# Creditreform Bank Rating

Nordea Bank Abp (Group) as parent of
Nordea Mortgage Bank Plc

Creditreform Rating
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| Rating object | Rating information | | |
|---|---|---|---|
| Nordea Bank Abp (Group) as parent of Nordea Mortgage Bank Plc | **Long Term Issuer Rating / Outlook:** **AA- / Stable** | | **Short Term:** **L1** |
| | **Rating of Bank Capital and Unsecured Debt Instruments:** | | |
| | Senior Unsecured: **AA-** | Tier 2: **BBB+** | Additional Tier 1: **BBB** |

| | |
|---|---|
| Creditreform ID (subsidiary) : | 400990550 |
| Incorporation: | 2000 |
| (Main-) Industry: | Banks |
| Management (subsidiary): | Thomas Miller (CEO)<br>Tarja Ikonen Deputy CEO) |

| | |
|---|---|
| Rating Date: | **04 December 2018** |
| Monitoring until: | withdrawal of the rating |
| Rating Type: | **unsolicited** |
| Rating Methodology: | bank ratings;<br>rating of bank capital and unsecured debt instruments |

**Our rating of Nordea Mortgage Bank Plc is reflected by our rating opinion of Nordea Bank AB (Group) (as a result of the re-domiciliation with effect from 01 October 2018 now Nordea Bank Abp) due to its group structure. Therefore we refer to our rating report of Nordea Bank AB (Group) from 27 April 2018:**

**Contents**



## SWOT-Analysis

### Strengths

- \+ Outstanding asset quality
- \+ Good earnings figures
- \+ Diversified income sources
- \+ Sound capitalization
- \+ Remarkably low NPL ratio
- \+ Resilient profitably
- \+ Sufficient liquidity

### Weaknesses

- \- Relatively low net interest margin
- \- Decreasing net loans to customers and deposits from customers

### Opportunities / Threats

- \+ Continued work on digitalization transformation and cooperation with Fintechs
- +/- Re-domiciliation of the parent company of the Nordea Group to Finland
- +/- Strict capital regulations in Sweden, enabling more favorable refinancing compared to competitors
- \- Risk of a maturity mismatch in the upcoming future
- \- Low-interest policy of the Swedish Central Bank puts pressure on profitability
- \- Increasing banking regulation leads to rising costs


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## Company Overview

Nordea Bank AB (publ.) (hereafter Nordea) is a banking group formed by mergers and acquisitions of Merita Bank (Finland), Nordbanken (Sweden), Unibank A/S (Denmark) and Christiania Bank (Norway) that took place between 1997 and 2000. All operations of these four banks have been conducted under the brand name of Nordea from 2001. The Group's head office is currently located in Stockholm. Nordea is considered a "global systemically important bank" (G-SIB) and the Group must therefore comply with additional regulatory requirements. With 30.399 employees (full-time equivalents - end of year 2017) the Group serves approximately 10 million personal customers as well as 677,000 corporate customers and had total assets of €581.6 billion in 2017.

Nordea has a presence in 17 countries, primarily in the Scandinavian region (Sweden, Finland, Norway, and Denmark) as well as in Eastern Europe. Moreover, the Group has an international network with banks across the globe in order to support its international business needs. The Group is divided into four main business areas: *Personal Banking*, *Commercial and Business Banking*, *Wholesale Banking* and *Wealth Management*. In addition, Nordea maintains a *Group Functions and Other* business unit. *Personal Banking* serves Nordea's household customers through various channels with a range of financial and advisory services. *Commercial Banking* services larger corporate customers; however, *Business Banking* is responsible for small and medium-sized corporates. Against this, Nordea's *Wholesale Banking* unit provides financial solutions to large and international customers with a diverse range of financing, cash management, investment banking, capital markets products and securities services. *Wealth Management* is responsible for Nordea's affluent and high net worth individuals as well as institutional investors, and provides individual investment, savings and risk management solutions. *Group Functions and Other* provides the Group with various management and administrative services such as asset and liability management, treasury operations, strategic frameworks and a common infrastructure. See chart 1 for the contributions of each business area to Nordea's operating income (€9.5 billion) and operating profit (pre-tax: €4 billion) in 2017.

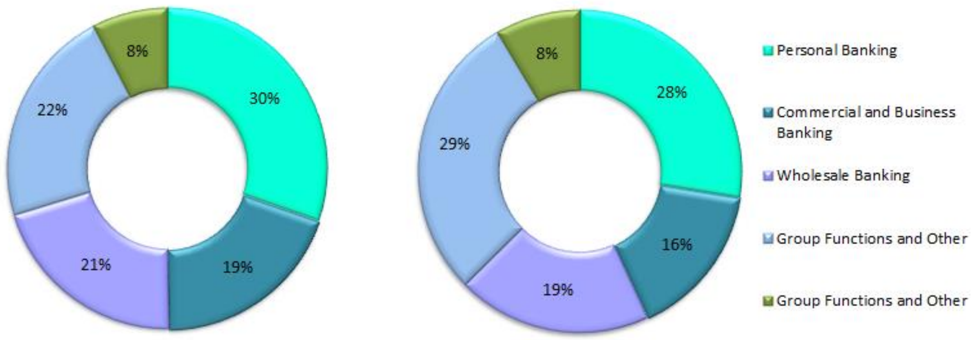


**Chart 1: Nordea's operating income (left) and operating pre-tax profit (right) by its business areas (Source: Annual report 2017 of Nordea)**

On 6 September 2017, Nordea's board of directors decided to initiate a re-domiciliation of the parent company of the Nordea Group from Sweden to Finland by a merger plan. According to the Group, this decision was based on the opinion that the existing regulatory frameworks of Sweden do not fully accommodate the Nordea Group's operating model and recent strategic developments. Nordea expects that domiciling its parent company into a country that is a participant of the European Banking Union will mean that the

Nordea Group will be subject to a similar regulatory framework as its European competitors. The mergers, and consequently the re-domiciliation, are expected to be effected during the second half of 2018, tentatively on 1 October 2018. Nordea expects the net present value of total savings related to resolution fees, deposit guarantees and other transitional effects to be approximately €0.9-1.2 billion (excluding potential impact on corporate taxes or capital requirement), compared to remaining domiciled in Sweden.

The main legal structure of Nordea as of 31 December 2017 can be found in the following chart:

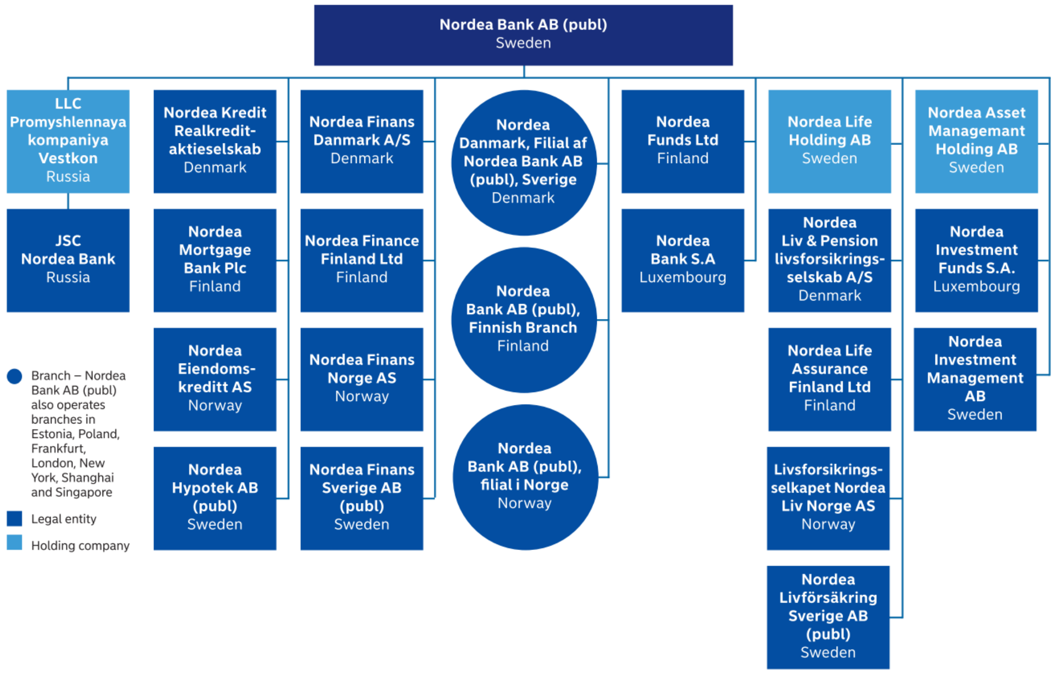


**Chart 2: Main legal structure as of 31 December 2017.**
**(Source: Annual report 2017 of Nordea)**

The shareholder structure of Nordea is as follows:

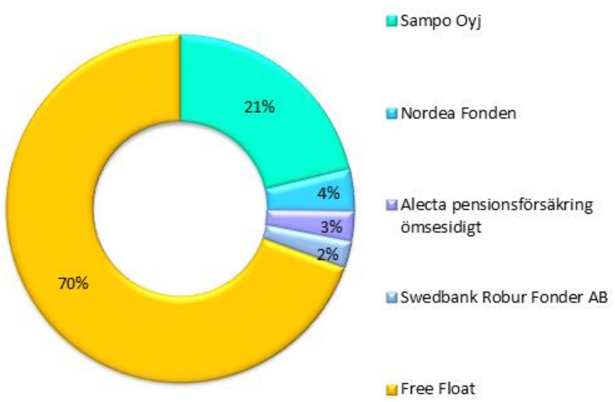


**Chart 3: Major shareholders of Nordea.**
**(Source: Own presentation based on data of S&P Global Market Intelligence as of 27 April 2018)**

## Business Development

### Profitability

Nordea's operating income amounted to €9.5 billion in 2017, decreasing by 2.9% in a year-over-year comparison (€285 million). Net interest income contributed almost half of the operating income, accounting for 49.3%, and decreasing by 1.3% compared to the previous year (€61 million) mainly as a result of decreased interest income from loans to the public. Fees and commissions accounted for 35.6% of operating income, increasing by 4% (€131 million) YOY, among others due to increasing income from asset management commissions. At 11.6%, net trading income contributed the lowest share of the three main drivers of operating income, however this decreased by 23.7% in comparison to the previous year (€341 million) due to decreased income from interest-related instruments and foreign exchange gains/losses, which was partly offset by an increased income from equity-related instruments.

Operating expenses amounted to €5.1 billion in 2017, increasing by 4.5% in a year-over-year comparison (€218 million). Personnel expenses accounted for 63% of total expenses in 2017, increasing by 6.6% YOY (€200 million), and are the main driver of Nordea's increase in operating expenses. The increase is mainly a result of increased salaries and remunerations expenses despite a lower number (full-time equivalents) of employees YOY (2017: 30,399 FTEs; 2016: 31,596 FTEs).

Nordea's pre-impairment operating profit amounted to €4.37 billion in the fiscal year 2017. Asset write-downs amounted to €374 million in 2017 and consist mainly of loan losses. These loan losses occurred primarily at loans to the public (2017: €338 million; 2016: €486 million), and the reduction in this position was the main driver for the decreased asset write-downs in comparison to the previous year. After deduction of taxes, the operating net profit decreased by 19% YOY (€718 million) to an amount of €3.05 billion in 2017.

Considering Nordea's first quarter results 2018, Nordea records a decline of its total operating income by 6% (Q1-2018 / Q1-2017) as well as a decline of its operating expenses by 3% (Q1-2018 / Q1-2017). As a result, Nordea's net profit for the first quarter 2018 is 3% lower in comparison to the first quarter 2017.

A detailed group income statement for the years 2014 - 2017 can be found in figure 1 below:

| Income Statement | 2014 | % | 2015 | % | 2016 | % | 2017 | % |
|---|---|---|---|---|---|---|---|---|
| **Income (€000)** | | | | | | | | |
| Net Interest Income | 5,482,000 | 55.6% | 4,963,000 | 49.8% | 4,727,000 | 48.5% | 4,666,000 | 49.3% |
| Net Fee & Commission Income | 2,842,000 | 28.8% | 3,230,000 | 32.4% | 3,238,000 | 33.2% | 3,369,000 | 35.6% |
| Net Insurance Income | 272,000 | 2.8% | 245,000 | 2.5% | 275,000 | 2.8% | 229,000 | 2.4% |
| Net Trading Income | 1,153,000 | 11.7% | 1,400,000 | 14.1% | 1,440,000 | 14.8% | 1,099,000 | 11.6% |
| Equity Accounted Results | 18,000 | 0.2% | 39,000 | 0.4% | 15,000 | 0.2% | 23,000 | 0.2% |
| Dividends from Equity Instruments | NA | 0.0% | NA | 0.0% | NA | 0.0% | NA | 0.0% |
| Rental Revenue | NA | 0.0% | NA | 0.0% | NA | 0.0% | NA | 0.0% |
| Lease and Rental Revenue | NA | 0.0% | NA | 0.0% | NA | 0.0% | NA | 0.0% |
| Other Noninterest Income | 96,000 | 1.0% | 87,000 | 0.9% | 59,000 | 0.6% | 83,000 | 0.9% |
| **Operating Income** | **9,863,000** | **100%** | **9,964,000** | **100%** | **9,754,000** | **100%** | **9,469,000** | **100%** |
| **Expenses (€000)** | | | | | | | | |
| Depreciation and Amortisation | 235,000 | 4.8% | 189,000 | 4.0% | 221,000 | 4.5% | 263,000 | 5.2% |
| Personnel Expense | 3,159,000 | 65.0% | 3,263,000 | 69.8% | 3,012,000 | 61.7% | 3,212,000 | 63.0% |
| Occupancy & Equipment | 389,000 | 8.0% | 373,000 | 8.0% | 309,000 | 6.3% | 309,000 | 6.1% |
| Tech & Communications Expense | 561,000 | 11.5% | 485,000 | 10.4% | 573,000 | 11.7% | 565,000 | 11.1% |
| Marketing and Promotion Expense | 103,000 | 2.1% | 84,000 | 1.8% | 79,000 | 1.6% | 66,000 | 1.3% |
| Other Provisions | NA | 0.0% | NA | 0.0% | NA | 0.0% | NA | 0.0% |
| Other Expense | 413,000 | 8.5% | 280,000 | 6.0% | 685,000 | 14.0% | 682,000 | 13.4% |
| **Operating Expense** | **4,860,000** | **100%** | **4,674,000** | **100%** | **4,879,000** | **100%** | **5,097,000** | **100%** |
| **Operating Profit & Impairment (€000)** | | | | | | | | |
| **Pre-impairment Operating Profit** | **5,003,000** | | **5,290,000** | | **4,875,000** | | **4,372,000** | |
| Asset Writedowns | 884,000 | | 499,000 | | 509,000 | | 374,000 | |
| **Net Income (€000)** | | | | | | | | |
| Nonrecurring Revenue | 378,000 | | 176,000 | | 259,000 | | 0 | |
| Nonrecurring Expense | 190,000 | | 263,000 | | 0 | | 0 | |
| **Pre-tax Profit** | **4,307,000** | | **4,704,000** | | **4,625,000** | | **3,998,000** | |
| Income Tax Expense | 950,000 | 22.1% | 1,042,000 | 22.2% | 859,000 | 18.6% | 950,000 | 23.8% |
| Discontinued Operations | -25,000 | | 0 | | 0 | | 0 | |
| **Net Profit** | **3,332,000** | | **3,662,000** | | **3,766,000** | | **3,048,000** | |

**Figure 1: Group income statement**
**(Source: Based on data of S&P Global Market Intelligence as of 27 April 2018)**

Due to Nordea's decreased net profit in 2017, its earnings ratios worsened largely in comparison to the previous year. Nevertheless, the Group's earnings figures are still very competitive.

The values for ROAA, ROAE and RoRWA of Nordea deteriorated in a year-over-year comparison. However, the Group's RoRWA is still considerably better than the peer group average. By contrast, the ROAA is now in line with the average of the peer group whereas the Group's ROAE is, despite its significant deterioration of 2.79 percentage points YOY, still slightly above the average of the peer group. Although Nordea's net interest margin improved slightly YOY, it is still markedly worse than that of the peer group. However, the Group's cost income ratios are, despite their worsening (YOY), still clearly above the average of the peer group although the peer group was able to improve its cost income ratios over the previous year.

The development of the key earnings figures for the years 2014 - 2017 is detailed as follows:

| Income Ratios (%) | 2014 | % | 2015 | % | 2016 | % | 2017 | % |
|---|---|---|---|---|---|---|---|---|
| Return on Average Assets (ROAA) | 0.51 | 0.03 | 0.53 | 0.02 | 0.57 | 0.04 | 0.49 | -0.09 |
| Return on Equity (ROAE) | 11.45 | 0.37 | 12.34 | 0.89 | 12.34 | 0.00 | 9.55 | -2.79 |
| RoRWA | 2.17 | 0.26 | 2.47 | 0.30 | 2.69 | 0.22 | 2.34 | -0.35 |
| Net Interest Margin | 0.89 | -0.02 | 0.78 | -0.11 | 0.79 | 0.01 | 0.83 | 0.04 |
| Cost income Ratio ex. Trading | 55.80 | -2.78 | 54.58 | -1.22 | 58.68 | 4.11 | 60.90 | 2.21 |
| Cost income Ratio | 49.28 | -1.48 | 46.91 | -2.37 | 50.02 | 3.11 | 53.83 | 3.81 |
| Change in %-Points | | | | | | | | |

**Figure 2: Group key earnings figures**
**(Source: Based on data of S&P Global Market Intelligence as of 27 April 2018)**

## Asset Situation and Asset Quality

Nordea's financial assets accounted for 88% of total assets in 2017, decreasing by 7.7% in a year-over-year comparison (€42.6 billion). Net loans to customers represent the largest share of assets, accounting for 53.3% and decreasing by 2.4% YOY (€7.5 billion). The decrease in this position over the previous years is mainly attributable to a decrease in Nordea's corporate loans. Total securities, as the second largest asset, represents 25% of Nordea's total assets and decreased significantly by 7.8% YOY (€39.2 billion). The decrease in this position over the past years is mainly attributable to the decreased value of derivatives held for trading, in particular interest rate derivatives as well as foreign exchange derivatives, and was mainly driven by an increase in the long-term interest rates and changes in foreign exchange rates, which had a negative impact on the values of the Group's derivatives, according to Nordea. By contrast, cash and balances with central banks increased by 34.2% YOY (€11 billion). However, Nordea's net loans to banks accounted for only 2.3% of its total assets, decreasing by 34% YOY (€6.8 billion), as a result of a decrease in the groups' item of loans to central banks.

The balance sheet item of noncurrent assets held for sale & discontinued operations largely comprises Nordea's announced sale of 45% of the shares of its subsidiary Danish Nordea Liv & Pension Livsforsikringsselskab A/S, which is conditional to on an approval by the relevant authorities. Moreover, the €8.9 billion in this balance sheet item in the year 2016 are attributable to Nordea's decision to combine its Baltic operations with DNB and therefore to derecognize its assets and liabilities, in particular loans to the public, from Nordea's balance sheet. Total other assets consist of numerous smaller positions, with assets in unit-linked investment contracts (such as shares and fund units) and cash/margin receivables being the most important.

The group's total assets amounted to €581 billion in 2017, decreasing by 5.5% YOY (€34 billion).

The development of Nordea's assets for the years 2014 – 2017 is shown in detail in the following:

| Assets (€000) | 2014 | % | 2015 | % | 2016 | % | 2017 | % |
|---|---|---|---|---|---|---|---|---|
| Cash and Balances with Central Banks | 31,067,000 | 4.6% | 35,500,000 | 5.5% | 32,099,000 | 5.2% | 43,081,000 | 7.4% |
| Net Loans to Banks | 19,175,000 | 2.9% | 23,986,000 | 3.7% | 20,261,000 | 3.3% | 13,388,000 | 2.3% |
| Net Loans to Customers | 348,085,000 | 52.0% | 340,920,000 | 52.7% | 317,689,000 | 51.6% | 310,158,000 | 53.3% |
| Total Securities | 244,385,000 | 36.5% | 198,041,000 | 30.6% | 184,470,000 | 30.0% | 145,237,000 | 25.0% |
| **Financial Assets** | **642,712,000** | **96%** | **598,447,000** | **93%** | **554,519,000** | **90%** | **511,864,000** | **88%** |
| Equity Accounted Investments | 487,000 | 0.1% | 515,000 | 0.1% | 588,000 | 0.1% | 1,235,000 | 0.2% |
| Other Investments | 0 | 0.0% | NA | 0.0% | NA | 0.0% | NA | 0.0% |
| Insurance Assets | NA | 0.0% | NA | 0.0% | NA | 0.0% | NA | 0.0% |
| Noncurrent Assets HFS & Discontinued Ops | 0 | 0.0% | 0 | 0.0% | 8,897,000 | 1.4% | 22,186,000 | 3.8% |
| Tangible and Intangible Assets | 6,644,000 | 1.0% | 6,819,000 | 1.1% | 7,477,000 | 1.2% | 6,055,000 | 1.0% |
| Tax Assets | 262,000 | 0.0% | 163,000 | 0.0% | 348,000 | 0.1% | 239,000 | 0.0% |
| Total Other Assets | 19,237,000 | 2.9% | 40,924,000 | 6.3% | 43,830,000 | 7.1% | 40,033,000 | 6.9% |
| **Total Assets** | **669,342,000** | **100%** | **646,868,000** | **100%** | **615,659,000** | **100%** | **581,612,000** | **100%** |

**Figure 3: Development of assets**
**(Source: Based on data of S&P Global Market Intelligence as of 27 April 2018)**

Nordea's asset quality worsened slightly YOY; however it is still outperforming the peer group significantly. The NPL ratios of 1.05%, as well as the NPL / RWA ratio (1.97%), are exceedingly lower than those of its peers. However, while Nordea's ratios worsened, the peer group was able to improve its ratios YOY and has thus caught up to Nordea slightly.

Moreover, with its potential problem loans / NPL ratio of 13%, Nordea is, despite its worsening of this ratio, still significantly better / lower than the average of the peer group. In addition, the Group's RWA ratio as well as its net write-off ratio is considerably better than those of the peer group. Only Nordea's reserves / impaired loans ratio stands out as negative, and is lower than the average of the peer group.

Overall, Nordea's asset quality figures are the best performers in any of the areas analyzed.

The development of asset quality in the years 2014 – 2017 is detailed as follows:

| Asset-Quality (%) | 2014 | % | 2015 | % | 2016 | % | 2017 | % |
|---|---|---|---|---|---|---|---|---|
| Non Performing Loans (NPL) / Loans | 0.94 | -0.13 | 0.90 | -0.03 | 0.96 | 0.05 | 1.05 | 0.10 |
| NPL / RWA | 1.59 | -0.12 | 1.59 | 0.00 | 1.73 | 0.14 | 1.97 | 0.24 |
| Potential Problem Loans / NPL | 6.80 | -3.33 | 14.97 | 8.17 | 11.23 | -3.74 | 13.01 | 1.78 |
| Reserves / Impaired Loans | 42.75 | 0.06 | 44.66 | 1.91 | 43.75 | -0.92 | 38.43 | -5.32 |
| Net Write-offs / Risk-adjusted Assets | 0.65 | -0.05 | 0.67 | 0.02 | 0.73 | 0.06 | 0.52 | -0.21 |
| Risk-weighted Assets/ Assets | 21.74 | -2.89 | 22.15 | 0.41 | 21.63 | -0.52 | 21.63 | 0.00 |
| Change in %-Points | | | | | | | | |

**Figure 4: Development of asset quality**
**(Source: Based on data of S&P Global Market Intelligence as of 27 April 2018)**

## Refinancing and Capital Quality

Nordea's financial liabilities accounted for 84% of total liabilities in 2017, decreasing by 7.1% YOY (€35.5 billion). Total debt represents the largest share of the Group's liabilities with 34.3%, decreasing by 7% YOY (€14.1 billion), and consists of senior debt securities in issue (€179.1 billion, thereof 62.4% covered bonds) as well as subordinated debt liabilities (€9 billion). The decrease in this position in the past years is mainly due to a reduction in Nordea's item "other bonds". Total deposits from customers correspond to 31.4% of Nordea's liabilities side, decreasing slightly by 1% in comparison to the previous year (€1.6 billion). However, Nordea's derivative liabilities decreased markedly by 37.9% YOY (€26.9 billion) equivalent to its derivatives on the asset side due to reduced fair values of derivatives held for trading, in particular in the area of interest rate as well as foreign exchange derivatives. By contrast, total deposits from banks remained largely unchanged YOY at €39.9 billion (+€1.8 billion).

Nordea's announced sell-off of 45% of the shares of its subsidiary Danish Nordea Liv & Pension Livsforsikringsselskab A/S leads to a reduction of its insurance liabilities (liabilities to policyholders) as well as its unit-linked insurance and investments contracts. However, this also leads to an equivalent increase of the balance sheet item non-current liabilities held for sale.

The development of refinancing and capitalization in the years 2014 - 2017 is detailed as follows:

| Liabilities (€000) | 2014 | % | 2015 | % | 2016 | % | 2017 | % |
|---|---|---|---|---|---|---|---|---|
| Total Deposits from Banks | 56,322,000 | 8.8% | 44,209,000 | 7.2% | 38,136,000 | 6.5% | 39,983,000 | 7.3% |
| Total Deposits from Customers | 197,254,000 | 30.8% | 189,049,000 | 30.7% | 174,028,000 | 29.8% | 172,434,000 | 31.4% |
| Total Debt | 202,216,000 | 31.6% | 211,137,000 | 34.3% | 202,209,000 | 34.7% | 188,101,000 | 34.3% |
| Derivative Liabilities | 100,758,000 | 15.8% | 82,099,000 | 13.3% | 71,102,000 | 12.2% | 44,163,000 | 8.1% |
| Securities Sold, not yet Purchased | 6,903,000 | 1.1% | 8,824,000 | 1.4% | 8,024,000 | 1.4% | 13,400,000 | 2.4% |
| Other Financial Liabilities | 16,741,000 | 2.6% | 2,761,000 | 0.4% | 3,527,000 | 0.6% | 3,486,000 | 0.6% |
| **Total Financial Liabilities** | **580,194,000** | **91%** | **538,079,000** | **87%** | **497,026,000** | **85%** | **461,567,000** | **84%** |
| Insurance Liabilities | 24,076,000 | 3.8% | 23,710,000 | 3.9% | 23,443,000 | 4.0% | 9,004,000 | 1.6% |
| Non-Current Liab. HFS & Discontinued Ops | 0 | 0.0% | 0 | 0.0% | 4,888,000 | 0.8% | 26,031,000 | 4.7% |
| Unit-Linked Insurance and Investment Contr. | 11,026,000 | 1.7% | 12,236,000 | 2.0% | 14,240,000 | 2.4% | 6,922,000 | 1.3% |
| Tax Liabilities | 1,351,000 | 0.2% | 1,253,000 | 0.2% | 1,317,000 | 0.2% | 1,111,000 | 0.2% |
| Noncurrent Asset Retirement Obligations | 540,000 | 0.1% | 329,000 | 0.1% | 302,000 | 0.1% | 281,000 | 0.1% |
| Other Provisions | 305,000 | 0.0% | 415,000 | 0.1% | 306,000 | 0.1% | 329,000 | 0.1% |
| Total Other Liabilities | 22,013,000 | 3.4% | 39,814,000 | 6.5% | 41,727,000 | 7.2% | 43,051,000 | 7.9% |
| **Total Liabilities** | **639,505,000** | **95.5%** | **615,836,000** | **95.2%** | **583,249,000** | **94.7%** | **548,296,000** | **94.3%** |
| **Total Equity** | **29,837,000** | **4.5%** | **31,032,000** | **4.8%** | **32,410,000** | **5.3%** | **33,316,000** | **5.7%** |
| **Total Passiva** | **669,342,000** | **100%** | **646,868,000** | **100%** | **615,659,000** | **100%** | **581,612,000** | **100%** |
| Deposits from Customers Growth* | -1.74 | NA | -4.16 | -2.42 | -7.95 | -3.79 | -0.92 | 7.03 |
| Change in %-Points | | | | | | | | |

**Figure 5: Development of refinancing and capital adequacy**
**(Source: Based on data of S&P Global Market Intelligence as of 27 April 2018)**

Nordea's regulatory capital ratios increased continuously over the past years and are clearly above the average of the peer group. Although the peer group improved its regulatory capital ratios as well, the competitors aren't able to catch up to Nordea. The relatively high capital ratios of Nordea also reflect the stricter capital regulations in Sweden. In addition, Nordea started an Additional Tier 1 issuance (€750 million) on 21 November 2017.

Nordea's total equity / total assets ratio, however, is somewhat below the average of the peer group, but Nordea has been catching up to its peers over the past years. In addition, this shows Nordea's low risk assets. The Group's leverage ratio is in line with the average of the peer group and complies with the regulatory requirements.
Moreover, it is noteworthy that Nordea's has considerably reduced its risk weighted assets over the past years.

The development of capital ratios for 2014 - 2017 is detailed as follows:

| Capital (€000) | 2014 | % | 2015 | % | 2016 | % | 2017 | % |
|---|---|---|---|---|---|---|---|---|
| Total Capital | 30,049,000 | 7.16 | 30,900,000 | 2.83 | 32,904,000 | 6.49 | 31,747,000 | -3.52 |
| Total Risk-weighted Assets | 145,520,000 | -6.27 | 143,294,030 | -1.53 | 133,157,000 | -7.07 | 125,779,000 | -5.54 |
| Capital Ratios (%) | | | | | | | | |
| Core Tier 1 Ratio | 15.68 | 0.80 | 16.45 | 0.77 | 18.43 | 1.98 | 19.49 | 1.06 |
| Tier 1 Ratio | 17.58 | 1.84 | 18.50 | 0.92 | 20.69 | 2.19 | 22.27 | 1.57 |
| Total Capital Ratio | 20.65 | 2.59 | 21.56 | 0.91 | 24.71 | 3.15 | 25.24 | 0.53 |
| Leverage Ratio | 4.30 | 0.00 | 4.48 | 0.18 | 4.80 | 0.32 | 5.20 | 0.40 |
| Fully Loaded: Common Equity Tier 1 Ratio | NA | NA | 16.45 | NA | 18.43 | 1.98 | 19.50 | 1.07 |
| Fully Loaded: Tier 1 Ratio | NA | NA | NA | NA | NA | NA | NA | NA |
| Fully Loaded: Risk-weighted Capital Ratio | NA | NA | NA | NA | NA | NA | NA | NA |
| Total Equity/ Total Assets | 4.46 | -0.18 | 4.80 | 0.34 | 5.26 | 0.47 | 5.73 | 0.46 |
| Change in %-Points | | | | | | | | |

**Figure 6: Development of capital ratios**
**(Source: Based on data of S&P Global Market Intelligence as of 27 April 2018)**

Due to Nordea's bank capital and debt structure, as well as its status as a G-SIB, the Group's senior unsecured debt instruments have not been notched down in comparison to the long-term issuer rating. However, Nordea's Tier 2 capital rating is four notches below the long-term issuer rating based on the bank's capital structure and seniority in accordance with our rating methodology. Additional Tier 1 capital is rated five notches below the long-term issuer rating, reflecting a high bail-in risk in the event of resolution.

## Liquidity

Nordea's liquidity situation is sufficient. The group's liquidity coverage ratio is in line with the average of the peer group. However, the LCR has continuously deteriorated over the past years, whereas the peer group has been able to improve its ratio on average.

The bank's interbank ratio is lower than the average of its competitors. In addition, Nordea was even able to lower its ratio YOY markedly. Nordea's loan to deposit ratio is above the average of its competitors and has remained at a stable level over the past years.

The development of the liquidity ratios for 2014 - 2017 is shown in detail as follows:

| Liquidity (%) | 2014 | % | 2015 | % | 2016 | % | 2017 | % |
|---|---|---|---|---|---|---|---|---|
| Liquidity Coverage Ratio | 149.02 | 31.52 | 201.15 | 52.13 | 159.27 | -41.88 | 147.30 | -11.97 |
| Interbank Ratio | 34.05 | -4.05 | 54.26 | 20.21 | 53.13 | -1.13 | 33.48 | -19.64 |
| Loan to Deposit (LTD) | 176.47 | 5.87 | 180.33 | 3.87 | 182.55 | 2.22 | 179.87 | -2.68 |
| Change in %-Points | | | | | | | | |

**Figure 7: Development of liquidity**
**(Source: Based on data of S&P Global Market Intelligence as of 27 April 2018)**

## Conclusion

Overall, Nordea Bank AB had a stable year of performance in 2017; however, the Group's profitability deteriorated slightly in comparison to the previous year. Nonetheless, Nordea still convinces based on its outstanding asset quality, comfortable capitalization, as well as a diversified business model.

The low-interest environment in Europe stills puts pressure on Nordea's main income source - interest income. As a result, the Group recorded another decline in its net interest income in 2017. This development could only be partly offset by increased fee & commission income. On the other hand, Nordea's operating expenses increased and the Group's earnings figures worsened. Nevertheless, Nordea is able to handle this situation better than its competitors and remains resilient and profitable.

The asset quality of Nordea is outstanding. Noteworthy is the groups' very low NPL ratio in comparison to its peers. In addition, Nordea records a very sound RWA ratio, which reflects its low risk approach. Moreover, Nordea has a very diversified business model with operations in a variety of industries as well as in economically strong countries, both within and outside the Scandinavian region. Furthermore, Nordea benefits from its continuous digitalization transformation and cooperation with Fintechs.

On the liabilities side, Nordea records a continuous decline of total deposits from customers. In addition, the Group has significantly reduced its total debt over the past three years. Moreover, Nordea has very competitive regulatory capital ratios, especially in comparison to banks in the eurozone. This is also due to the banks high quality assets (and low risk assets), as the equity ratio of the bank is just in line with average of the peer group. Furthermore, the liquidity situation of Nordea is satisfactory.

It remains to be seen to what extent the Group will benefit from its announced re-domiciliation of the parent company to Finland. On the one hand, this will enable the Group to face the same regulations as its competitors in the EU; however, on the other hand this could impact the Group's image in its current home market, Sweden.

In the near future, growing regulation, ongoing digitization as well as the the low-interest rate environment in Sweden and the EU pose a general challenge for the banking landscape. However, an interest rate reversal is becoming more likely, as well as the termination of the ECB bond-buying program. In particular, a rapid increase in the interest rates goes hand-in-hand with an interest rate adjustment risk for banks, which have adjusted to long-term low-interest rates. Thus, Nordea has to be aware of a maturity mismatch, since the bank has on the one hand a relatively high amount of long-term loans, while on the other hand, many of its customer deposits are on demand.

In a scenario analysis, the rating developed slightly better in the “best case” scenario and significantly worse in the "worst case" scenario. The ratings of bank capital and senior unsecured debt would behave similarly due to our rating mechanism. These ratings are especially sensitive to changes in total equity and to the bank capital and debt structure in general.

## Ratings Detail

### Bank ratings

The bank ratings are dependent on a host of quantitative and qualitative factors. An improvement in either sub-category may result in a higher rating score.

LT Issuer / Short-Term / Outlook **AA- / L1 / Stable**

### Bank Capital and Debt Instruments Ratings

The ratings for bank capital and debt instruments are inter alia dependent on subordination and relative size of the instrument class, based on the long-term issuer rating of the bank.

Senior unsecured debt: **AA-**
Tier 2 (T2): **BBB+**
Tier 1 (AT1): **BBB**

### Ratings Detail and History

| Ratings | | | |
|---|---|---|---|
| Bank Capital und Debt Instruments | | | |
| Instruments | Rating Date | Publication Date | Ratings |
| Senior Unsecured / T2 / AT1 | 04.12.2018 | 14.12.2018 | AA- / BBB+ / BBB |

| Bank Issuer Ratings | | | |
|---|---|---|---|
| Type | Rating Date | Publication Date | Ratings |
| LT Issuer / Outlook / Short-Term | 04.12.2018 | 14.12.2018 | AA- / L1 / Stable |

**Figure 8: Ratings Detail and History**

### Regulatory

Creditreform Rating AG was neither commissioned by the rating object nor by any other third parties for the rating. The analysis took place on a voluntary basis by Creditreform Rating AG and is to be described in the regulatory sense as an unsolicited rating.

The rating is based on publicly available information and internal evaluation methods for the rated bank. The quantitative analysis is based mainly on data of the latest annual accounts, interim reports, other investor relations information of the bank, and calculated key figures by S&P Global Market Intelligence as of 27 April 2018. Subject to a peer group analysis were 38 competing institutes.

The information and documents processed satisfied the requirements according to the rating system of Creditreform Rating AG published on the website www.creditreform-rating.de. The rating was carried out on the basis of the rating methodology for unsolicited bank ratings as well as the methodology for the rating of bank capital and unsecured debt instruments in conjunction with Creditreform`s basic document “Rating Criteria and Definitions”.

On 04 December 2018, the rating was presented by the analysts to the rating committee and adopted in a resolution.

The rating result was communicated to Nordea Mortgage Bank Plc and the preliminary rating report was made available to it. There was no change in the rating score.

The rating is subject to one-year monitoring from the creation date (see cover sheet). Within this period, the rating can be updated. At the latest after one year, a follow-up is required to maintain the validity of the rating.

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration, Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

### Conflict of Interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

In case of providing ancillary services to the rated entity, CRA will disclose all ancillary services in the credit rating report.

### Rules on the Presentation of Credit Ratings and Rating Outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our ‘Rating Committee’ policy, all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, CRA has used following substantially material sources:

1. Transaction structure and participants

2. Transaction documents

3. Issuance documents

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the CRA website. Furthermore CRA considers satisfactory the quality and extent of information available on the rated entity. In regard to the rated entity Creditreform Rating AG regarded available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

The 'Basic Data' information card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated including any rating outlooks is indicated clearly and prominently in the 'Basic Data' card as a "rating action"; initial release is indicated as "initial rating", other updates are indicated as an "update", "upgrade" or "downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within 'Basic Data' information card.

In accordance to Article 11 (2) EU-Regulation (EC) No 1060/2009, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating transition frequency and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website: https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

An explanatory statement of the meaning of Creditreform`s default rates are available in the credit rating methodologies disclosed on the website.

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