)

Analyses behind loan loss projection

- *Review of individual exposures in affected sectors*
- *Bottom-up business assessment on full credit portfolio*
- *COVID-19 stress test*

Comments

- Estimates based on three convergent analyses
  - Based on updated baseline macro-economic forecasts
  - Include projected credit quality evolution
  - Supplement IFRS 9 model outcome
- Conservative macro assumptions, closely aligned with official forecasts (ECB and Nordic)
- Projection includes coverage for structural updates to IFRS 9 models
  - Takes into account future ECB non-performing loans requirements

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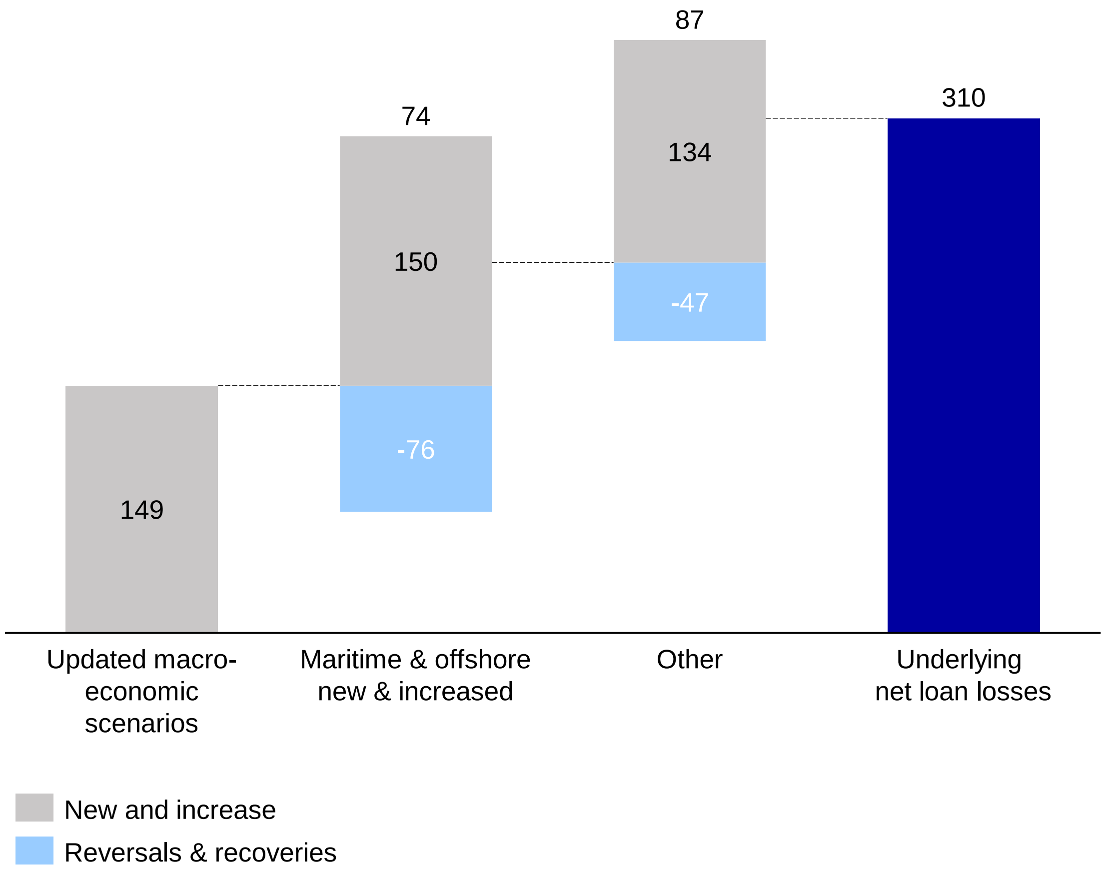
Underlying net loan losses – at EUR 310m while overall stable credit quality

Drivers of underlying net loan losses, EURm



Comments

- Total underlying net loan losses in Q2 at EUR 310m
- Three drivers of increased losses:
  - Collective provisions based on updated macro scenarios
  - Additional provisions in maritime and offshore due to decreased collateral valuations and oil price volatility
  - Some increased provisions on commercial real estate and unsecured consumer lending
- Otherwise loan losses stable vs. previous quarters
  - Reflects generally stable credit portfolio quality development (staging distribution)

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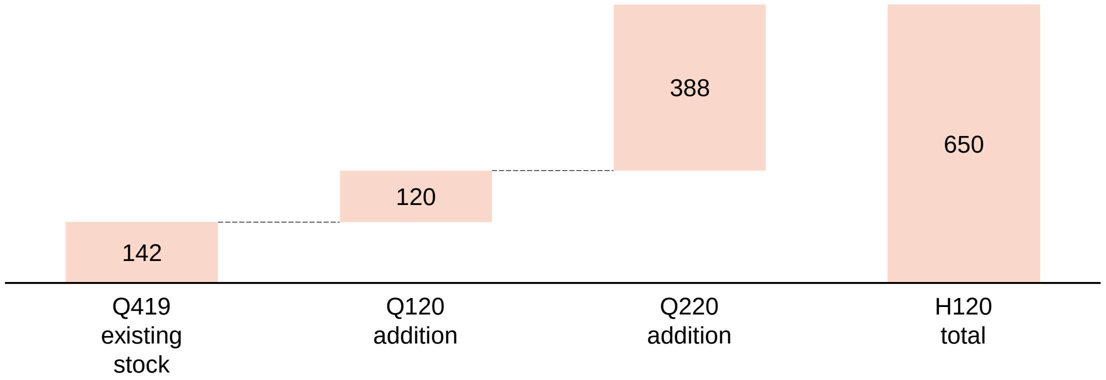
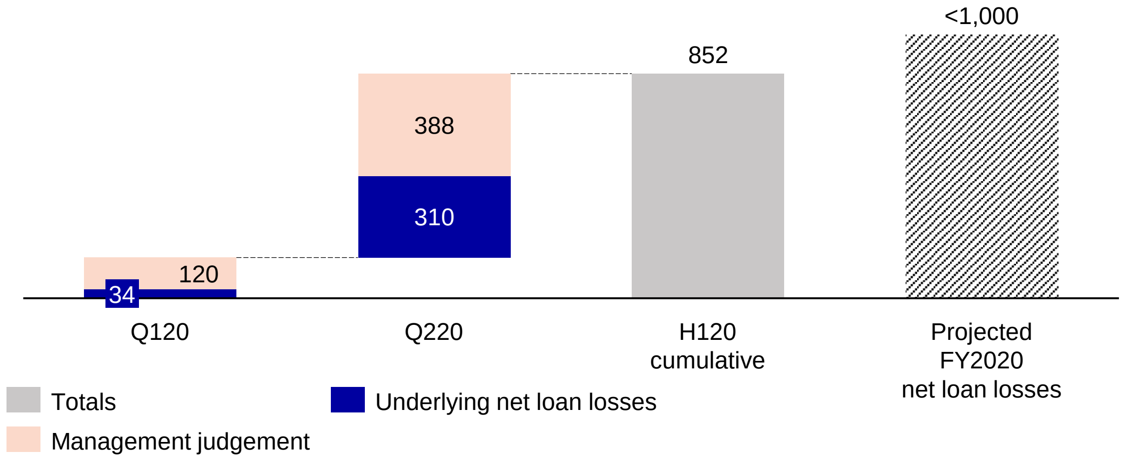
Management judgement - EUR 650m built up to cover future loan losses

Management judgement developments, EURm



Net loan losses, EURm



Comments

- New management judgement of EUR 388m in the quarter
- Total management judgement buffer of EUR 650m:
  - EUR 430m for cyclically driven loan losses
  - EUR 110m for IFRS 9 model improvements
  - EUR 110m for non-performing loans requirement
- Total provisions in H12020 amount to EUR 852m
- Loan loss projection for 2020 already mostly covered by the provisions made this year
  - Significant management judgement buffer in place to cover future losses
- Total allowances on balance sheet increased to EUR 3bn (2.4bn in Q1)

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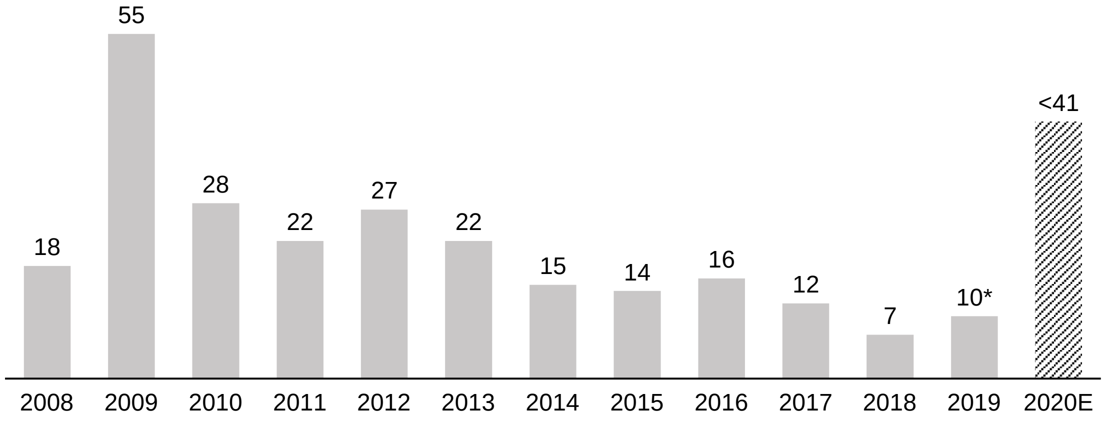
Credit quality – portfolio significantly de-risked over past 10 years

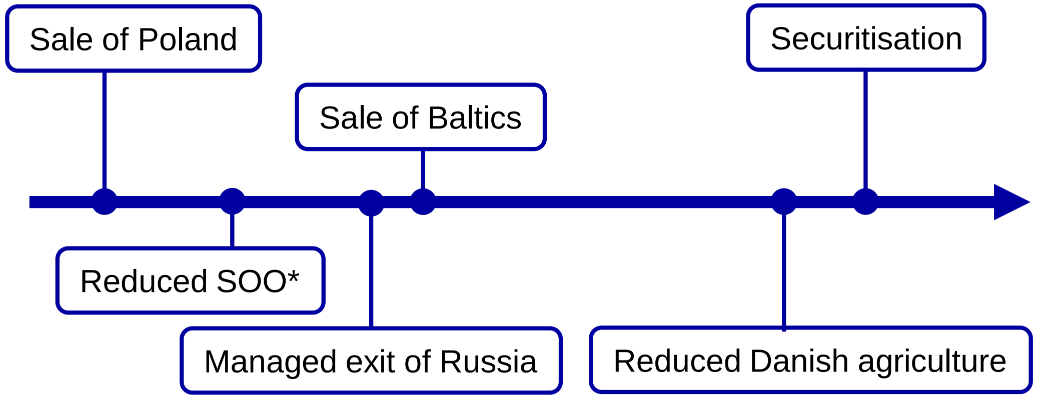
Historic loan loss ratios, bps



Comments

- Track record of strong credit quality
- Average cost of risk 24 bps since 2008
- Risk profile improved by divestments and reductions in high-risk exposures

Significant de-risking



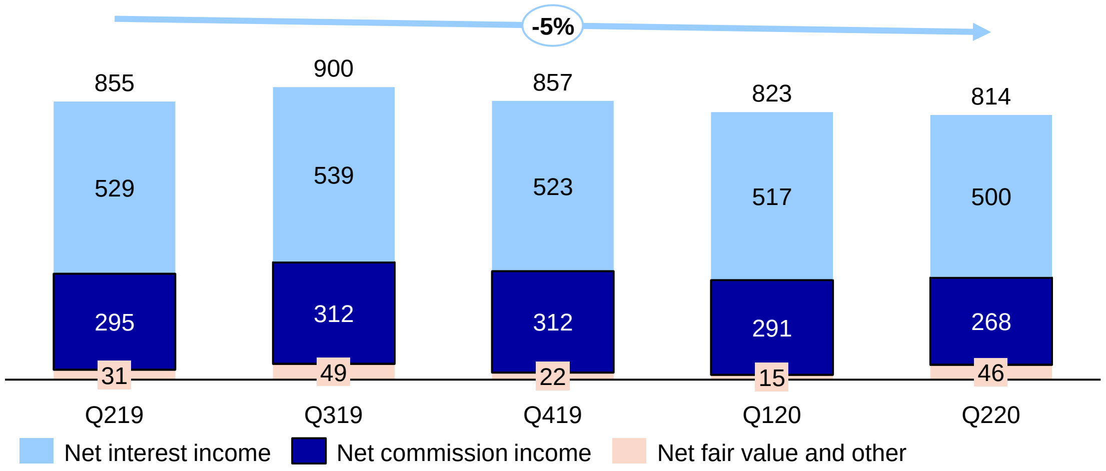
Outlook

- For the full year 2020, our projections point to total net loan losses below EUR 1bn corresponding to a loan loss level of less than 41 bps

* Shipping, oil and offshore

Personal Banking – strong mortgage volume growth

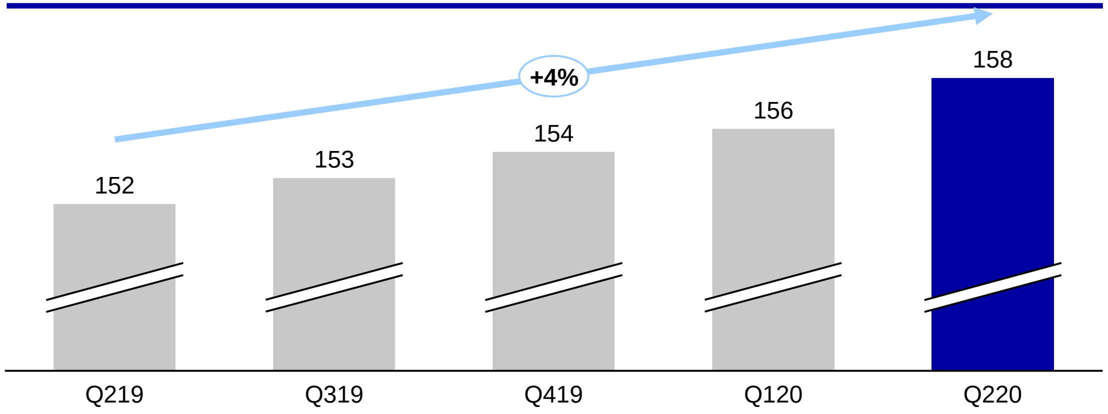
Total income, EURm



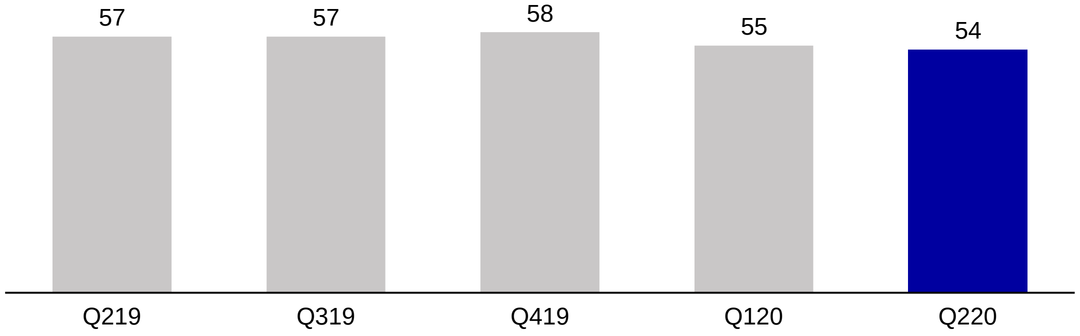
Comments

- Strong mortgage volume growth and high activity
  - Rate movements pressuring both lending and deposit margins
  - Customer satisfaction steadily improving
- Net commission income impacted by market turbulences and country lockdowns
  - Savings income subdued from lower AuM levels
  - Payments income reflect lower consumer activity
- Costs efficiency improves, cost to income down to 54%

Lending*, EURbn



Cost to income ratio**, %



* Excluding FX effects
** With amortised resolution fees

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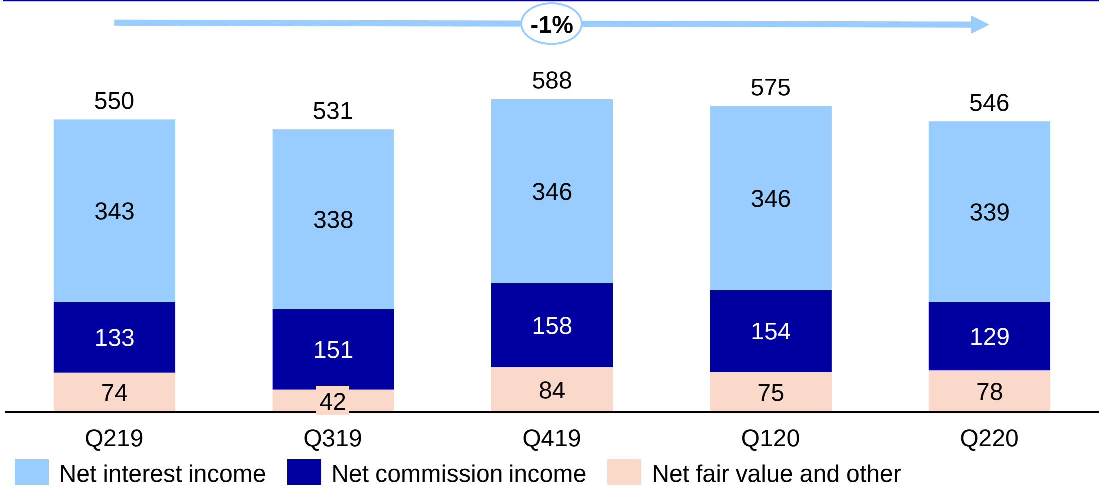
Business Banking – higher business volumes and lower costs

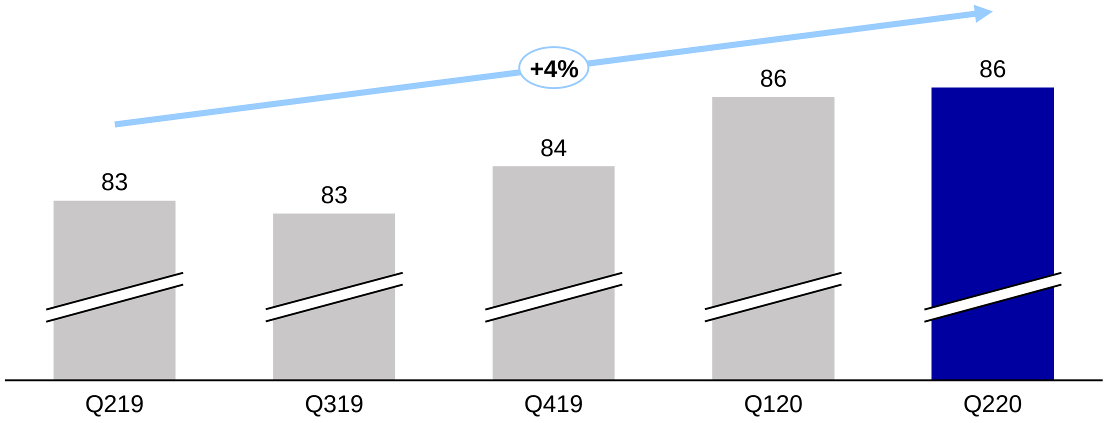
Total income, EURm



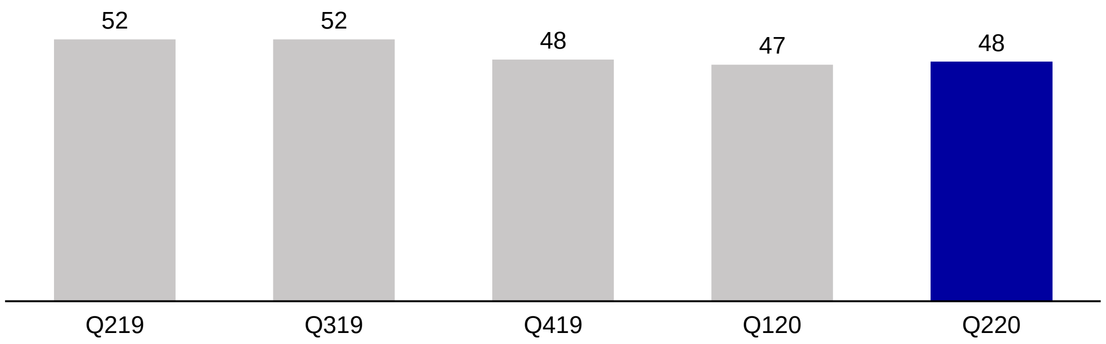
Comments

- Strong volume growth in all countries
  - Lending volumes up 4% and deposit volumes up 15%
- Lower economic activity impacting net commission income
  - Payment volumes and corporate cards usage down
- 20-30% more customer meetings than usual
- Costs efficiency improves, cost to income down to 48%

Lending*, EURbn



Cost to income ratio**, %



* Excluding FX effects
** With amortised resolution fees

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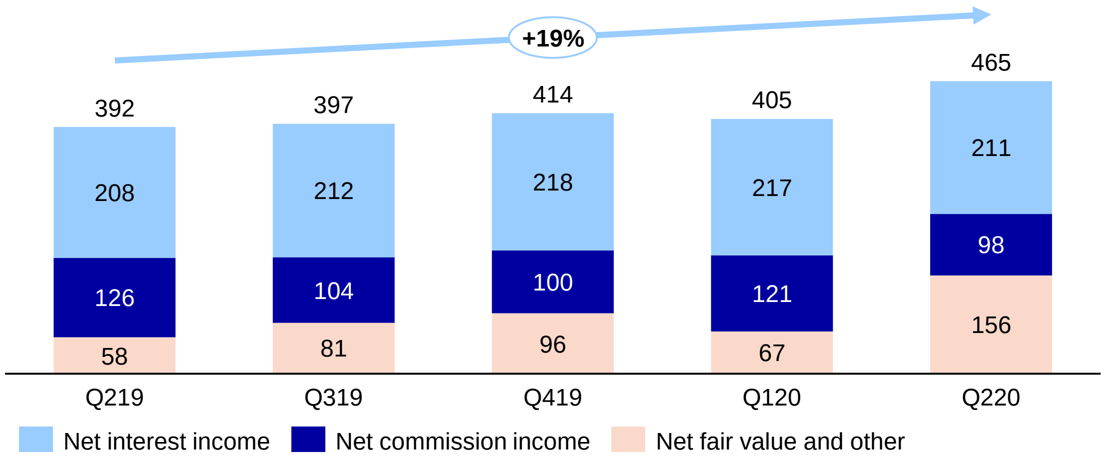
Large Corporates & Institutions – continue to execute on re-positioning plan

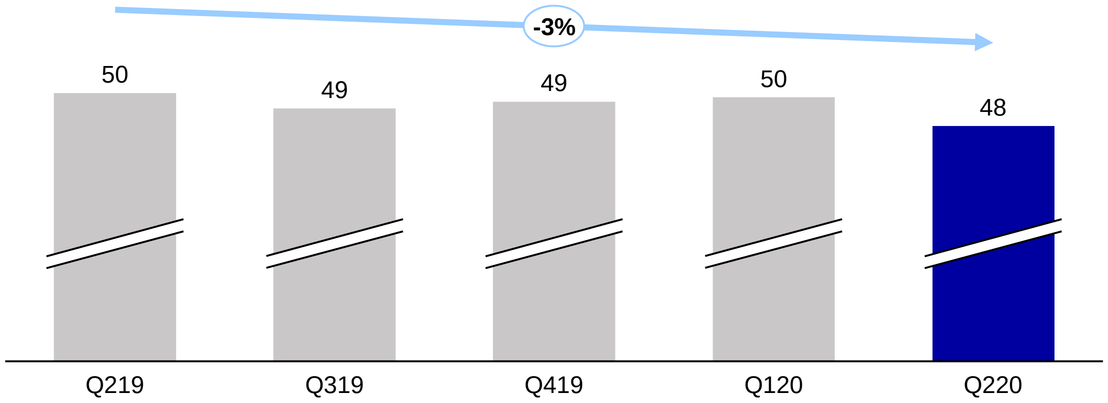
Total income, EURm



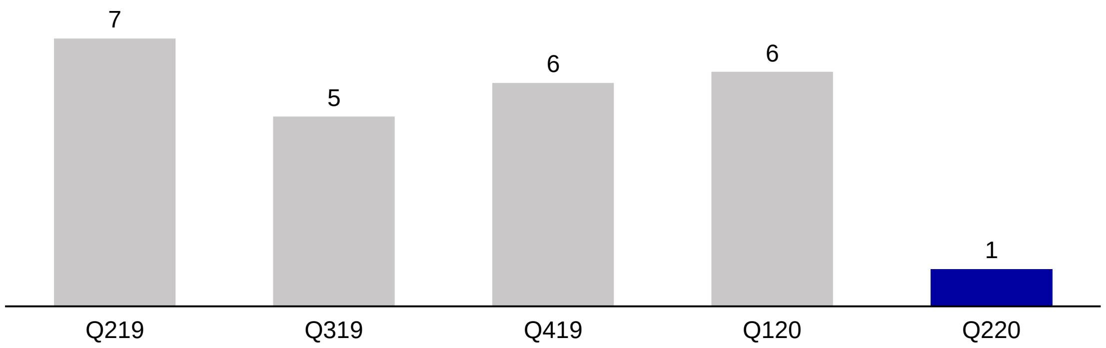
Comments

- Income up 19% mainly driven by net fair value and increase in market making activities in the quarter
  - Lending demand tapering off from peak levels in March/April
- Ranked No.1 both for all Nordic Sustainable Bonds and Nordic Corporate Sustainable Bonds
- Economic capital in Markets adversely affected by increase in market volatility
- Cost efficiency improves, cost to income down to 44%

Lending*, EURbn



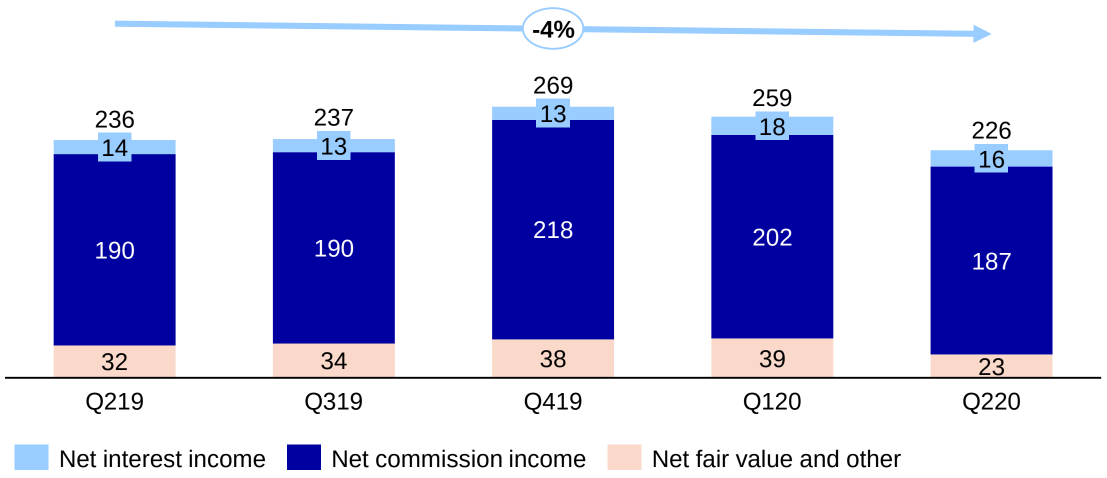
Return on capital at risk**, %



* Excluding repos
** With amortised resolution fees and excluding additional provisions in Q319

Asset & Wealth Management – strong inflow and investment performance

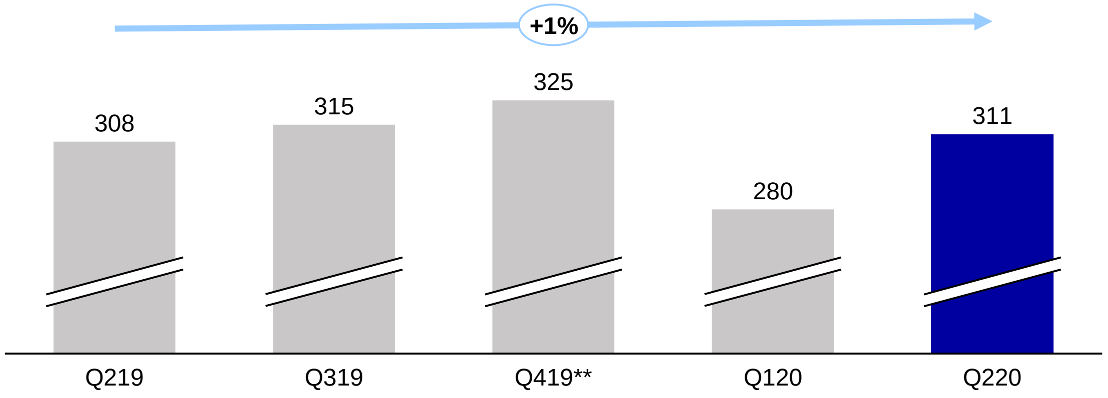
Total income, EURm



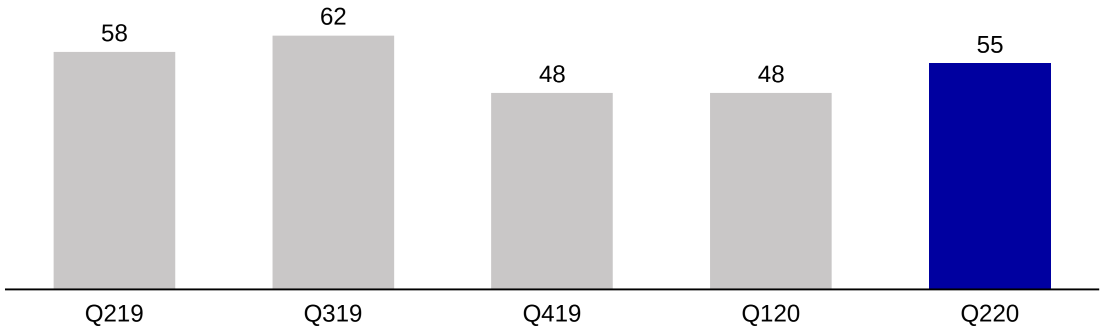
Comments

- Strong growth in AuM from low levels in April
  - Positive market development and good investment performance
  - Strong net inflow (EUR 4bn), mainly driven by Private Banking and Institutional sales
- Net commission income down 2%
  - Lower average AuM and slightly lower transaction related income in Private Banking
- Cost efficiency improves, cost to income down to 55%

Assets under management, EURbn



Cost to income ratio*, %



* With amortised resolution fees
** From Q419 excluding Private Banking International

Nordea is committed to delivering on financial targets

Cost to income ratio in FY22

50%

Return on equity in FY22

>10%

Capital policy

150-200 bps management buffer

above the regulatory CET1 requirement

Dividend policy

60-70% pay-out of distributable profits to shareholders

Excess capital intended to be distributed to shareholders through buybacks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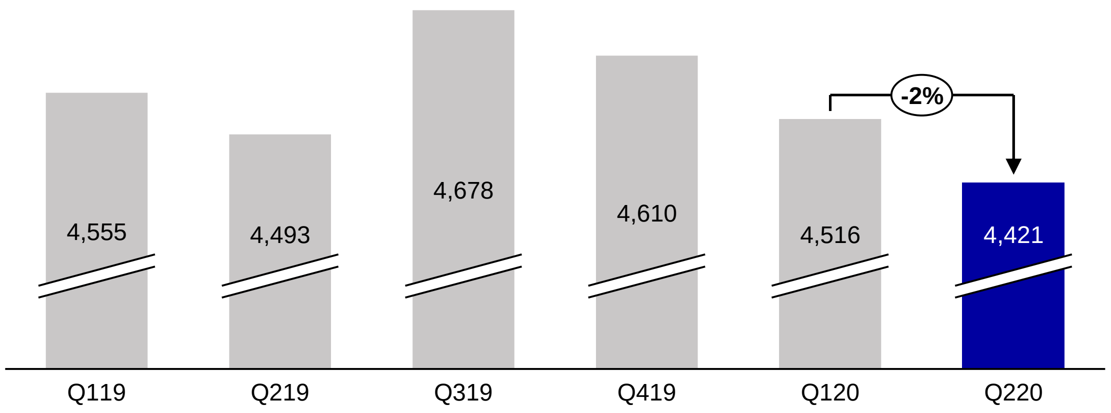
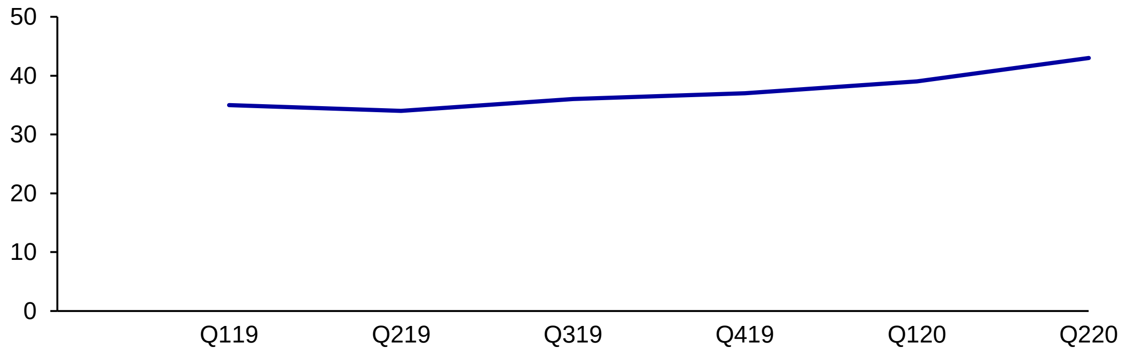
Appendix

Asset quality – impaired loans further reduced

Stage 3 impaired loans at amortised cost, EURm



Stage 3 impaired loans allowance ratio, %



Comments

- Impaired loans decreased further by 2%
- Reflects overall stable credit quality and net migration out of stage 3
- Allowance ratio for impaired loans rose to 43%, following increased provisioning in Q2

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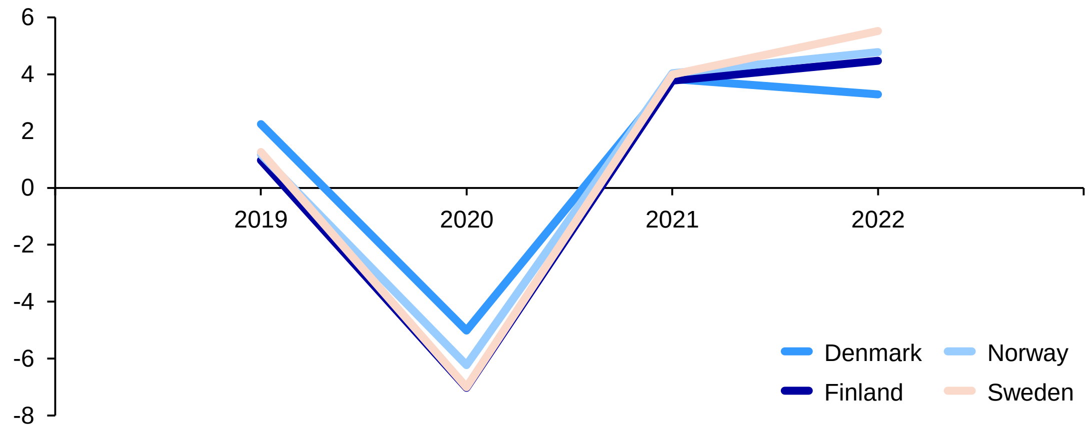
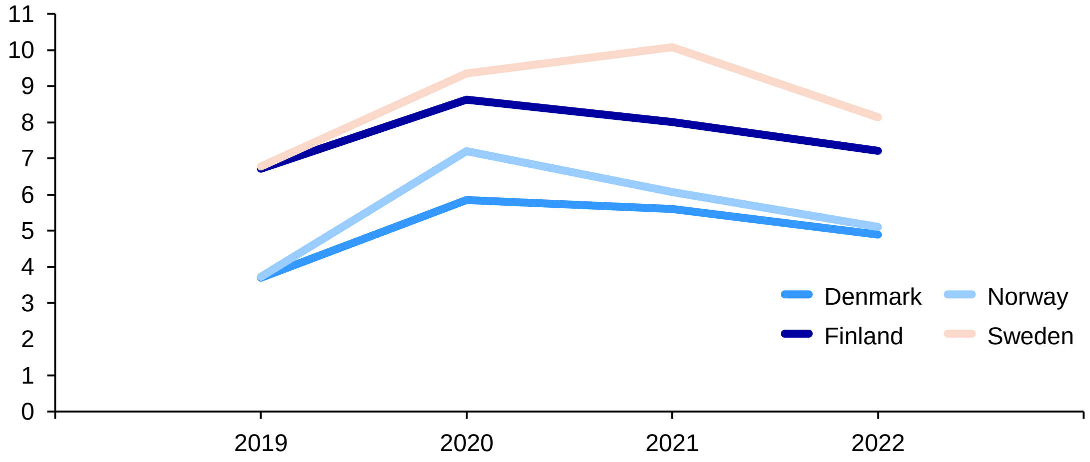
IFRS 9 model update – macro-economic assumptions behind scenarios used

Baseline annual GDP growth, %



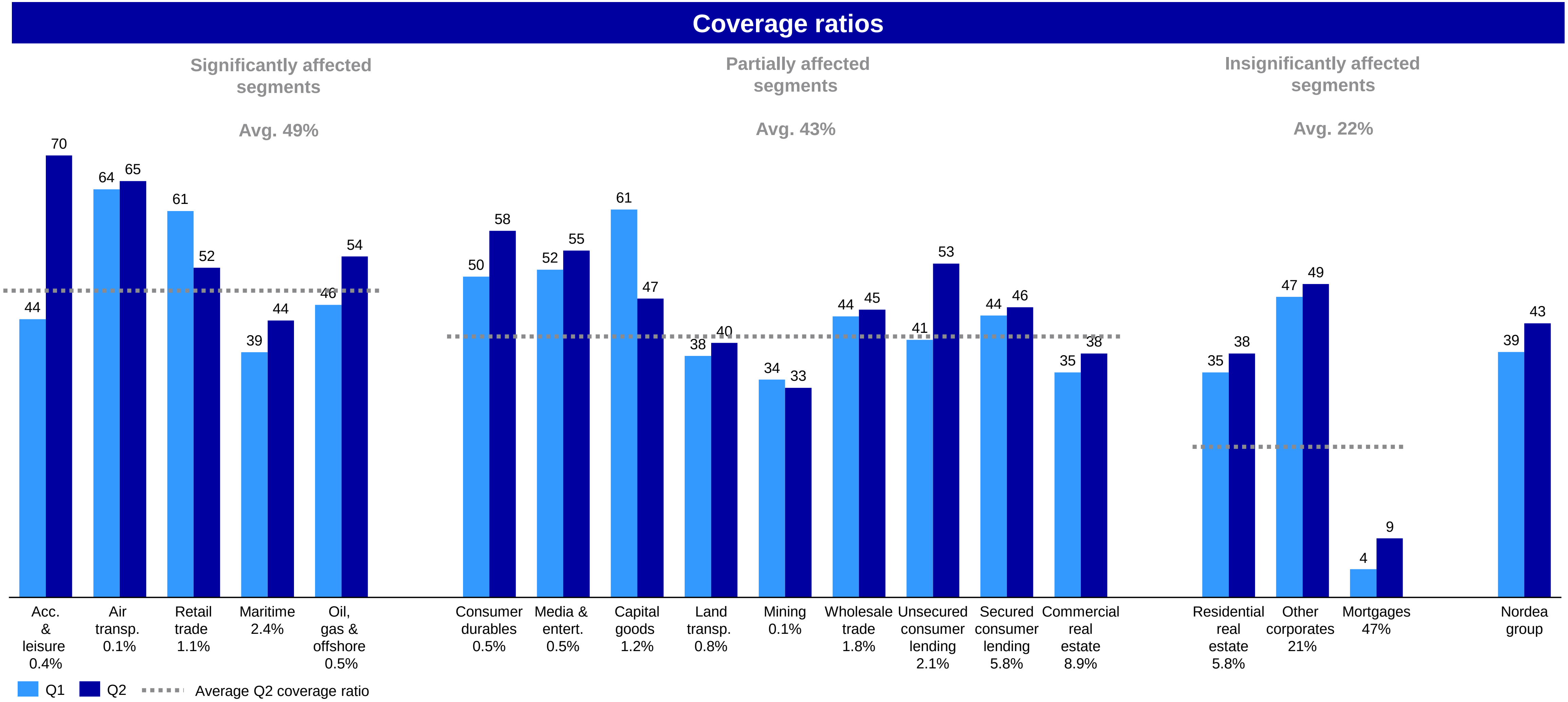
Baseline unemployment rate, %



Comments

- Scenarios are conservative and recently updated in line with Nordic central banks and ECB forecasts
- Base scenario, 60% weight
  - Gradual removal of restrictions to continue in H220
  - Leading to a moderate recovery
  - Remaining uncertainty on consumption and investments
- Upside scenario, 20% weight
  - Stronger recovery in Q320
  - Lockdowns rapidly phased out without 2nd wave
  - Fiscal and monetary policy provides a solid boost
- Adverse scenario, 20% weight
  - Lockdowns removed at a slower pace
  - Severe 2nd round effects on consumption, investments
  - Deeper global recession impacting Nordic economies

Coverage ratios – further improved in the second quarter



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